Discussion of Premium Turnback

- Background of Premium Tax Formula
- Problems
- Proposed Solutions
- Questions

Background

- Local Fire Pensions began in 1920's
- Local Police Pensions in 1930's
- Local Police and Fire Retirement System (LOPFI) started in 1983
- Some Insurance Premium tax allocated to help old fire plans beginning in 1920's
- Police plans began receiving early 1980's
- Current allocation is based on 2003 law with some changes in last 3 sessions

2010 Premium Tax Allocation

A percentage of various lines of property and casualty insurance (as defined by law) is set aside to go through the allocation formula.

Less Treasury Fee and Expenses of the Allocation

The split is made based on the population of covered locations.

Firefighter Portion of Premium Tax $16.3 million

Police Officer Portion of Premium Tax $14.2 million

General Revenue Portion of Premium Tax

Allocation among Locations Based on Expected Cost Minimum Percent Covered Then, remainder based on remaining cost

Special Fund Deductions $8.7 million

General Revenue $5.2 million

A percentage of various lines of property and casualty insurance (as defined by law) is set aside to go through the allocation formula.

- These percentages are set by law
- They have not changed in years
- Different lines, different percentages
  - Commercial Multiperil (70%)
  - Homeowners (45%)
  - Auto Physical damage (9%)
  - Inland Marine (15%)
- Police – Auto Liability (66%)

- Population of locations with fire or police pension coverage to Total Population

  The split is made based on the population of covered locations.

- 2010, 59% Police; 83% Fire

- 2007, 57% Police; 76% Fire

- New locations "paid for" with additional population

- This is the area that receives a lot of attention.
- Special Funds
  - $635,000 Fire Protection
  - $5.2 million State Police
  - $1.4 million Guarantee Fund
  - $795,000 Police Supp
  - $659,000 Future Supp
- General Revenue was $12 million 2003-2005, about $8 million 2007-2009, $5.2 million in 2010

General Revenue Portion of Premium Tax

Special Fund Deductions $8.7 million
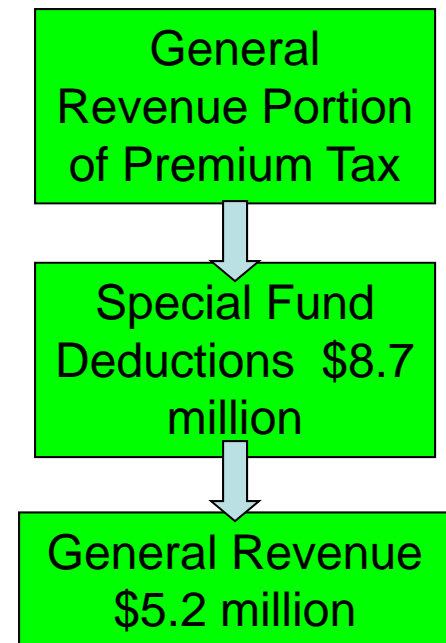
General Revenue $5.2 million

- This is the most complicated piece
- First Pass or First Allocation based on Old Plan cost plus LOPFI cost times MPF
- Minimum Percent Funded is based on 2002 actual premium tax results
- Second Pass or Allocation is on remaining cost.
- Has been a negative number past 3 years

