Understanding Benefit Level Increases

Statewide Volunteer Firefighter Plan

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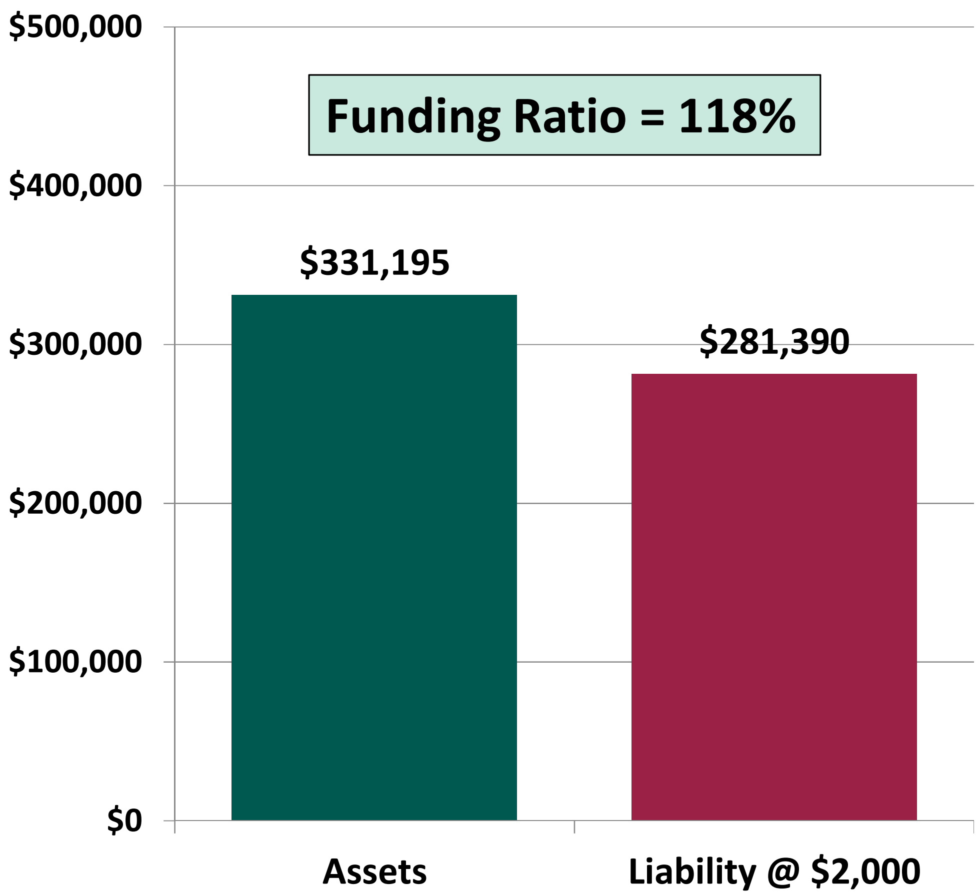
Disclaimer

- Purpose of this webinar is to provide education on the following:
  - SVF Plan financial status
  - Concepts to review when considering a benefit level increase
- PERA cannot provide advice or consultation for benefit level increase decisions.
  - It is the entity's responsibility to determine benefit level increases.
  - Please consult your entity's financial department or financial decision-maker if you need assistance with this determination.

Webinar Agenda

- Understanding Current Plan Financial Status
  - Funding Ratio as of December 31, 2024
  - 2025 Required Contribution
- Benefit Level Increase Considerations
  - PERA's Requirements
  - Questions to Consider

Funding Ratio as of December 31, 2024



- The funding ratio as of December 31, 2024 is the ratio of projected assets to the Actuarial Accrued Liability (AAL) at year end. This information is on page 1 of the Annual Funding Report.
- Assets are actual beginning of year assets plus expected fire state aid, contributions, and a 6% investment return.
- The AAL is the estimated amount of assets needed at the end of the year to fund accrued benefits paid in the future. The AAL is based on the current benefit level and an assumption that investments will grow at 6%.
- If the funding ratio is 100% or greater, assets are considered sufficient to meet current accrued liabilities. However, that does not guarantee assets will be sufficient in the future.

