



# Working Group

## Meeting Agenda: December 7, 2022

- I. Call to Order**  
*Chair Auditor Blaha.*
- II. Review and Approval of Working Group Meeting Minutes**  
Exhibit A. Draft November 10, 2022, Meeting Minutes
- III. Discussion of Required Investment through the SBI**  
Exhibit B.
- IV. Review of Draft Investment Report Certification Technical Change**  
Exhibit C.
- V. Discussion of DC Plan Allocation Timing**  
Exhibit D.
- VI. Other Business**
  - January Meeting?
- VII. Next Meeting**  
Wednesday, December 14, 2022  
11:00 a.m. to 12:30 p.m.  
In-Person/Virtual Hybrid Format
- VIII. Adjournment**

Individuals with disabilities who need a reasonable accommodation to participate in this event, please contact Rose Hennessy Allen at (651) 296-5985 or (800) 627-3529 (TTY) by December 5, 2022.



# Exhibit A

## 11-10-22 Draft Minutes

### Members Present

Julie Blaha, State Auditor

Eric Bullen, Minnesota State Fire Chiefs Association Representative (defined benefit lump sum plans) (via Zoom)

Sue Iverson, City of Red Wing Finance & Accounting Manager (via Zoom)

Dan Johnson, Mendota Heights Fire Relief Association Trustee (defined contribution plans)

Ron Johnson, Minnesota State Fire Department Association Representative (defined contribution plans) (via Zoom)

Aaron Johnston, Coon Rapids Fire Relief Association Treasurer (defined contribution plans)

Karl Mork, Bemidji Fire Relief Association Treasurer (defined benefit lump sum plans) (via Zoom)

Darrell Pettis, St. Peter Fire Relief Association Treasurer (defined benefit lump sum plans) (via Zoom)

Kevin Wall, Lower Saint Croix Valley Fire Relief Association President (defined benefit lump sum plans)

Michael Walstien, Plymouth Fire Relief Association Member (defined contribution plans) (via Zoom)

Thomas Wilson, Eden Prairie Fire Relief Association Secretary (defined benefit monthly/lump sum plans)

### Members Excused

Steve Donney, City of Harmony Mayor

Andy Paszak, Proctor Fire Relief Association President (defined benefit lump sum plans)

### Office of the State Auditor and Legislative Support Present

Ramona Advani, Deputy State Auditor and General Counsel

Chad Burkitt, Legislative Commission on Pension and Retirement Analyst (via Zoom)

Rose Hennessy Allen, Office of the State Auditor Pension Director

Susan Lenczewski, Legislative Commission on Pension and Retirement Executive Director (via Zoom)

### I. Call to Order

Auditor Blaha called the meeting to order. She explained that the meeting was being conducted in a hybrid format and being recorded and streamed to the Office of the State Auditor (OSA) YouTube channel.

Auditor Blaha requested a change to the agenda order. Members of the OSA's Audit Division were in attendance to provide input on the Audit Threshold topic. There were no objections to moving the Audit Threshold topic to agenda item IV.

### II. Introductions

The Working Group members and support staff in attendance introduced themselves. Auditor Blaha welcomed everyone.

### III. Review and Approval of Working Group Meeting Minutes

Members reviewed the October 19, 2022, meeting minutes that had been provided in advance. The meeting minutes were accepted with no changes.

### IV. Discussion of Audit Threshold

Hennessy Allen provided background information on the current audit threshold of \$500,000 that was established in 2013. Data was shared on the number of relief associations with and



without the audit requirement and what the threshold would be if it had been indexed to inflation. Deputy State Auditor Syverson and Audit Manager Ames discussed risk factors that auditors consider and how a threshold that changes annually can be difficult to administer. Working Group members considered increasing the threshold to \$600,000 or to \$750,000. The group decided to move forward with a proposal to increase the audit threshold to \$750,000 effective for December 31, 2023, audits filed with the OSA in 2024. The Working Group members agreed that relief associations with special fund assets or liabilities above the current \$500,000 threshold but below the proposed new threshold of \$750,000 would no longer require an audit unless or until they exceed the new threshold. Also, the current requirement that a relief association continue to be audited annually even if its assets and liabilities subsequently fall below the threshold be maintained. The proposal was adopted unanimously and language implementing the change will be brought back to the Working Group for review and final approval.

**V. Working Group Topic Rankings**

Results of the topic rankings were shared with the Working Group members.

**VI. Review of Firefighter Definitions**

Hennessy Allen shared a chart illustrating compensation, availability, and pension characteristics for use in drafting new firefighter definitions. Working Group members agreed with the chart and with adding definitions to Chapter 424A, which contains the statutes governing relief association benefits. OSA staff will identify uses of “volunteer firefighter” in Chapter 424A and draft firefighter definitions for the Working Group’s review.

**VII. Discussion of Required Investment through the SBI**

Auditor Blaha shared that this topic would be held over to the next meeting to give enough time and opportunity for all who would like to speak.

**VIII. Review of Draft Investment Report Certification Technical Change**

This topic was not discussed and would be held over to the next meeting.

**IX. Other Business**

There was no other business.

**X. Next Meeting**

Wednesday, December 7, 2022  
2:00 p.m. to 3:30 p.m.  
In-Person/Virtual Hybrid Format

**XI. Adjournment**

The meeting was adjourned at 3:30.



