



## MAYOR AND COUNCIL COMMUNICATION

DATE: 4/5/16  
CONSENT  
ITEM: #3

**AGENDA ITEM:** Accept 2015 Lake Elmo Fire Relief Association Actuarial Study Report  
**SUBMITTED BY:** Cathy Bendel, Finance Director  
**THROUGH:** Cathy Bendel, Finance Director  
**REVIEWED BY:** Steve Rutkowski, Lake Elmo Fire Relief President

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### SUGGESTED ORDER OF BUSINESS:

- Introduction of Item..... Finance Director
- Report/Presentation ..... Finance Director
- Questions from Council to Staff..... Mayor Facilitates
- Public Input, if Appropriate..... Mayor Facilitates
- Call for Motion..... Mayor & City Council
- Discussion ..... Mayor & City Council
- Action on Motion ..... Mayor Facilitates

**FINANCIAL IMPACT:** None

### BACKGROUND AND STAFF REPORT:

In 2014, a new GASB requirement was put into place requiring an actuarial study to be done on the Fire Relief pension funds. This new requirement was effective 1/1/2015 and a full study is required every two years, with a partial study required in the off year. In order for the City to receive a clean audit opinion, this actuarial study will need to be done each year beginning with 2015.

At the October 5, 2015 Fire Relief meeting, Finance Director Bendel presented this information to the Fire Relief Board and proposed that in the years where the Fire Relief receives supplemental state aid funds from the State, above the annual base state aid, that the Fire Relief would fund this cost. In the years where supplemental funds are not received, there would be a follow up discussion as to the specific funding. This is how many other Cities are handling the funding.

On November 5, 2015 the City Council approved entering into a contract with Hildi Inc.

The 2015 Actuarial study reported that the Pension Plan is financially healthy and funded at approximately 165% of plan assets.

### RECOMMENDATIONS:

Accept the 2015 Lake Elmo Fire Relief Association Actuarial Report.

### ATTACHMENTS:

1. Actuarial Report from Hildi Inc.

## Cathy Bendel

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**From:** Mike Born <mike.born@hildiinc.com>  
**Sent:** Thursday, March 17, 2016 4:34 PM  
**To:** Cathy Bendel  
**Cc:** steverutkowski80@yahoo.com; David C. Minch; Julianne Harstad  
**Subject:** Lake Elmo FRA GASB 67&68 report at 12.31.2015 from Hildi Inc.  
**Attachments:** Lake Elmo VFRA 2016 GASB 67&68 Report.pdf

Hi Cathy,

Attached is our actuarial report for the Lake Elmo Firefighters Relief Association as of December 31, 2015. Included are the fiscal 2015 disclosure exhibits under GASB 67 (for the pension plan) and the fiscal 2016 disclosure exhibits under GASB 68 (for the city). All details are included in the report. A few highlights include:

- The report is an actuarial rollforward. It relies on the results from the previous valuation report. Another full valuation will be required next year.
- Under the GASB measurement standards, the plan is financially healthy, funded at approximately 165% of plan assets.
- Financial reporting for 2015:
  - Pension Plan (GASB 67): Use the disclosure exhibits provided in the attached report.
  - City of Lake Elmo (GASB 68): Use the disclosure exhibits provided in last year's report.
- Financial reporting for 2016:
  - Pension Plan (GASB 67): Please contact Hildi Inc. following year-end to prepare the 2016 disclosure exhibits.
  - City of Lake Elmo (GASB 68): Use the disclosure exhibits provided in the attached report. Though the results are measured as of December 31, 2015, employers may use a one-year lookback under GASB 68. You will need to supply the total employer contribution to the plan in 2016 and report that item as a Deferred Outflow of Resources.
- Next steps:
  - Another actuarial valuation will be required as of January 1, 2017.
  - To ensure our records are complete and consistent, please forward to us when available a copy of the RF-15 and final audit report for the Relief Association.

Please let us know if you have any questions.

Thank you!  
Mike

Michael J. Born, FSA, EA, CFA, MAAA  
Consulting Actuary



**Hildi Incorporated**

*Specializing in Actuarial Retirement Plan Services*

11800 Singletree Lane, Suite 305

Minneapolis, MN 55344

P 952.934.5554

F 952.934.3027

E [mike.born@hildiinc.com](mailto:mike.born@hildiinc.com)

W [www.hildiinc.com](http://www.hildiinc.com)

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# *Lake Elmo Firefighters Relief Association*

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## Actuarial Rollforward Report Under GASB Statements 67 & 68

Valuation Date:	January 1, 2015
Plan Fiscal Year Beginning:	January 1, 2015
Plan Fiscal Year Ending:	December 31, 2015
Employer Fiscal Year Beginning:	January 1, 2016
Employer Fiscal Year Ending:	December 31, 2016



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## Actuarial Certification

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We have prepared an actuarial rollforward of the Lake Elmo Relief Association Pension Plan as of December 31, 2015 to enable the plan sponsor to satisfy the accounting requirements under Statements of Governmental Accounting Standards Nos. 67 and 68. The results set forth in this report reflect the provisions of the plan communicated to us through December 31, 2015. This report should not be used for other purposes or relied upon by any other person without prior written consent from Hildi Incorporated.