2025 Required Contribution

Member Data

Assumptions & Methods

Plan Provisions

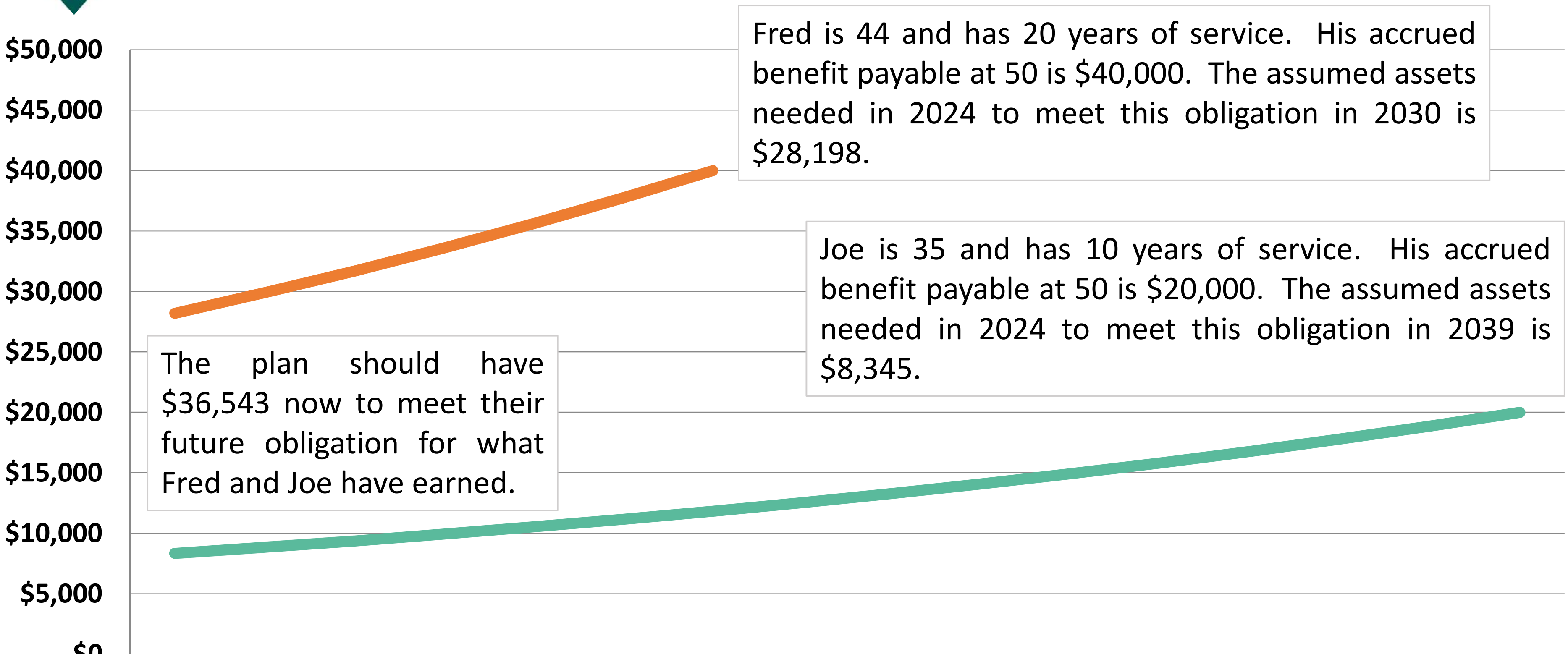
Actuarial Accrued Liability | **Present Value of Future Service Benefits**

Assets | **Unfunded Liability**

Annual Required Contribution = 10% of Unfunded Liability + Service Cost

Actual Contributions = **Fire State Aid + Contributions**

Current Actuarial Accrued Liability (2024)