Allocation among Locations
Based on Expected Cost
Minimum Percent Covered
Then, remainder based on remaining cost
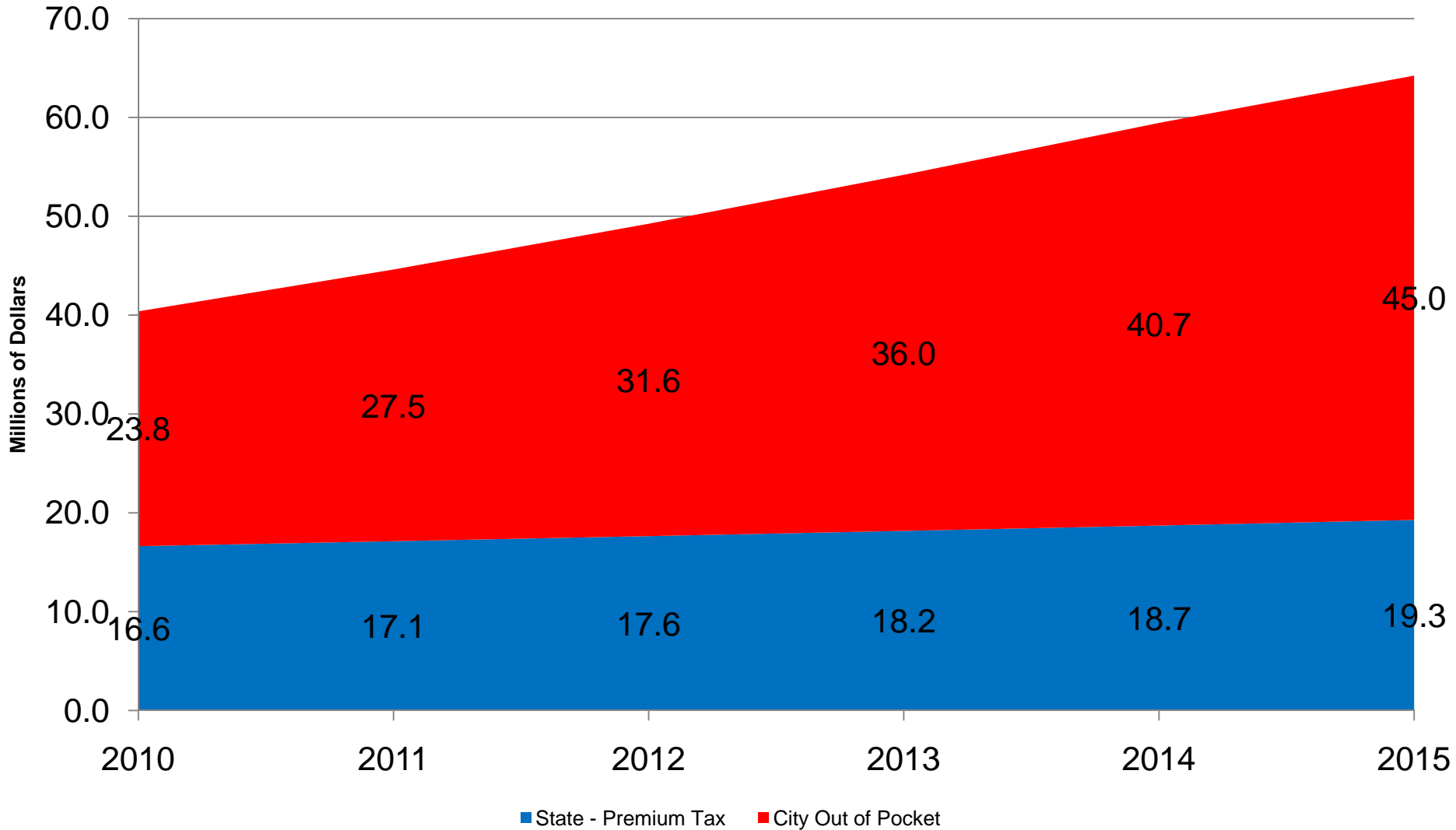
2010 Allocation to Cities
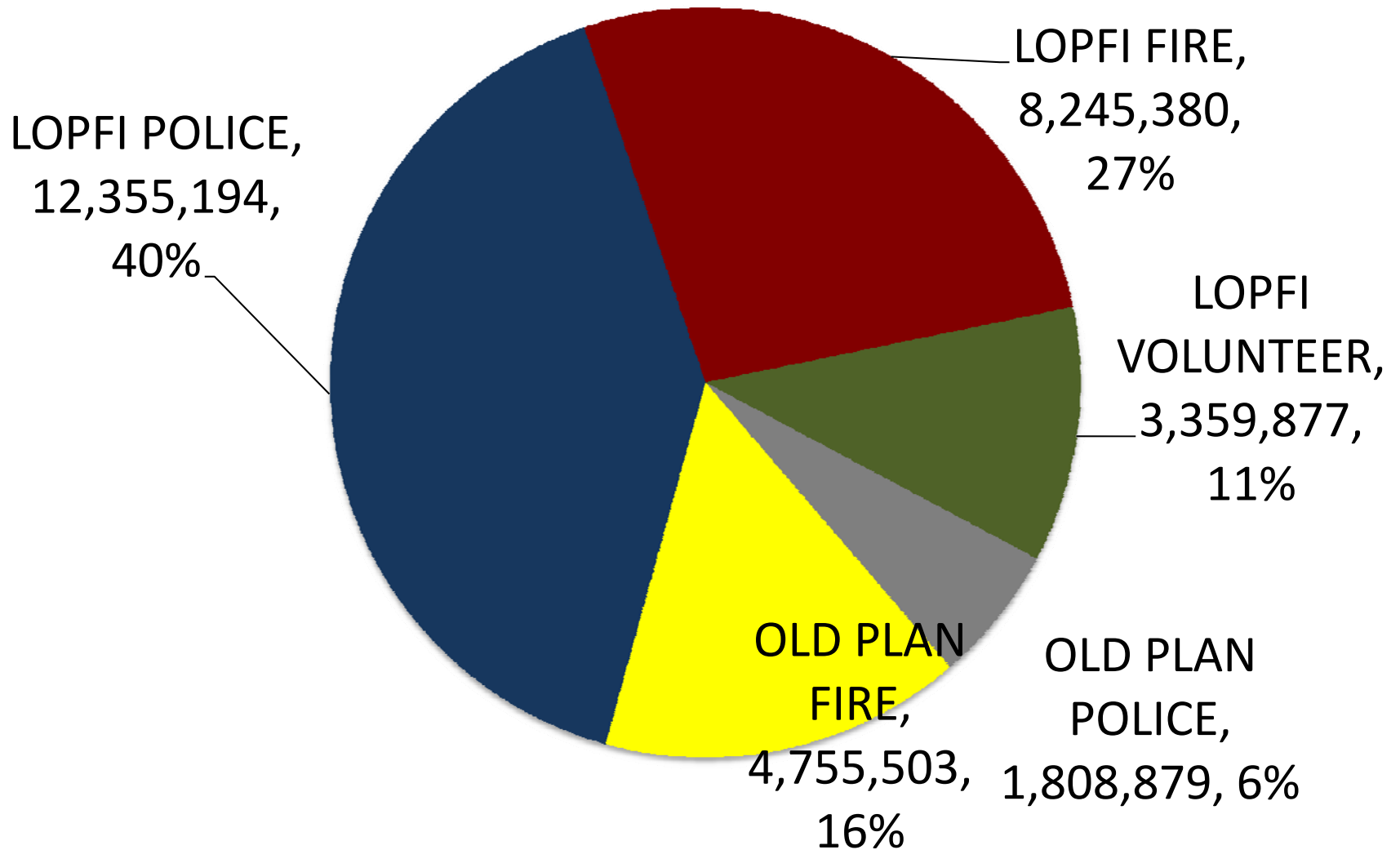
Allocation to Cities