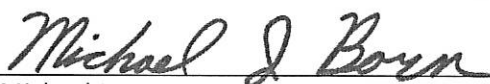
This report is based on participant and financial data provided by Lake Elmo Firefighters Relief Association and is summarized in this report. An audit of the financial and participant data provided was not performed, but we have checked the data for reasonableness as appropriate based on the purpose of the valuation. We have relied on all the information provided, including plan provisions and asset information, as complete and accurate.

A range of results, different from those presented in this report, could be considered reasonable. The numbers are not rounded, but this is for convenience and should not imply precision. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law. Due to the limited scope of this assignment, we did not perform an analysis of the potential range of such future measurements.

All costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures using assumptions that we believe reasonably estimate the anticipated experience of the plan. The calculations reported herein are consistent with our understanding of the provisions of GASB Statements 67 and 68.

Actuarial computations under Statements of Governmental Accounting Standards are for the purposes of fulfilling employer accounting requirements and trust accounting requirements. Computations for other purposes may differ significantly from the results shown in this report.

We are available to answer any questions on this material, or to provide explanations or further details, as may be appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report.



Michael J. Born, FSA

Hildi Incorporated  
11800 Singletree Lane, Suite 305  
Minneapolis, MN 55344  
P 952.934.5554  
March 2016

## Executive Summary

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This report has been prepared for the Lake Elmo Relief Association Pension Plan, for the fiscal year beginning January 1, 2015 and ending December 31, 2015, to assist in complying with the reporting and disclosure requirements under GASB Statements 67 and 68. Lake Elmo Firefighters Relief Association has implemented GASB 67 for the fiscal year beginning January 1, 2014.

## Summary of Results

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The results below reflect initial implementation in the fiscal year ending December 31, 2014. GASB liabilities have been valued using a split interest rate based on the estimated investment return on the pension fund for the funded portion of liabilities and the estimated yield of 20-Year AA-rated municipal bonds for the unfunded portion of liabilities. The overall discount rate is 6.00%.

GASB Accounting Summary		December 31, 2015
1. Liabilities		
a. Total Pension Liability		588,689
b. Gross Service Cost		28,520
c. Estimated Benefit Payments		113,413
d. Valuation Salary		N/A
2. GASB Funded Status		
a. Total Pension Liability (TPL)		588,689
b. Fiduciary Net Position (FNP)		(963,628)
c. Net Pension Liability (NPL), a. + b.		(374,939)
d. NPL as % of Payroll, c. / 1.d.		N/A
3. Estimated Annual Costs for the Following Fiscal Year		
a. Pay-as-you-go Cost (PAYGO)		113,413
b. Pension Expense Under GASB 68		(19,395)
c. PAYGO as % of Pension Expense		-585%
4. Discount Rate		6.00%

## Events & Decisions

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This report is an addendum to the actuarial valuation report issued for this plan as of January 1, 2015. Actuarial data, assumptions, and methods are as described in that previous report.

## Plan Accounting

### Reconciliation of Changes in Net Pension Liability

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
1. Balances at January 1, 2015	714,621	1,155,599	(440,978)
2. Changes from the prior year:			
a. Service Cost	28,520		28,520
b. Interest Cost	37,130		37,130
c. Assumption Changes	0		0
d. Plan Changes	0		0
e. Municipal Contributions		0	0
f. Nonemployer Contributions		61,166	(61,166)
g. Projected Investment Return		65,024	(65,024)
h. Gain or Loss	0	(113,265)	113,265
i. Benefit Payments	(191,582)	(191,582)	0
j. Administrative Expenses		(13,314)	13,314
k. Other Changes	0	0	0
3. Total Net Changes	(125,932)	(191,971)	66,039
4. Balances at December 31, 2015	588,689	963,628	(374,939)

### Sensitivity to Changes in Discount Rate

	1% Decrease	Selected Discount Rate	1% Increase
1. Net Pension Liability	(353,634)	(374,939)	(394,937)
2. Discount Rate	5.00%	6.00%	7.00%

Note: These exhibits should be used as the basis for financial reporting under GASB 67 for the fiscal year ending December 31, 2015 and under GASB 68 for the fiscal year ending December 31, 2016. As described in the GASB 68 standard, a one-year lookback may be used when preparing financial disclosures under GASB 68.



