

**Minnesota Volunteer Fire Relief Association  
Working Group Meeting**

Office of the State Auditor  
Wednesday, November 28, 2012  
11 a.m. to 1 p.m.

- I. Call to Order**  
*Chair Auditor Otto.*
  
- II. Review and Approval of Working Group Meeting Minutes**  
Exhibit A. Draft November 19, 2012 Meeting Minutes
  
- III. Discussion of Deducting Membership Dues from Payroll**  
Exhibit B.
  
- IV. Discussion of Pension Eligibility Requirements**  
Exhibits C and D.
  
- V. Discussion of Municipal Ratification Requirements**  
Exhibit E.
  
- VI. Discussion of Defined Benefit Plan Deferred Interest**  
Exhibit F.
  
- VII. Other Business**
  
- VIII. Next Meeting**  
Tuesday, December 4, 2012  
11 a.m. to 1 p.m.  
Office of the State Auditor
  
- IX. 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 November 26, 2012.

# **Volunteer Fire Relief Association Working Group**

Office of the State Auditor  
Monday, November 19, 2012  
11 a.m. to 1 p.m.

## **Members Present**

Steve Donney, City of Harmony Mayor  
Bruce Duncan, Excelsior Fire Relief Association President (defined benefit lump sum plans)  
Dave Ganfield, Apple Valley Fire Relief Association Administrator (defined benefit monthly/lump sum combination plans)  
Bruce Hemstad, Bemidji Fire Relief Association Secretary (defined benefit lump sum plans)  
Dave Jaeger, Mahnomon Fire Relief Association Treasurer (defined benefit lump sum plans)  
Aaron Johnston, Coon Rapids Fire Relief Association Treasurer (defined contribution plans)  
Larry Martin, Legislative Commission on Pensions and Retirement Director  
Rebecca Otto, State Auditor  
Bruce Roed, Mentor Fire Relief Association Trustee (defined contribution plans)  
Mark Rosenblum, Minnesota State Fire Department Association Representative (defined benefit lump sum plans)  
Tim Simon, Elk River City Finance Director

## **Members Excused**

Nyle Zikmund, Minnesota State Fire Chiefs Association Representative (defined benefit monthly plans)

## **Others Present**

Bill Braun, Woodbury Fire Relief Association Representative  
Mary Chamberlain, Abdo, Eick & Meyers Representative  
Aaron Dahl, Office of the State Auditor Pension Analyst  
Celeste Grant, Deputy State Auditor/General Counsel  
Rose Hennessy Allen, Office of the State Auditor Pension Director  
Jim Jensen, Office of the State Auditor Pension Analyst  
Deb Jezierski, HLB Tautges Redpath Representative  
Michael Johnson, Office of the State Auditor Pension Analyst  
Brian McKnight, Wells Fargo Advisors Representative  
Kent Zoya, Inver Grove Heights Fire Relief Association Representative

The following motions were duly made, seconded and approved:

- RESOLVED to approve the February 7, 2012, Working Group Meeting Minutes;
- RESOLVED to approve the draft technical language that removes the reference to a death benefit from the section that authorizes transfers to an individual retirement account;
- RESOLVED to approve the draft technical language, as amended, to clarify language providing an exception to the requirement that firefighters separate from active service to be

eligible for a service pension for firefighters who discontinue their volunteer firefighter duties and perform duties with the fire department on a full-time basis; and

RESOLVED to approve the draft language, as amended, to require that supplemental survivor benefits be paid when the recipient of the survivor benefit is a surviving spouse or the surviving child or children of a deceased member, and to strike the retroactive reimbursement provision.

**I. Call to Order**

Chair Auditor Otto called the meeting to order.

**II. Introductions**

The Working Group members and others in attendance introduced themselves and identified the community they are representing.

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

The members reviewed the February 7, 2012, meeting minutes that had been provided in advance. Ganfield made a motion to adopt the meeting minutes. Jaeger seconded the motion that was adopted unanimously. Donney, Johnston, Rosenblum, and Simon abstained as they were not in attendance at the February 7 meeting.

