Request for City Council Committee Action
From the Department of Finance

Date: June 29, 2004
To: Intergovernmental Relations Committee

Subject: **City of Minneapolis Pension Reform Effort**

Recommendation: Receive and file the following information relating to the current analysis of the City's closed pension funds.

Previous Directives:

April 2, 2004 – Adoption of City Pension Principals

May 14, 2004 – Amendment of City's Pension Principals

Prepared by: Lindsey Alexander, Senior Financial Analyst

Approved by:

Patrick P. Born
City Finance Officer

John Moir
City Coordinator

Presenters in Committee: Patrick Born, City Finance Officer
Heather Johnston, City Budget Officer

Financial Impact (Check those that apply)

x	No financial impact (If checked, go directly to Background/Supporting Information)
	Action requires an appropriation increase to the Capital Budget
	Action requires an appropriation increase to the Operating Budget
	Action provides increased revenue for appropriation increase
	Action requires use of contingency or reserves
	Other financial impact (Explain):
	Request provided to the Budget Office when provided to the Committee Coordinator

Background/Supporting Information:

The Finance Department is currently conducting an analysis of the City's closed pension funds. The intent of this analysis is to provide recommendations regarding the City's closed pension funds that are consistent with the pension policy principles adopted by the City Council on April 2, 2004 and amended

on May 14, 2004. As the City proceeds in this effort, the following preliminary objectives have been identified:

(1) Limit and reduce the City's funding obligations

(2) Maintain current State funding

(3) Pension plans with be professionally managed and efficiently administered

(4) Risks and benefits among the City, retirees, and other parties should be balanced and fairly allocated

(5) Support the State's pension policies

(For a copy of the Legislative Commission on Pensions & Retirement's "Principles of Pension Policy" go to http://www.commissions.leg.state.mn.us/lcpr/principles.pdf).

(6) Full funding by appropriate dates for all plans covering City employees

Consistent with the April 2, 2004 (and as amended May 14, 2004) City Council action, the following problems with the current pension system have been identified:

(1) City payments to MERF and MPRA are causing higher property taxes, reductions in City services, and threaten the City's credit rating

(2) The City has no ability to control or improve administrative or investment management practices even though the City bears the funding responsibility if investment performance is below expectations for MPRA and MFRA.

(3) MPRA and MFRA have been criticized by the Pension Commission for not following state law in administering benefits resulting in higher benefits.

(4) Administrative costs of all funds are relatively high and will become higher in the long term as the funds wind down

(5) MPRA and MFRA are not able and appear to have little interest in hiring and retaining professional pension administrators. Professional administrators may not want to work for MFRA and MPRA due to their size and past governance practices.

(6) MPRA continues to have significant litigation costs due to poor governance practices and internal disputes.

(7) MFRA has weak and unprofessional investment management practices though results have been relatively positive.

(8) MPRA and MFRA have different funding requirements for the City

(9) Investment performance payments to retirees (13th check for MPRA and MFRA) may be paid even when the funds are not fully funded and the City and State are contributing significant funds to reduce unfunded liabilities

(10) Some actuarial assumptions required by state law may be outdated and some of the plans want to make changes (MPRA and MFRA want to update mortality tables): investment yields, mortality, retirement ages.

(11) Pension benefit annual increases for MPRA and MFRA tied to salaries of current employees, not cost of living.

The Finance Department has outlined a tentative timeline for the current pension analysis; a copy of this timeline is attached.

Minneapolis Pension Reform
Preliminary Timeline

June – July Identify Objectives & Develop Potential Solutions	Meet with pension boards, City Council, Mayor and other stakeholders to discuss issues and objectives; identify short- and long-term objectives and potential solutions
July Analyze Proposed Solution/s	Analysis of proposed solution/s; identification of solution/s to move forward; ongoing dialogue with key stakeholders
Early- to Mid-August Recommend Solution/s	Mayor and Council presented with potential solutions; pension reform plan presented as part of Mayor's August budget proposal; ongoing dialogue with key stakeholders
Late-August Council Discussion of Legislative Proposal	Ongoing discussion of pension proposal with Council; ongoing dialogue with key stakeholders
September Dialogue/Negotiation on Recommended Solution/s	City approves legislative proposal; negotiation begins with pension boards; ongoing dialogue with key stakeholders
October 1 Introduction of Legislation	Legislation (in bill form) due to LCPR for guaranteed hearing
October Through Session End Presentation of City's Proposal	Presentations to key legislators and other stakeholders

City Team: Patrick Born (Chair), Heather Johnston, Lindsey Alexander, and Deloitte Consulting (City Pension Consultant). The team will meet regularly with the City's representatives on the pension boards.