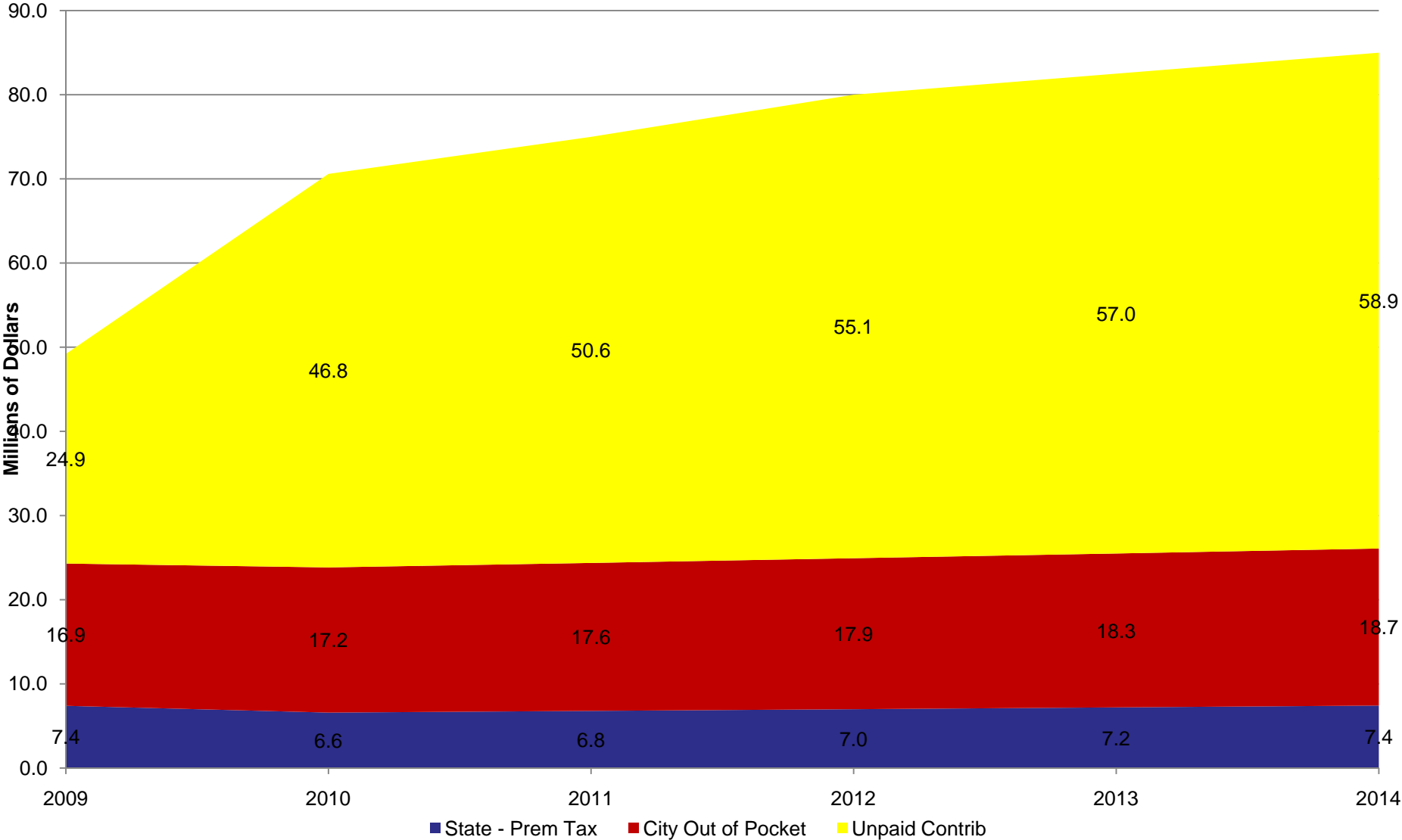|	
OLD PLAN POLICE	1,808,879
OLD PLAN FIRE	4,755,503
LOPFI ONLY PAID POLICE	10,382,262
CONSOLIDATED PAID POLICE	1,972,932
LOPFI ONLY PAID FIRE	6,029,686
CONSOLIDATED PAID FIRE	2,215,694
LOPFI VOLUNTEER	3,359,877
Total Allocation to Cities	$30,524,833