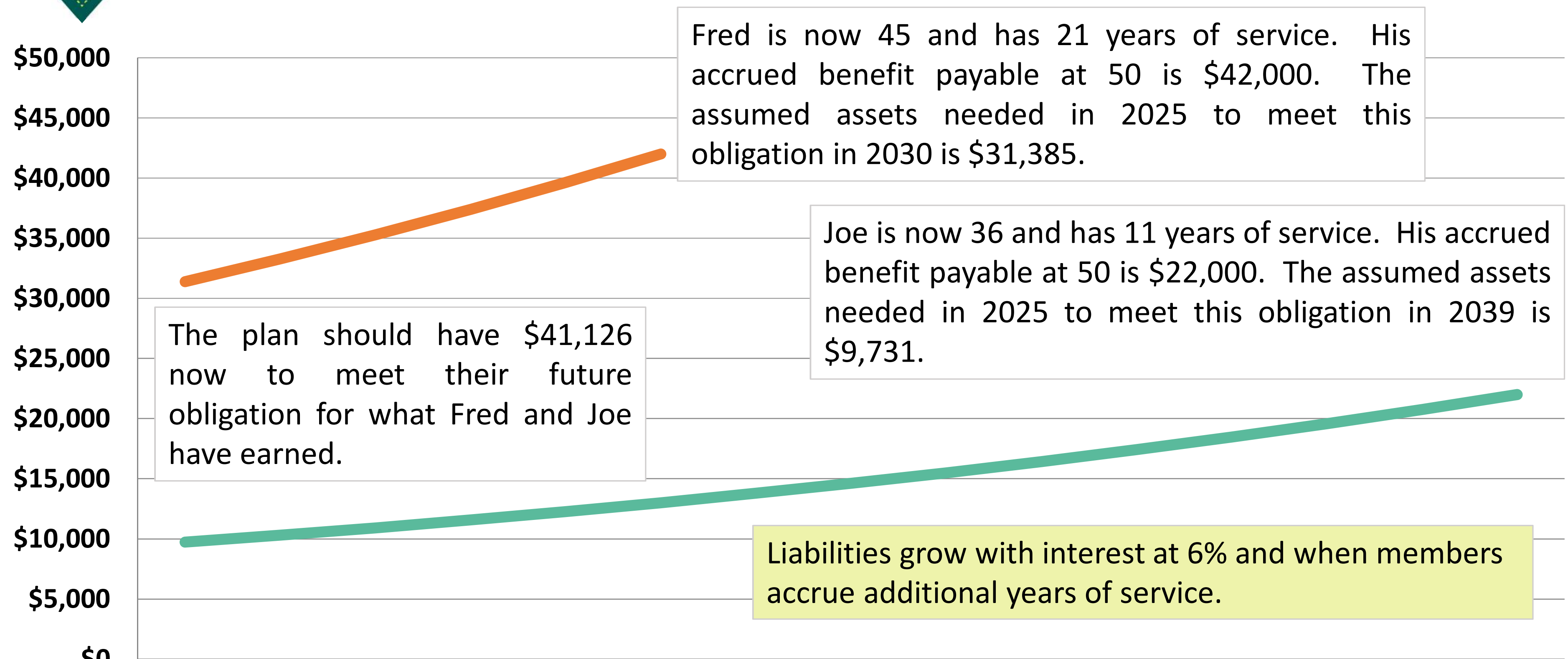
Fred is 44 and has 20 years of service. His accrued benefit payable at 50 is $40,000. The assumed assets needed in 2024 to meet this obligation in 2030 is $28,198.

Joe is 35 and has 10 years of service. His accrued benefit payable at 50 is $20,000. The assumed assets needed in 2024 to meet this obligation in 2039 is $8,345.

The plan should have $36,543 now to meet their future obligation for what Fred and Joe have earned.

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Fred	$28,198	$29,890	$31,684	$33,585	$35,600	$37,736	$40,000									
Joe	$8,345	$8,846	$9,377	$9,939	$10,536	$11,168	$11,838	$12,548	$13,301	$14,099	$14,945	$15,842	$16,792	$17,800	$18,868	$20,000

Actuarial Accrued Liability 1 Year Later (2025)



Fred is now 45 and has 21 years of service. His accrued benefit payable at 50 is $42,000. The assumed assets needed in 2025 to meet this obligation in 2030 is $31,385.

Joe is now 36 and has 11 years of service. His accrued benefit payable at 50 is $22,000. The assumed assets needed in 2025 to meet this obligation in 2039 is $9,731.

The plan should have $41,126 now to meet their future obligation for what Fred and Joe have earned.

Liabilities grow with interest at 6% and when members accrue additional years of service.

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Fred	$31,385	$33,268	$35,264	$37,380	$39,623	$42,000									
Joe	$9,731	$10,314	$10,933	$11,589	$12,285	$13,022	$13,803	$14,631	$15,509	$16,440	$17,426	$18,472	$19,580	$20,755	$22,000

