



Northfield Fire Relief Association GASB 67 & 68 Valuation Report

ACTUARIAL VALUATION REPORT

Valuation Date: January 1, 2023
Plan Fiscal Year Beginning: January 1, 2023
Plan Fiscal Year Ending: December 31, 2023
Employer Fiscal Year Beginning: January 1, 2024
Employer Fiscal Year Ending: December 31, 2024

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Actuarial Certification

We have prepared an actuarial rollforward of the Northfield Fire Relief Association Pension Plan as of December 31, 2023 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, 2023. 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 Northfield Fire 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.

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, A Division of USI Consulting Group
8000 Norman Center Drive, Suite 400
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May 2024

Executive Summary

This report has been prepared for the Northfield Fire Relief Association Pension Plan, for the plan year beginning January 1, 2023 and ending December 31, 2023, to assist in complying with the reporting and disclosure requirements under GASB Statements 67 and 68. Northfield Fire Relief Association has implemented GASB 67 for the fiscal year beginning January 1, 2016.

Summary of Results

The results below reflect initial implementation in the fiscal year ending December 31, 2016. 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 6.50%.

GASB Accounting Summary	December 31, 2023
1. Liabilities	
a. Total Pension Liability	3,046,238
b. Gross Service Cost	153,190
c. Valuation Salary	N/A
2. GASB Funded Status	
a. Total Pension Liability (TPL)	3,046,238
b. Fiduciary Net Position (FNP)	<u>(6,704,388)</u>
c. Net Pension Liability (NPL), a. + b.	(3,658,150)
d. Funded Ratio	220%
e. NPL as % of Payroll, c. / 1.d.	N/A
3. Pension Expense Under GASB 68	
a. For Fiscal Year ending December 31, 2023	(245,431)
b. For Fiscal Year ending December 31, 2024	(519,704)
4. Discount Rate	6.50%

Events & Decisions

This report is an addendum to the actuarial valuation report issued for this plan as of January 1, 2023. 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, 2023	2,707,127	5,407,144	(2,700,017)
2. Changes from the prior year:			
a. Service Cost	153,190		153,190
b. Interest Cost	185,921		185,921
c. Assumption Changes	0		0
d. Plan Changes	0		0
e. Municipal Contributions		0	0
f. Nonemployer Contributions		214,718	(214,718)
g. Projected Investment Return		358,002	(358,002)
h. Gain or Loss	0	738,084	(738,084)
i. Benefit Payments	0	0	0
j. Administrative Expenses		(13,560)	13,560
k. Other Changes	0	0	0
3. Total Net Changes	339,111	1,297,244	(958,133)
4. Balances at December 31, 2023	3,046,238	6,704,388	(3,658,150)

Sensitivity to Changes in Discount Rate

	1% Decrease	Selected Discount Rate	1% Increase
1. Net Pension Liability	(3,568,408)	(3,658,150)	(3,744,873)
2. Discount Rate	5.50%	6.50%	7.50%

Note: These exhibits should be used as the basis for financial reporting under GASB 67 for the fiscal year ending December 31, 2023 and under GASB 68 for the fiscal year ending December 31, 2024. 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, 2024	December 31, 2023
1. Components Of Pension Expense		
a. Service Cost	153,190	186,806
b. Interest Cost	185,921	202,474
c. Plan Changes	-	-
d. Liability Gain or Loss	6,717	6,717
e. Assumption Changes	(4,120)	(4,120)
f. Nonemployer Contributions*	(214,718)	(196,455)
g. Projected Investment Return	(358,002)	(404,870)
h. Investment Gain or Loss	(302,252)	(44,652)
i. Administrative Expenses	13,560	8,669
j. Other Changes	<u>0</u>	<u>0</u>
k. Total	(519,704)	(245,431)
2. Deferred Outflows of Resources		
a. Liability Losses	61,357	92,036
b. Assumption Changes	21,525	25,113
c. Investment Losses	-	329,138
d. Employer Contributions**	<u>TBD</u>	<u>-</u>
e. Total	82,882	446,287
3. Deferred Inflows of Resources		
a. Liability Gains	190,707	214,669
b. Assumption Changes	77,080	84,788
c. Investment Gains	<u>106,694</u>	<u>-</u>
d. Total	374,481	299,457
4. Future Recognition of Deferred Flows in Pension Expense (Fiscal Years Ending)		
a. December 31, 2024	N/A	(152,038)
b. December 31, 2025	(126,942)	20,675
c. December 31, 2026	18,772	166,389
d. December 31, 2027	126,203	273,820
e. December 31, 2028	(175,698)	(28,082)
f. December 31, 2029	(28,082)	N/A
g. Thereafter	(105,852)	(133,934)

* If contributions are recorded as employer income, they should not also be recorded as plan income.