The Problems

- Pension costs are growing faster (5% per year) than premium tax distributions (3%)

  - This will be worse as LOPFI and old plan cost increase over the next five years.

- Growing difference in out of pocket cost among participating locations

- Need to stabilize cost so locations can plan and provide public safety

- Premium tax formula and other efforts have helped increase LOPFI coverage
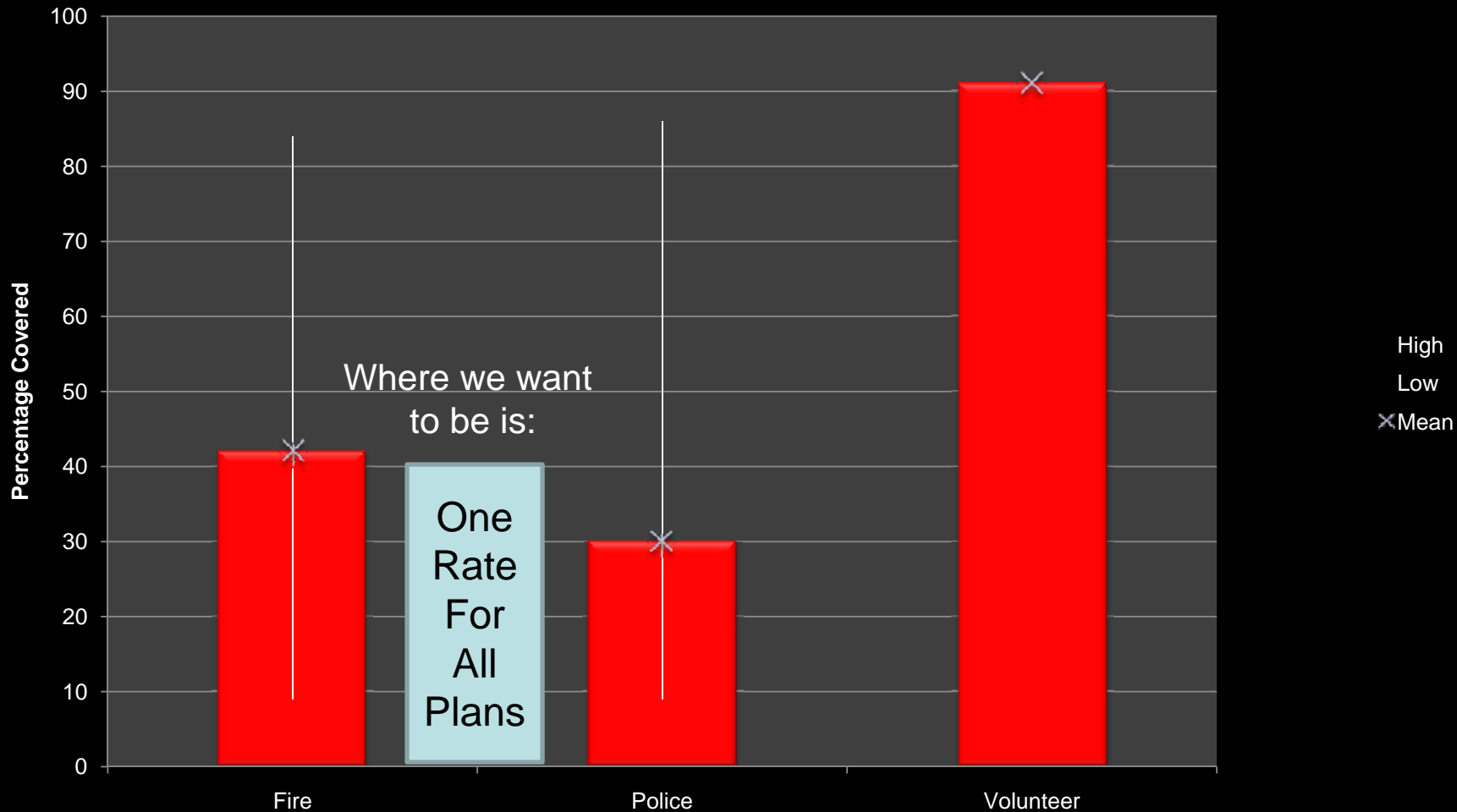
Growing Pension Costs – Old Plans

Millions of Dollars

	2009	2010	2011	2012	2013	2014
Unpaid Contrib	24.9	46.8	50.6	55.1	57.0	58.9
City Out of Pocket	16.9	17.2	17.6	17.9	18.3	18.7
State - Prem Tax	7.4	6.6	6.8	7.0	7.2	7.4