**IV. Working Group Process Discussion**

- Working Group Meeting Schedule

The members reviewed the Working Group Meeting Schedule and shared any scheduling conflicts.

- Working Group Purpose Statement

The members reviewed the Working Group Purpose Statement, which is the same as the Statement agreed upon last year. No changes to the Purpose Statement were proposed.

- Working Group Process Statement

The members reviewed the Working Group Process Statement, which is the same as the Statement agreed upon last year. The members agreed that unanimous consent be required for a proposal to move forward. A topic can be reconsidered if there is only one dissenting member. No changes to the Process Statement were proposed.

- Working Group Membership List

The members reviewed the Working Group membership list and forwarded contact information changes to Hennessy Allen. Auditor Otto reminded the members that the Membership List is posted on the Office of the State Auditor's website.

**V. Discussion of Working Group Topic Suggestions**

Auditor Otto explained that topic suggestions have been received for the Working Group's consideration. Auditor Otto said that the topics planned for consideration this year include deferred interest clean-up changes, clarification of municipal ratification requirements, service credit calculations, and some technical changes. She asked the members if they had any additional topics that they would like to discuss.

Donney said that he would like to discuss changes to the audit requirement and threshold. Ganfield would like the issue of allowing municipalities to withhold relief association membership dues from firefighters' per-call payments to be discussed. Simon said that he would appreciate an update on the IRS tax-exempt issue.

Martin raised the topic of the minimum fire department equipment requirements that must be satisfied in order for a community to be eligible for fire state aid. The minimum requirements have not been updated recently and are most likely outdated. Roed explained that the State Fire Marshal's Office is working to draft changes to the minimum requirements and to develop minimum standards for fire departments. Roed said that the draft proposals will be circulated among the fire service organizations and other stakeholder groups before they are finalized. Roed anticipates that he would have an update for the Working Group next year, with legislation to be introduced during the 2014 Legislative Session.

**VI. Review of Draft Language for Technical Changes**

Auditor Otto explained that Technical Change #1 corrects an omission that was found in the "return to service" section of the 2012 Working Group bill. The change clarifies that for a member of a defined contribution plan who returns to service and who has not already been paid a service pension, the member would be eligible for a service pension that includes allocations credited to the member's account during both the original and resumption periods of service. Donney asked how multiple breaks in service would be handled, and suggested changing "period" to "periods." Auditor Otto said that the draft language would be reviewed in light of Donney's suggestion and would be revisited at a future meeting.

Technical Change #2 clarifies the opening language of the "return to service" section. Martin questioned the phrase "protected by." The members offered suggestions for changing the phrase. Grant said that the language would be worked on and brought back before the Group for consideration at a future meeting.

Technical Change #3 defines the term "fiscal year" for volunteer fire relief associations, as it is not currently defined. Martin suggested referencing the municipal fiscal year law, so that if the fiscal year for cities and towns were to change, the fiscal year definition for relief associations would automatically change, too. The members agreed with Martin's suggestion. Auditor Otto said that language would be drafted and brought to the Group for review at a future meeting.

Technical Change #4 cleans up outdated language. The individuals who have authority to elect a rollover of their service pension or ancillary benefit will not be receiving a death benefit, so the reference to a death benefit can be removed. Death benefits are only paid in instances when there is no surviving spouse, there are no surviving children, and there is no designated beneficiary. A death benefit is paid in these instances to the estate of the deceased member. Roed made a motion to adopt the draft language for Technical Change #4. Hemstad seconded the motion that was adopted unanimously.

Technical Change #5 continues some clean-up work that the Group began last year. The draft change clarifies language that authorizes a firefighter to discontinue volunteer firefighter duties but remain an active firefighter with the fire department if the service is on a full-time basis. Grant suggested changing “to perform” to “and performs” in subclause (1). Duncan made a motion to adopt the draft language, as amended. Rosenblum seconded the motion that was adopted unanimously.