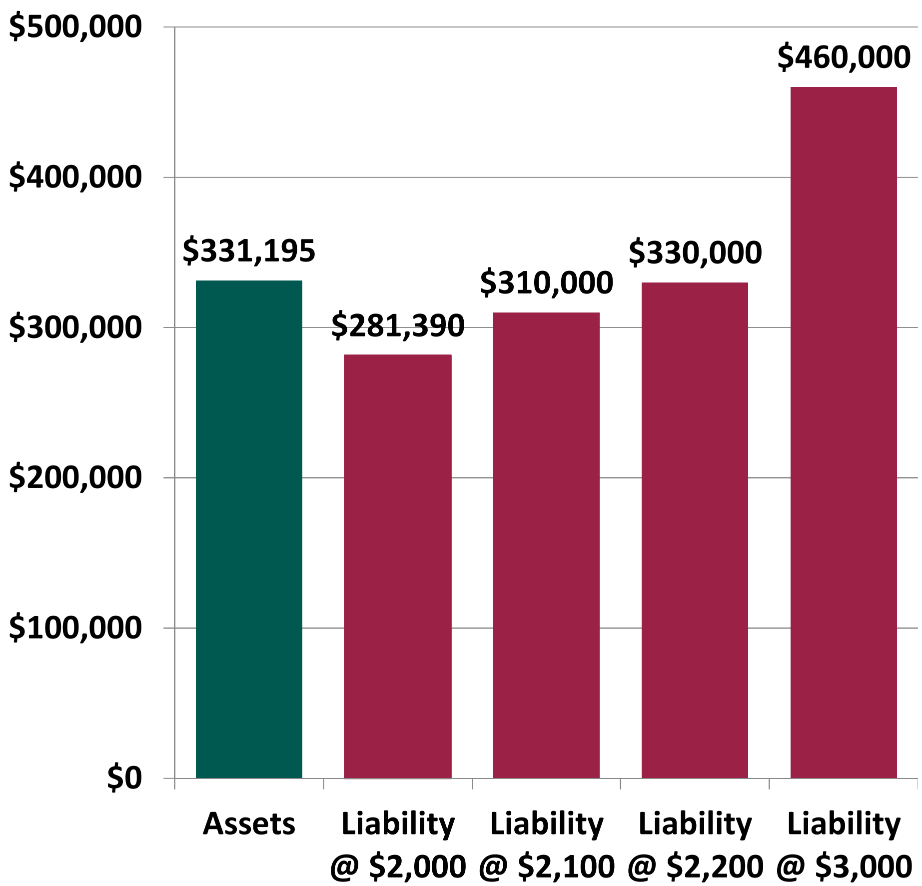
PERA Benefit Level Increase Requirements

- Benefit Level increases may be requested annually and must be in $100 increments.
- Only one request per year is permitted.
- The effective date of increase is January 1st.
- Benefit levels may not be reduced.
- Must be approved by the Governing Body.
- PERA cannot provide substantive advice or consultation on what benefit level to choose, we can only provide education on your analysis.
- Submit signed resolutions at any time during the year (but no later than December 31) to: PERASVF@mnpera.org.

Benefit Level Increase Questions to Consider

1. How does the funding status change?
2. Will assets grow faster than liabilities after a change?
3. What is the investment return risk?
4. What happens when benefits are paid out?
5. How do you decide?

Q1: How Does the Funding Status Change?



- PERA's provides results under four different benefit levels: the current benefit level increase plus benefit levels increased by $100, $200, and $1,000. This information is on page 4 of the Annual Funding Report.

- Changes in the AAL are usually proportionate to changes in the benefit level. Exceptions occur when a plan has deferred members.

- Assets greater than the AAL do not guarantee that there will be no contribution requirement!

- The contribution requirement is dependent on how assets and liabilities change during the year. A fully funded plan may have a contribution requirement. Conversely, a less than fully funded plan may not have a contribution requirement.

Q2: Will Assets Grow Faster Than Liabilities?

Plan Assets	
Plan assets as of January 1, 2025	**$331,195**
Fire State Aid	10,900
City Required Contribution	0
Net investment income (6% assumed)	19,872
PERA administrative expense	(540)
State Board of Investment expense	(20)
Benefit payments	(0)
Net change in assets	$30,211
Estimated assets as of December 31, 2025	**$361,406**

Plan assets will change each year as follows:

- **Known increases**: Assets will increase by Fire State Aid and City required or voluntary contributions.
- **Investment earnings**: investment earnings may vary considerably from year to year. The assumed long term return is 6%.
- **Known decreases**: PERA's administrative expenses and SBI's expenses are predictable.
- **Benefit payments**: Assets will decrease when benefits are paid out.

This information is on page 3 of the Annual Funding Report.

Q2: Will Assets Grow Faster Than Liabilities?

Plan liabilities will change each year as follows:

- **Benefit Level Changes**
- **Service Cost & Interest Cost**: This is the liability increase due to one year additional service and the passage of time.
- **New Entrants & Actuarial Gains or Losses**: New entrant accrued liabilities are usually small. Actuarial gains occur when members terminate before becoming fully vested.
- **Benefit payments**: Liabilities decrease when benefits are paid out.