# Exhibit B

## Requiring Investment Through the State Board of Investment

### Topic:

During the fall of 2020, the Working Group was asked to consider whether it would support a change to require that all relief association special fund assets be invested with the State Board of Investment. The 2020 Working Group did not support the proposal, and adopted the following position statement:

For the reason identified below, the Volunteer Fire Relief Association Working Group recommends that current law be supported, which allows relief associations the option of, but does not require, investing through the Minnesota State Board of Investment.

Local Control – The current statutes are permissive, and allow relief associations options on how and where to invest their pension funds. A relief association can choose to invest some or all of its pension assets through the State Board of Investment, but are not required to do so. There is strong support among relief association trustees to maintain these options. Currently, there is no evidence that having a choice on how and where to invest relief association funds is problematic. Differences in investment performance among relief associations have not threatened the viability of the relief association pension funds, which overall are very well funded.

As of June 30, 2021, there were 165 relief associations, or about 31%, that invested some or all of their special fund assets with the State Board of Investment.

Does the Working Group still support this position?



# Exhibit C

## Investment Report Certification

### Topic:

A provision in the 2022 Pension and Retirement Bill that was passed into law in May requires the Office of the State Auditor (OSA) to annually provide each relief association with an investment report. The "Investment Report Card" that the OSA provides annually to relief associations as an educational tool satisfies this new requirement.

The new law also requires that each relief association's board of trustees certify to the OSA as part of the relief association's annual financial reporting that the board has received and reviewed the Investment Report Card.

While working to incorporate the new certification into the 2022 financial reporting form (the FIRE Form), OSA staff noted that requiring the "relief association," rather than the "relief association's board of trustees," to certify would better accommodate the current signature process. The current FIRE Form signature process, which a relief association can complete online through our secure SAFES site or by submitting a paper signature page, requires the following individuals to sign a certification on the Form:

- 1) an officer of the board of trustees;
- 2) the municipal clerk or clerk-treasurer;
- 3) the CPA (if an attestation rather than audit is required); and
- 4) the secretary of the independent nonprofit firefighting corporation, if applicable.

The concern is that if the board of trustees must certify its receipt and review of the Investment Report Card, all nine trustees of the board may need to sign, rather than the four people identified above. An optional change is provided below that would allow the Investment Report Card certification to be incorporated into the current FIRE Form certification structure.

### Optional Change:

#### **424A.095 INVESTMENTS.**

Subd. 2. **Investment report.** (a) Annually, the state auditor must provide an investment report to each relief association that has complied with the reporting

requirements under section 356.219, subdivisions 1 and 3. The investment report must contain the following information:

(1) the relief association's average annual rates of return for at least the previous one-, three-, five-, ten-, 15-, and 20-year periods for which the state auditor has investment information;

(2) the relief association's asset allocation;

(3) the average annual one-year and ten-year benchmark rates of return;

(4) the average annual one-year and ten-year rates of return for the statewide volunteer firefighter plan;

(5) the one-year and ten-year average annual rates of return for the State Board of Investment supplemental investment fund; and

(6) a graphical comparison between:

(i) the relief association's average annual rates of return for the previous year and for the previous multiyear periods provided under clause (1); and

(ii) the average annual rates of return for the same periods for the supplemental investment fund's balanced fund or any successor fund.

(b) The state auditor shall select the benchmark rates of return based on the best practice in the industry.

(c) The relief association's ~~board of trustees~~ must certify to the state auditor that the board reviewed the investment report. The certification must accompany the audited financial statements or detailed financial statement under section 424A.014, subdivision 1 or 2, whichever applies. A copy of the report must be kept on file by the relief association and must be available for inspection by any member of the public.



# Exhibit D

## DC Plan Allocation Timing

### Topic:

Relief associations with a defined contribution plan complete an allocation table at least once annually to determine each member's current account balance. Contributions, investment returns, and expenditures are allocated to member accounts based on requirements defined in statute and a relief association's bylaws.

Questions have arisen about how to determine the account balance of a member who requests a payout mid-year. If a relief association only completes its allocation table once each year, the most recent account balance available for a retiring member would be the prior December 31 balance. As illustrated during 2022, investment returns can change significantly in just a few months. If a member's account balance is not recalculated to factor in any investment gains or losses between December 31 and the member's retirement date, the member either misses out on receiving gains, or the losses will become the responsibility of the remaining members.

As an example, consider a relief association with a special fund value of \$250,000 that had a rate of return of -20% for the year to-date. A member with a 12/31/2021 account balance of \$37,000 requests his or her pension distribution in mid-2022. If the relief association pays the member a service pension of \$37,000 instead of the approximately \$29,600 that would be the current value of the account, the accounts of the remaining members would need to be reduced by both their share of the \$50,000 investment loss *and* the retiring member's share of the investment loss.

The concern is that if several members request pension distributions during a year when there are investment losses, and are paid amounts that don't include their share of the loss, the remaining members would unfairly be left to absorb the entire negative return. In some scenarios, if a relief association were to pay retiring members at the higher account balances, it could result in completely depleting the special fund assets.

### Options:

1. Make no changes.
2. Require a relief association to prepare a new allocation table to determine current account balances for members who request a mid-year pension payment.

- a. Consider allowing relief associations to charge the member a fee to pay for preparation of the allocation table.
3. Require that members be paid based on an allocation table that was prepared within a certain number of days (e.g., 30 days, 60 days, or within the quarter). If no allocation table was prepared within that required timeframe, an updated allocation table would need to be prepared.
4. Others?