## **VII. Discussion of Supplemental Survivor Benefit Issues**

Auditor Otto summarized two issues that sometimes occur with the payment of supplemental survivor benefits. First, in order to pay a supplemental survivor benefit, a relief association must authorize the payment in its bylaws. Some relief associations pay a supplemental survivor benefit without authorizing bylaw language. Second, supplemental survivor benefits can only be paid to the surviving spouse, or in none, to the surviving child or children. There is no authority to pay a supplemental benefit to a designated beneficiary. Some relief association trustees have questioned why a designated beneficiary cannot receive the supplemental benefit.

The Group discussed the policy issue of expanding eligibility for a supplemental survivor benefit. The members agreed that eligibility for the benefit should be limited to the surviving spouse and surviving child or children, as is currently allowed. The members agreed that payment of the supplemental survivor benefit should be mandatory when there is a qualified recipient, and that authorizing language should not be required in the bylaws. Subdivision 5 could be removed as the retroactive reimbursement would no longer be needed if the payments were required. Ganfield made a motion to adopt the draft language, as amended. Donney seconded the motion that was adopted unanimously.

## **VIII. Other Business**

Auditor Otto provided the Group with an update on the General Records Retention Schedule for volunteer fire relief associations. About two years ago the Working Group began the process of creating a general records retention schedule that relief associations could choose to adopt. Ganfield and the Apple Valley Fire Relief Association submitted the general schedule that the Group drafted to the state Records Disposition Panel, which approved it in April. Relief associations now can choose to adopt the general schedule and destroy certain types of records after they have been maintained for a specified length

of time. Educational information is available on the Office of the State Auditor's website that provides more information about the general records retention schedule and how it can be used. Information was also provided in the Pension Newsletter and an article was published in the Fire Chiefs magazine. Auditor Otto thanked Ganfield and the Group members who helped create the schedule.

Hemstad reminded the Group that Bemidji will be hosting the 2013 Minnesota State Fire Department Association conference in June.

Martin updated the Group on a change to the membership of the Legislative Commission on Pensions and Retirement. In January the membership will increase from 10 members to 14.

**IX. Next Meeting**

Wednesday, November 28, 2012

11 a.m. to 1 p.m.

Office of the State Auditor

**VII. Adjournment**

The meeting was adjourned shortly after 1:00.

1 A bill for an act

2  
3 relating to volunteer firefighters relief associations; correcting obsolete references; authorizing a  
4 payroll deduction; amending Minnesota Statutes 2012, sections 69.771, subdivision 1, 69.774,  
5 subdivision 1, and 181.06, subdivision 2.

6  
7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

8 Sec. 1. Minnesota Statutes 2012, section 69.771, subdivision 1, is amended to read:

9 Subd. 1. [COVERED RELIEF ASSOCIATIONS]

10 The applicable provisions of sections 69.771 to 69.776 apply to any firefighters' relief  
11 association subject to applicable provisions of chapter 424A. They do not apply to other than a  
12 relief association enumerated in section 69.77, subdivision 1a, ~~which is organized under any laws~~  
13 ~~of this state, which is composed of volunteer firefighters or is composed partially of volunteer~~  
14 ~~firefighters and partially of salaried firefighters with retirement coverage provided by the public~~  
15 ~~employees police and fire fund and which, in either case, operates subject to the service pension~~  
16 ~~minimum requirements for entitlement and maximums contained in section 424A.02, or subject~~  
17 ~~to a special law modifying those requirements or maximums.~~

18 Sec. 2. Minnesota Statutes 2012, section 69.774, subdivision 1, is amended to read:

19 Subd 1. [AUTHORIZED INCLUSION IN FIRE STATE AID PROGRAM; COVERED  
20 NONPROFIT CORPORATIONS]

21 This section shall apply to any independent nonprofit firefighting corporation incorporated or  
22 organized pursuant to chapter 317A which operates exclusively for firefighting purposes, which  
23 is composed of volunteer firefighters, which has a duly established separate subsidiary  
24 incorporated firefighters' relief association which provides retirement coverage for or pays a  
25 service pension to a retired firefighter or a retirement benefit to a surviving dependent of either  
26 an active or a retired firefighter, and which is subject to applicable provisions of chapter 424A.