## GASB 68 Pension Expense

Fiscal Year Ending	December 31, 2016	December 31, 2015
1. Components Of Pension Expense		
a. Service Cost	28,520	27,825
b. Interest Cost	37,130	41,263
c. Liability Gain or Loss	-	-
d. Assumption Changes	-	-
e. Nonemployer Contributions	(61,166)	(53,446)
f. Projected Investment Return	(65,024)	(65,736)
g. Investment Gain or Loss	27,831	5,178
h. Administrative Expenses	13,314	13,154
i. Other Changes	<u>0</u>	<u>0</u>
j. Total	(19,395)	(31,762)
2. Deferred Outflows of Resources		
a. Liability Losses	-	-
b. Assumption Changes	-	-
c. Investment Losses	106,145	20,711
d. Employer Contributions*	<u>TBD</u>	-
e. Total	106,145	20,711
3. Deferred Inflows of Resources		
a. Liability Gains	-	-
b. Assumption Changes	-	-
c. Investment Gains	<u>-</u>	<u>-</u>
d. Total	-	-
4. Future Recognition of Deferred Flows in Pension Expense (Fiscal Years Ending)		
a. December 31, 2016	N/A	5,178
b. December 31, 2017	27,831	5,178
c. December 31, 2018	27,831	5,178
d. December 31, 2019	27,830	5,177
e. December 31, 2020	22,653	-
f. December 31, 2021	-	N/A
g. Thereafter	-	-

\*Under GASB 68, employer contributions made after the Measurement Date and on or before the Reporting Date must be disclosed as Deferred Outflows of Resources. If the contribution amount is not available at the time of this report, "TBD" is shown temporarily.

## GASB 67 Liability Summary

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Liabilities are determined as of the valuation date, then adjusted as necessary to the fiscal year-end date using standard actuarial processes.

Liabilities at Valuation Date	
1. Fiscal Year Beginning	January 1, 2015
2. Valuation Date	January 1, 2015
3. Discount Rate	6.00%
4. Present value of benefits	993,598
5. Accrued liability at Valuation Date	
a. Actives	447,281
b. Vested Terminations and Transfers	267,340
c. Retirees and Beneficiaries	-
d. Total Pension Liability at Valuation Date	714,621
6. Total Pension Liability at Fiscal Year-End	588,689

## Plan Assets

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### Plan Asset Reconciliation

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Assets for Fiscal Year Ending	December 31, 2015	December 31, 2014
1. Value at Beginning of Fiscal Year	1,155,599	1,075,460
a. Municipal Contributions	-	-
b. Employee Contributions	-	-
c. State Contributions	61,166	53,446
d. Benefits paid	(191,582)	-
e. Non-investment expense paid	(13,314)	(13,154)
f. Return on plan assets	(48,241)	39,847
2. Value at End of Fiscal Year	963,628	1,155,599
3. Rate of Return for Year	-4.5%	3.6%

## Glossary

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**Total Pension Liability / Funding Target Liability:** The portion of the present value of prospective benefits allocated to service before the valuation date in accordance with the actuarial cost method.

**Fiduciary Net Position / Actuarial Value of Assets –** Plan assets based on market value as of the valuation date including receivable contributions and offset by plan payables. Market values are sometimes smoothed to soften the impact of investment gains and losses.

**Net Pension Liability:** The difference between Total Pension Liability and Net Financial Position.

**Actuarial Cost Method:** Sometimes called “funding method,” a particular technique used by actuaries to establish the amount and incidence of the annual actuarial cost of pension plan benefits, or normal cost, and the related unfunded liability. Ordinarily, the annual contribution to the plan comprises the normal cost and an amount for amortization of the unfunded liability.

**Normal Cost:** A component of the Annual Pension Expense. The actuarial present value of benefits attributed by the benefit formula to services rendered by employees during that period based on assumptions as to future compensation levels. The interest rate used in determining the present value is the discount rate.

**Annual Pension Expense:** An accrual-basis measure of the periodic cost of an employer’s participation in a defined benefit pension plan.

**Discount Rate –** The single interest rate that will calculate the same Total Pension Liability as the rates used to calculate the funded and unfunded portion of Total Pension Liability.

**Investment Return Assumption:** The rate used to adjust a series of future payments to reflect the time value of money.

**Plan Members:** The individuals covered by the terms of the plan. The plan membership generally includes employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits.

**Required Supplementary Information (RSI):** Schedules, statistical data, and other information that are an essential part of financial reporting. RSI should be presented with, but is not part of, the basic financial statements of a governmental entity.