Background Information on
Police State Aid – A Brief Overview

Cities and other local units of government receive considerable state aid to help these units of government meet their public pension obligations. There are four different aids specifically for police pension purposes, although not all local police and fire pension plans and consolidation accounts qualify for all four. The four aids are state police aid, amortization aid, supplemental amortization aid, and additional amortization aid.

1. Police State Aid. The police state aid program is the primary police aid program and is funded principally from a portion of the automobile insurance premium taxes collected by the State of Minnesota. The aid is distributed on a per-officer basis, and in recent years has exceeded $6,000 per police officer. Excess police state aid is used to finance the additional amortization aid program. Excess police state aid occurs when the police state aid to a given government unit is in excess of the amount needed to fully cover the employer contribution requirement for that employer's police officers.

   In the last few years, the contribution requirements for Public Employees Police and Fire Plan (PERA-P&F) have increased considerably, due in part to increased utilization of disability benefits under that plan and increased life expectancies. In 2006, the employee contribution rate was 10.5% of pay, but has been increased to 14.1% of pay in 2009 and thereafter. This will increase the dollar amounts needed to meet the PERA P&F employer contribution amounts and will result in less excess police state aid.

2. Amortization State Aid. The local police and paid fire relief association amortization state aid was established in 1980 (Laws 1980, Ch. 607, Art. XV, Sec. 5). In that year local police and salaried firefighter relief associations were closed to new members, with all new hires were redirected to PERA-P&F. Since the local relief associations would eventually terminate due to closing the plans to new members, there was a need to address funding and bring closure to their actuarial accrued liabilities. The plans were required in 1980 to amortize their unfunded actuarial accrued liabilities by the year 2010. As additional state assistance, the amortization aid program was established. The aid was funded from the general fund and was designed to cover a portion of the annual amortization requirement, given the unfunded actuarial accrued liabilities that existed as of the 1978 actuarial valuation of the fund. The amortization aid to the relief association equaled the difference between the full amortization requirement on the relief association's 1978 unfunded actuarial accrued liability and the interest only requirement on the same unfunded actuarial accrued liability. The aid was meant to be a fixed amount, leaving local governments responsible for any increases in unfunded actuarial accrued liabilities due to future poor investment returns, high expenses, benefit improvements, mortality losses, or any other cause that acts to increase unfunded actuarial accrued liabilities. The intent was to provide some state assistance while still providing incentives for prudent local management of the assets of the fund.

   The amortization aid program originally distributed over $6 million annually, but amounts have declined considerably over time, as various local police and paid firefighter retirement funds no longer qualified for the aid. The aid to a given recipient terminates when the pension fund becomes fully funded. By 2007, the total amortization aid paid to all eligible police pension funds had declined to slightly over $200,000. If a relief association or consolidation account becomes fully funded, amortization aid terminates.

3. Supplemental Amortization State Aid. The supplemental amortization aid program commenced in 1984 as a way to provide some additional aid to organizations which qualify for amortization aid. The total amortization aid for distribution was originally $1 million annually. If an organization loses eligibility for amortization aid, this aid also terminates.

4. Additional Amortization State Aid. The additional amortization aid program is funded from the state policy aid program, using half of any excess police state aid. The additional amortization aid program was created in 1995 and aid was first paid in 1997. When it was enacted, for a local police or paid fire relief association to qualify for additional amortization aid the local relief association had to comply with the 1969 Police and Paid Fire Relief Association Financing Guidelines Act, Minnesota Statutes, Section 69.77, and had to have an unfunded actuarial accrued liability in the most recent actuarial valuation report. Additional amortization state aid was allocated in proportion to the relationship that each local police or paid fire relief association or local police or paid fire consolidation account's unfunded actuarial accrued liability bears to the total unfunded actuarial accrued liability of all eligible relief associations or consolidation accounts. Additional amortization state aid totaled $3.2 million in 1997, increased to $8.67 million in 2001, and was not paid in 2009, 2010, and 2011.

   The eligible organizations for additional amortization aid was revised in 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 15-18) and 2000 (Laws 2000, Ch. 461, Art. 9, Sec. 1). Under these revised procedures, beginning in 2000 64.5% of the additional amortization aid was allocated to municipalities with relief associations consolidating with PERA-P&F and which had to make additional contributions to PERA because of the relatively low funding condition of the consolidation accounts; 34.2% is allocated to Minneapolis to help cover amortization requirements for its two relief associations; and 1.3% is allocated to Virginia to help amortize the Virginia Fire Department Relief Association. If there was no unfunded liability in the Minneapolis relief associations or Virginia fire, the aid that would have gone to those organizations is reallocated to the St. Paul Teachers Retirement Fund Association (SPTRFA), and to the Teachers Retirement Association (TRA) on behalf of the Minneapolis Teachers Retirement Fund Association (MTRFA) which consolidated into TRA, and to provide additional financing for the minimum floor volunteer fire aid. As excess police state aid has decreased by virtue of changes in the automobile casualty insurance premium tax collections, increasing numbers of police officers employed, increasing police salaries, and increasing PERA-P&F retirement plan employer contribution rates, additional amortization state aid has not been paid.