27 ~~which operates subject to the service pension minimum requirements for entitlement to and~~  
28 ~~maximums for a service pension contained in section 424A.02, or a special law modifying those~~  
29 ~~requirements or maximums.~~ Notwithstanding any law to the contrary, a municipality contracting  
30 with an independent nonprofit firefighting corporation shall be included in the distribution of fire  
31 state aid to the appropriate county auditor by the state auditor only if the independent nonprofit  
32 firefighting corporation complies with the provisions of this section.

33 Sec. 3. Minnesota Statutes 2012, section 181.06, subdivision 2, is amended to read:

34 Subd. 2 [PAYROLL DEDUCTIONS]

35 A written contract may be entered into between an employer and an employee wherein the  
36 employee authorizes the employer to make payroll deductions for the purpose of paying union  
37 dues, premiums of any life insurance, hospitalization and surgical insurance, group accident and  
38 health insurance, group term life insurance, group annuities or contributions to credit unions or a  
39 community chest fund, a local arts council, a local science council or a local arts and science  
40 council, or Minnesota benefit association, a federally or state registered political action  
41 committee, dues of a relief association governed by section 69.77 or sections 69.771 to 69.776,  
42 or participation in any employee stock purchase plan or savings plan for periods longer than 60  
43 days, including gopher state bonds established under section 16A.645.

## Exhibit C

### DC Plan Eligibility Requirements

#### 424A.016 DEFINED CONTRIBUTION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION SPECIFIC REGULATION.

<p>Subd. 2. <b>Defined contribution service pension eligibility.</b></p> <p>(a) A relief association, when its articles of incorporation or bylaws so provide, may pay out of the assets of its special fund a defined contribution service pension to each of its members who:</p> <p>(1) separates from active service with the fire department;</p> <p>(2) reaches age 50;</p> <p>(3) completes at least five years of active service as an active member of the municipal fire department to which the relief association is associated;</p> <p>(4) completes at least five years of active membership with the relief association before separation from active service; and</p> <p>(5) complies with any additional conditions as to age, service, and membership that are prescribed by the bylaws of the relief association.</p> <p>(b) In the case of a member who has completed at least five years of active service as an active member of the fire department to which the relief association is associated on the date that the relief association is established and incorporated, the requirement that the member complete at least five years of active membership with the relief association before separation from active service may be</p>	<p>Subd. 6. <b>Deferred service pensions.</b> (a) A member of a relief association is entitled to a deferred service pension if the member:</p> <p><del>— (1) has completed the lesser of the minimum period of active service with the fire department specified in the bylaws or 20 years of active service with the fire department;</del></p> <p><del>— (2) has completed at least five years of active membership in the relief association; and</del></p> <p><del>— (3) separates from active service and membership and has completed the minimum service and membership requirements in subdivision 2.</del> The requirement that a member separate from active service and membership is waived for persons who have discontinued their volunteer firefighter duties and who are employed on a full-time basis under section 424A.015, subdivision 1.</p> <p>(b) The deferred service pension is payable when the former member reaches at least age 50, or at least the minimum age specified in the bylaws governing the relief association if that age is greater than age 50, and when the former member makes a valid written application.</p> <p>(c) A defined contribution relief association may, if its governing bylaws so provide, credit interest or additional investment performance on the deferred lump-sum service pension during the period of deferral. If provided for in the bylaws, the interest must be paid:</p>
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waived by the board of trustees of the relief association if the member completes at least five years of inactive membership with the relief association before the date of the payment of the service pension. During the period of inactive membership, the member is not entitled to receive any disability benefit coverage, is not entitled to receive additional individual account allocation of fire state aid or municipal contribution towards a service pension, and is considered to have the status of a person entitled to a deferred service pension.

(c) The service pension earned by a volunteer under this chapter and the articles of incorporation and bylaws of the relief association may be paid whether or not the municipality or nonprofit firefighting corporation to which the relief association is associated qualifies for the receipt of fire state aid under chapter 69.