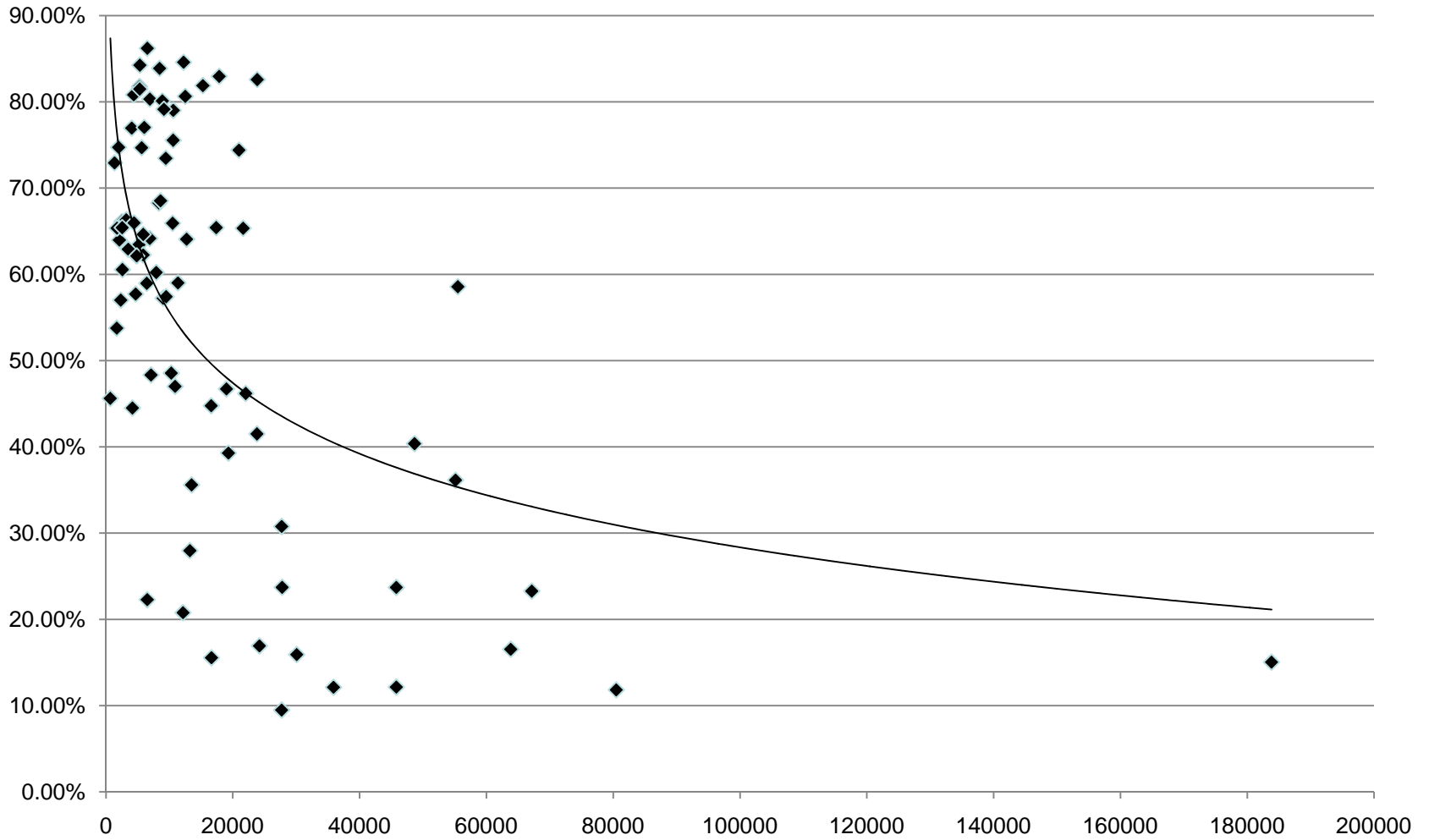■ State - Prem Tax   ■ City Out of Pocket   ■ Unpaid Contrib
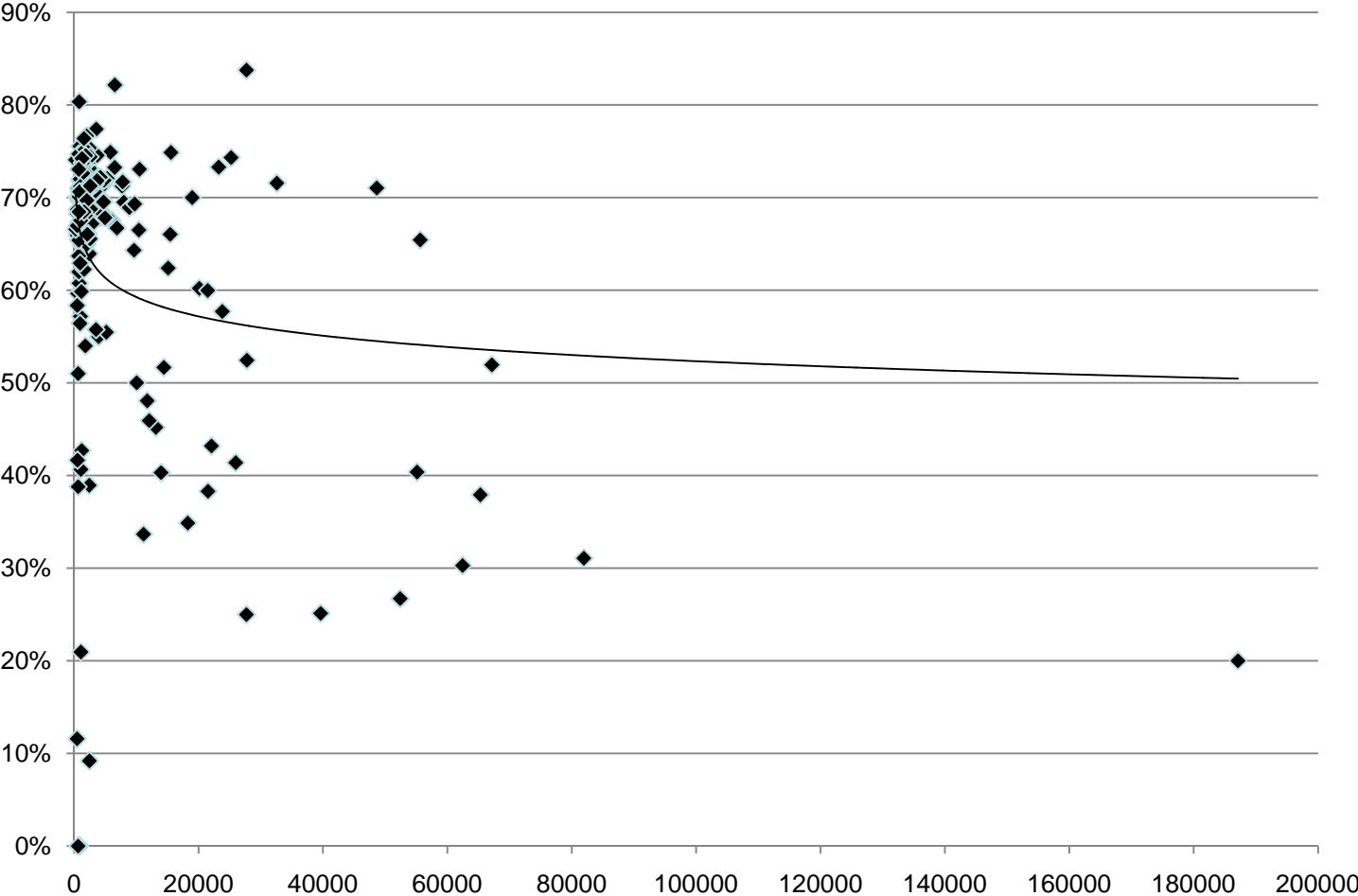
Difference in Out of Pocket Cost

Cost Covered By Premium Tax

Fire Percentage Covered by Premium Tax by Population

Police Percentage Covered by Premium Tax by Population

The Goals
Interim Study Proposal

- Premium Tax covers a Uniform Percent of Costs

- LOPFI Paid Contribution rates would be uniform among cities.

- Old Plan (and Consolidations) allocated on a uniform percent of calculated cost

- Recharacterization of Guarantee Funds and possibly Supplement Funds

Proposal for Old Plan/Consolidations

- Have one "calculated cost" on which to base the allocation

- "Calculated cost" would be on same base benefits, same assumptions, same amortization method

- Then, a single percentage of this "calculated cost" would be the allocation amount.