The combined increase in liability due to service cost and interest cost for various benefit levels is on page 4, line 3a of the Annual Funding Report.

Plan Liabilities	
Plan Liabilities as of January 1, 2025	**$281,390**
Benefit Level Change	0
Service Cost	12,240
Interest	16,883
New Entrants	0
Actuarial (Gain) or Loss	(0)
Benefit payments	(0)
Net Change in liabilities	$29,123
Plan Liabilities as of December 31, 2025	**$310,513**

Q2: Will Assets Grow Faster Than Liabilities?

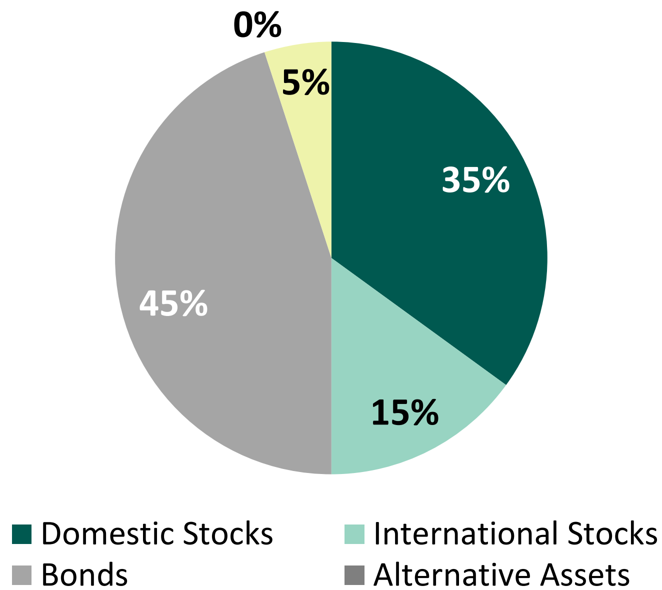
Plan Assets	
Fire State Aid	10,900
City Required Contribution	0
Net investment income (6% assumed)	19,872

Plan Liabilities	
Service Cost	12,240
Interest	16,883

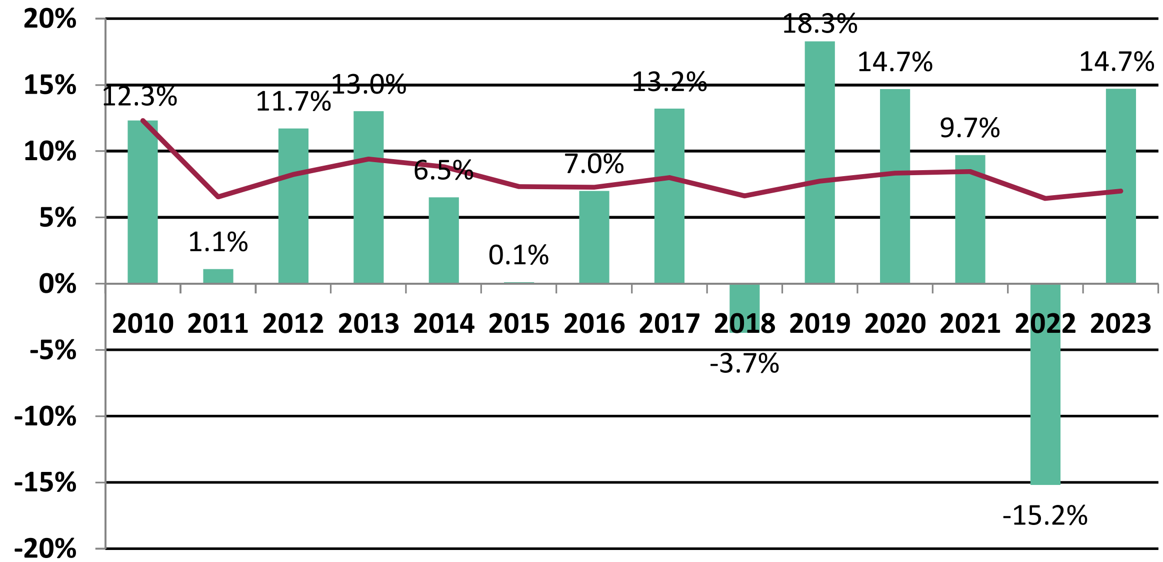
Key Consideration: Will future income (Fire State Aid + Contributions + Investment Income) increase at a rate higher than the liability increases (Service Cost + Interest Cost)? Liabilities are assumed to increase at 6% per year. Actual investment returns will vary.