(1) at the investment performance rate actually earned on that portion of the assets if the deferred benefit amount is invested by the relief association in a separate account established and maintained by the relief association;

(2) at the investment performance rate actually earned on that portion of the assets if the deferred benefit amount is invested in a separate investment vehicle held by the relief association; or

(3) at the investment return on the assets of the special fund of the defined contribution volunteer firefighter relief association in proportion to the share of the assets of the special fund to the credit of each individual deferred member account through the accounting date on which the investment return is recognized by and credited to the special fund.

(d) Unless the bylaws of a relief association that has elected to pay interest or additional investment performance on deferred lump-sum service pensions under paragraph (c) specifies a different interest or additional investment performance method, including the interest or additional investment performance period starting date and ending date, the interest or additional investment performance on a deferred service pension is creditable as follows:

(1) for a relief association that has elected to pay interest or additional investment performance under paragraph (c), clause (1) or (3), beginning on the date that the member separates from active service and membership and ending on the accounting date immediately before the deferred member commences receipt of the deferred service pension; or

(2) for a relief association that has elected to pay interest or additional investment performance under paragraph (c), clause

	<p>(2), beginning on the date that the member separates from active service and membership and ending on the date that the separate investment vehicle is valued immediately before the date on which the deferred member commences receipt of the deferred service pension.</p> <p>(e) The deferred service pension is governed by and must be calculated under the general statute, special law, relief association articles of incorporation, and relief association bylaw provisions applicable on the date on which the member separated from active service with the fire department and active membership in the relief association.</p>
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**Exhibit D**  
**DB Plan Eligibility Requirements**

**424A.02 DEFINED BENEFIT RELIEF ASSOCIATIONS; SERVICE PENSIONS.**

Subdivision 1. **Authorization.** (a) A defined benefit relief association, when its articles of incorporation or bylaws so provide, may pay out of the assets of its special fund a defined benefit service pension to each of its members who:

- (1) separates from active service with the fire department;
- (2) reaches age 50;
- (3) completes at least five years of active service as an active member of the municipal fire department to which the relief association is associated;
- (4) completes at least five years of active membership with the relief association before separation from active service; and
- (5) complies with any additional conditions as to age, service, and membership that are prescribed by the bylaws of the relief association. A service pension computed under this section may be prorated monthly for fractional years of service as the bylaws or articles of incorporation of the relief association so provide. The bylaws or articles of incorporation may define a "month," but the definition must require a calendar month to have at least 16 days of active service. If the bylaws or articles of incorporation do not define a "month," a "month" is a completed calendar month of active service measured from the member's date of entry to the same date in the subsequent month. The service pension earned by a volunteer firefighter under this chapter and the articles of incorporation and bylaws of the volunteer firefighters' relief

Subd. 7. **Deferred service pensions.** (a) A member of a defined benefit relief association is entitled to a deferred service pension if the member:  
~~—(1) has completed the lesser of either the minimum period of active service with the fire department specified in the bylaws or 20 years of active service with the fire department;~~  
~~—(2) has completed at least five years of active membership in the relief association; and~~  
~~—(3) separates from active service and membership~~ and has completed the minimum service and membership requirements in subdivision 1. The requirement that a member separate from active service and membership is waived for persons who have discontinued their volunteer firefighter duties and who are employed on a full-time basis under section 424A.015, subdivision 1.

(b) The deferred service pension is payable when the former member reaches at least age 50, or at least the minimum age specified in the bylaws governing the relief association if that age is greater than age 50, and when the former member makes a valid written application.

(c) A defined benefit relief association that provides a lump-sum service pension governed by subdivision 3 may, when its governing bylaws so provide, pay interest on the deferred lump-sum service pension during the period of deferral. If provided for in the bylaws, interest must be paid in

association may be paid whether or not the municipality or nonprofit firefighting corporation to which the relief association is associated qualifies for the receipt of fire state aid under chapter 69.

