

LRB - FISCAL SECTION ANALYSIS

MARCH 20, 2002

ITEM 7, FILE 011628

FINANCE & PERSONNEL COMMITTEE

JAMES CARROLL

File #011628 is a resolution authorizing the City Comptroller to execute a Deposit and Sales Authorization Form to sell 79,281 shares of Principal Financial Group, Inc. and the proceeds to be deposited into the City's account in the Employer's Reserve Fund.

Background

1. The City's Firemen's Annuity and Benefit Fund was closed to new participants on July 30, 1947. All firefighters employed by the City since that date are members of the Employees' Retirement System.
2. In 1990, the Firemen's Annuity and Benefit Fund ceased to exist after the City entered into a group annuity contract (Resolution # 891524) with the Principal Mutual Life Insurance Company for the purpose of transferring all future liability and administrative expenses. Resolution #891524 directed the Principal Mutual Life Insurance Company to apply the approximately \$15.7 million in assets of the fund to the premium on the group annuity policy. In addition, the City transferred approximately \$4.6 million to implement the City's obligations under the resolution.
3. In 2001, the Principal Mutual Life Insurance demutualized by changing its status from a mutual insurance company to a stock insurance company. Demutualization is a process in which a mutual company owned by policyholders is converted to a publicly traded stock company.
4. As part of the demutualization process, 79,281 shares of the Principal Financial Group has been deposited in City's account with Mellon Investor Services. The City may sell the shares at market price.

Discussion

1. The resolution directs the Comptroller to authorize Mellon Investor Services to sell all shares of the Principal Financial Group in the City's account.
2. The proceeds of the sale are to be deposited in City's Employer's Reserve Fund. In 2001, the Employer's Reserve Fund was established to reserve voluntary contributions from the city and city agencies for the purpose of offsetting future pension obligations.
3. According to the Department of Administration, the Mayor intends to include in his 2003 Proposed Budget returning a portion of the proceeds from the stock sale to the former members of the Firemen's Annuity and Benefit Fund and current members of the Policeman's Annuity and Benefit Fund.

Fiscal Impact

Based the stock's current price of \$25, the proceeds of the sale should by approximately \$1.98 million. This includes a transaction fee of not to exceed \$15 plus 12 cents per share.

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LRB-Fiscal Review
March 14,2002