** 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

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. Plan Year Beginning	January 1, 2023
2. Valuation Date	January 1, 2023
3. Discount Rate	6.50%
4. Present value of benefits	4,210,924
5. Accrued liability at Valuation Date	
a. Actives	2,602,948
b. Vested Terminations and Transfers	104,179
c. Retirees and Beneficiaries	-
d. Total Pension Liability at Valuation Date	2,707,127
6. Total Pension Liability at Year-End	3,046,238
7. Gross Normal Cost at Valuation Date	153,190

GASB 68 Amortization Bases

Outstanding amortization bases for Deferred Inflows and Outflows of Resources as of the employer fiscal year-end:

Date Established	LongType	Original Amount	Original Years	Remaining Amount	Remaining Years
1/1/2019	LiabGLOutflow	245,431	8	61,357	2
1/1/2020	AssetGLInflow	(863,558)	5	-	0
1/1/2021	LiabGLInflow	(122,270)	10	(73,362)	6
1/1/2021	AssumpOutflow	35,877	10	21,525	6
1/1/2021	AssetGLInflow	(728,577)	5	(145,713)	1
1/1/2022	AssetGLInflow	(690,573)	5	(276,228)	2
1/1/2023	LiabGLInflow	(140,815)	12	(117,345)	10
1/1/2023	AssumpInflow	(92,496)	12	(77,080)	10
1/1/2023	AssetGLOutflow	1,509,526	5	905,714	3
1/1/2024	AssetGLInflow	(738,084)	5	(590,467)	4

Plan Assets

Plan Asset Reconciliation

Assets for Plan Year Ending	December 31, 2023	December 31, 2022
1. Value at Beginning of Year	5,407,144	8,210,764
a. Municipal Contributions	-	-
b. State Contributions	214,718	196,455
c. Employee Contributions	-	-
d. Other Nonemployer Contributions	-	-
e. Benefits paid	-	(1,886,750)
f. Non-investment expense paid	(13,560)	(8,669)
g. Return on plan assets	<u>1,096,086</u>	<u>(1,104,656)</u>
h. Value at End of Year	6,704,388	5,407,144
2. Rate of Return for Year	19.9%	-15.0%

Development of Expected Long-Term Rate of Portfolio Return

Asset Class	Portfolio Weight	Expected Class Return
Cash	18.00%	2.00%
Fixed Income	8.00%	3.75%
Equities	74.00%	8.00%
	-	-
Total Portfolio	100.0%	6.50%

Glossary

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.



June 14, 2024

Mr. Sean Simonson
Secretary
Northfield Fire Relief Association
301 5th Street West
Northfield, MN 55057

Dear Sean and the Northfield Fire Relief Association,

As requested, we have prepared a response to your questions regarding the financial impact of a proposed benefit level increase for the Northfield Fire Relief Association (Northfield FRA). The measurements are based on the actuarial study prepared by USICG for the Northfield FRA in May 2024.

Actuarial Data, Assumptions, and Methods

1. The impact is estimated on both a Total Pension Liability (TPL) basis and a Minnesota Statutory basis. TPL is used for financial reporting in accordance with Governmental Accounting Standards Board Statement No. 67 (GASB 67). The Minnesota Statutory basis is used to determine the required municipal contribution to the plan as reported on the SC Form.
2. Plan data was used as provided by Northfield FRA for use in the actuarial report issued in May 2024. GASB 67 results are measured as of January 1, 2024. The Minnesota Statutory basis uses data based on the Draft SC-2024 Form provided by Northfield FRA.
3. Only current plan members were included unless otherwise noted.
4. All other assumptions, data, and methods are as described in the Actuarial Rollforward Report issued by USICG in May 2024 and the full Actuarial Valuation Report issued by USICG in June 2023.

Proposed Changes to Lump Sum Benefit Level

Current Plan: \$13,000 per year of service

Alternative: Benefit level change to \$15,000 per year of service

Financial Impact Summary

Below is a table summarizing the financial requirements of the current plan compared to the latest proposed plan design.

Minnesota Statutory Basis (SC-24 Form)

	<u>Baseline</u> \$13,000	<u>Alternative</u> \$15,000
Projected Liability (SC-24)	\$ (4,411,000)	\$ (5,019,000)
Projected Assets	<u>7,243,000</u>	<u>7,243,000</u>
Projected Surplus	2,832,000	2,224,000
Projected Funded Ratio	164%	144%
Credit for surplus	\$ (283,000)	\$ (222,000)
Normal cost	388,000	448,000
Expenses	9,000	9,000
Expected Return on Assets	<u>(362,000)</u>	<u>(362,000)</u>
Required contribution	-	-
Estimated State aid	\$ 221,000	\$ 221,000
Required City Contribution	\$ -	\$ -
Ongoing Income (Expected Return and State Aid)	\$ 583,000	\$ 583,000
Ongoing Costs (Normal Costs and Expenses)	<u>\$ 397,000</u>	<u>\$ 457,000</u>
Annual Addition to Surplus	\$ 186,000	\$ 126,000

Financial Impact Summary *continued*

GASB 67 Basis as of December 31, 2023

	<u>Baseline</u> \$13,000	<u>Alternative</u> \$15,000
Total Pension Liability	\$ (3,046,000)	\$ (3,498,000)
Net Fiduciary Position (Assets)	<u>6,704,000</u>	<u>6,704,000</u>
Surplus	3,658,000	3,206,000
Funded Ratio	220%	192%
Increase to Baseline Liability		\$ 452,000
GASB 67 Normal Cost	\$ 157,000	\$ 181,000
Increase to Baseline Normal Cost		24,000

Analysis

As under the current design, there are no required city contributions projected in the near-term under the alternative scenario. The plan surplus is reduced but not eliminated by the increased past-service liability of the proposed design.

For each \$1,000 increase in benefit level, the plan's surplus decreases by about \$304,000 on the Minnesota Statutory basis and by \$226,000 on the GASB 67 basis. At a benefit level of \$15,000, each member has an annual normal cost of about \$13,000 on the Minnesota Statutory basis and \$6,000 on the GASB 67 basis. The analysis assumes that each new member has the demographic profile of the current membership. If the new members are younger, the cost will be slightly lower.

Next Steps

We would be happy to discuss these results with you via conference call. Please call at any time with questions that you may have.

Sincerely,



Michael J. Born, FSA
 Consulting Actuary