(b) In the case of a member who has completed at least five years of active service as an active member of the fire department to which the relief association is associated on the date that the relief association is established and incorporated, the requirement that the member complete at least five years of active membership with the relief association before separation from active service may be waived by the board of trustees of the relief association if the member completes at least five years of inactive membership with the relief association before the date of the payment of the service pension. During the period of inactive membership, the member is not entitled to receive disability benefit coverage, is not entitled to receive additional service credit towards computation of a service pension, and is considered to have the status of a person entitled to a deferred service pension under subdivision 7.

(c) No municipality or nonprofit firefighting corporation may delegate the power to take final action in setting a service pension or ancillary benefit amount or level to the board of trustees of the relief association or to approve in advance a service pension or ancillary benefit amount or level equal to the maximum amount or level that this chapter would allow rather than a specific dollar amount or level.

one of the following manners:

(1) at the investment performance rate actually earned on that portion of the assets if the deferred benefit amount is invested by the relief association in a separate account established and maintained by the relief association;

(2) at the investment performance rate actually earned on that portion of the assets if the deferred benefit amount is invested in a separate investment vehicle held by the relief association; or

(3) at an interest rate of up to five percent, compounded annually, as set by the board of directors and approved as provided in subdivision 10.

(d) Interest under paragraph (c), clause (3), is payable following the date on which the municipality has approved the deferred service pension interest rate established by the board of trustees.

(e) Unless the bylaws of a relief association that has elected to pay interest or additional investment performance on deferred lump-sum service pensions under paragraph (c) specifies a different interest or additional investment performance method, including the interest or additional investment performance period starting date and ending date, the interest or additional investment performance on a deferred service pension is creditable as follows:

(1) for a relief association that has elected to pay interest or additional investment performance under paragraph (c), clause (1) or (3), beginning on the date that the member separates from active service and membership and ending on the accounting date immediately before the deferred member commences receipt of the deferred service pension; or

(2) for a relief association that has elected to pay interest or

additional investment performance under paragraph (c), clause (2), beginning on the date that the member separates from active service and membership and ending on the date that the separate investment vehicle is valued immediately before the date on which the deferred member commences receipt of the deferred service pension.

(f) For a deferred service pension that is transferred to a separate account established and maintained by the relief association or separate investment vehicle held by the relief association, the deferred member bears the full investment risk subsequent to transfer and in calculating the accrued liability of the volunteer firefighters relief association that pays a lump-sum service pension, the accrued liability for deferred service pensions is equal to the separate relief association account balance or the fair market value of the separate investment vehicle held by the relief association.

(g) The deferred service pension is governed by and must be calculated under the general statute, special law, relief association articles of incorporation, and relief association bylaw provisions applicable on the date on which the member separated from active service with the fire department and active membership in the relief association.

## Exhibit E

# Municipal Ratification Requirements

### Issue:

There are numerous references within sections 69 and 424A that require “municipal ratification” before relief association bylaw amendments become effective. Based on the definition of the term “municipality” in section 424A, it appears that relief associations that are affiliated with an independent nonprofit firefighting corporation may be required to obtain approval from each municipality that contracts with the firefighting corporation for the association to make benefit level changes or other amendments to its bylaws.

The independent nonprofit firefighting corporation is the entity responsible for making any required contributions to the relief association, so it seems that the decision to ratify benefit level changes or other bylaw amendments should rest with the firefighting corporation.

If the Group would like to pursue a change, language could be added to Minn. Stat. § 69.774 (Nonprofit Firefighting Corporations) that clarifies the independent nonprofit firefighting corporation is the “municipality” for purposes of municipal ratification requirements. In addition, we found some technical clean-up changes that should be made to that same section.

### 424A.001 DEFINITIONS.

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Subd. 3. **Municipality.** "Municipality" means a municipality which has established a fire department with which the relief association is directly associated, or the municipalities which have entered into a contract with the independent nonprofit firefighting corporation of which the relief association is a subsidiary.