Q3: What is the Investment Return Risk?

SBI Long-Term Policy Target



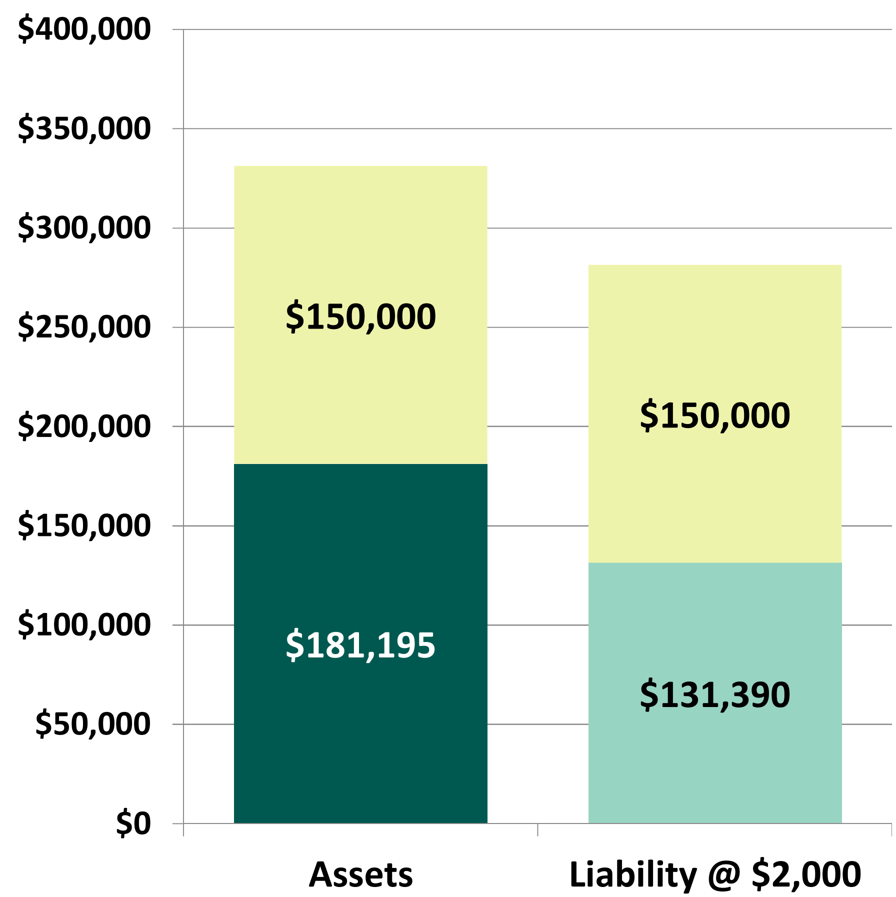
Actual Annual and Cumulative Returns Since 2010



Investment returns can be volatile from year to year. A significant asset decrease could trigger a contribution. Cumulative return since 2010 is 7.0%.

Q4: What Happens When Benefits Are Paid?

- Benefits payments will decrease assets.
- Liabilities will decrease by the same amount.
- If the plan was over 100% funded before the payouts, the funding ratio will increase.
- If the plan was under 100% funded before the payouts, the funding ratio will decrease.
- The example to the right shows how the plan went from 118% funded to 138% funded.
- Generally speaking, benefit payouts are anticipated in determining funding requirements and do not tend to adversely impact plans.



Q5: How Do You Decide?

Considerations	Scenario #1	Scenario #2	Scenario #3	Scenario #4
Is the funding ratio over 100% after an increase?	Yes	No	Yes	Yes
Do you believe Fire State Aid + Contributions + Expected Earnings will be greater than Service Cost + Interest Cost after an increase?	Yes	Yes	Yes	No
Are you comfortable that the 6% assumption will be met?	Yes	Yes	No	Yes
Can the governing body afford a contribution if the investments have a poor year?	Yes	Yes	No	No
Decision	Proceed With Comfort		Be Cautious Consider DC Plan?	

Additional Resources

- Looking for a sample resolution?
  - Sample resolutions for a benefit level increase are found on our SVF Plan page at mnpera.org/plan-information/statewide-volunteer-firefighter.
- Additional questions about benefit level increases?
  - Email us at PERASVF@mnpera.org.