### 69.774 NONPROFIT FIREFIGHTING CORPORATIONS.

Subdivision 1. **Authorized inclusion in fire state aid program; covered nonprofit corporations.** This section shall apply to any independent nonprofit firefighting corporation incorporated or organized pursuant to chapter 317A which operates exclusively for firefighting purposes, which is composed of volunteer firefighters, which has a duly established separate subsidiary incorporated firefighters' relief association which provides retirement coverage for or pays a service pension to a retired firefighter or a retirement benefit to a surviving dependent of either an active or a retired firefighter, and which operates subject to the service pension minimum requirements for entitlement to and maximums for a service pension contained in section 424A.02, or a special law modifying those requirements or maximums. Notwithstanding

any law to the contrary, a municipality contracting with an independent nonprofit firefighting corporation shall be included in the distribution of fire state aid to the appropriate county auditor by the state auditor only if the independent nonprofit firefighting corporation complies with the provisions of this section.

**Subd. 2. Determination of actuarial condition and funding costs.** Each independent nonprofit firefighting corporation to which this section applies shall determine the actuarial condition and the funding costs of the subsidiary relief association using the following procedure:

(1) An independent nonprofit firefighting corporation which has a subsidiary relief association which pays a monthly benefit service pension shall procure an actuarial valuation of the special fund of the subsidiary relief association at the same times and in the same manner as specified in section 69.773, subdivisions 2 and 3, and an independent nonprofit firefighting corporation which has a subsidiary relief association which pays a lump-sum service pension shall determine the accrued liability of the special fund of the relief association in accordance with section 69.772, subdivision 2.

(2) The financial requirements of the special fund of the subsidiary relief association which pays a monthly benefit service pension shall be determined in the same manner as specified in section 69.773, subdivision 4, and the financial requirements of the special fund of the subsidiary relief association which pays a lump-sum service pension shall be determined in the same manner as specified in section 69.772, subdivision 3.

(3) The minimum obligation of the independent nonprofit firefighting corporation on behalf of the special fund of the subsidiary relief association which pays a monthly benefit service pension shall be determined in the same manner as specified in section 69.773, subdivision 5. The minimum obligation of the independent nonprofit firefighting corporation on behalf of the special fund of the subsidiary relief association which pays a lump-sum service pension shall be determined in the same manner as specified in section 69.772, subdivision 3.

(4) The independent nonprofit firefighting corporation shall appropriate annually from the income of the corporation an amount at least equal to the minimum obligation of the independent nonprofit firefighting corporation on behalf of the special fund of the subsidiary relief association.

**Subd. 3. Authorized pension disbursements.** Authorized disbursements of assets of the special fund of the subsidiary relief association of the nonprofit firefighting corporation shall be governed by the provisions of section 424A.05.

**Subd. 4. Ratification for plan amendments.** For purposes of municipal ratification requirements under section 69.772, subdivision 6, or 69.773, subdivision 6, "municipality" means the independent nonprofit firefighting corporation.

## **Exhibit F**

# **DB Plan Deferred Interest**

### **Issues:**

1. Last year, the Working Group decided to establish default calculation methods if the bylaws of a relief association authorize the payment of deferred interest but don't specify the interest payment beginning and ending dates. The Working Group decided that for defined benefit relief associations that pay interest to deferred members at a variable interest rate, up to five percent as set by the board, or at the actual rate earned on a separate investment account, the default would be to calculate interest for each completed calendar month that the member was deferred.

There was a typo when the bill was put together, and the deferred interest language that the Working Group adopted for the defined contribution plans was accidentally also used for the defined benefit plans. Optional Change #1 below would correct this mistake.

2. There has been confusion about when municipal ratification is required for deferred interest rates that are set by the relief association's board. Paragraphs (c)(3) and (d) below seem to conflict. If the intent is to always require municipal ratification of the deferred interest rates, the language "as provided in subdivision 10" in paragraph (c)(3) should be removed. If the intent is to only require municipal ratification if the relief association is not fully funded, then the language in paragraph (d) should be changed.
3. When a relief association elects to pay deferred interest based on a rate set by the board, problems sometimes arise with the interest rate's effective date. Some relief associations wait until the end of the year to see how their investments performed, and then set the deferred interest rate based on the association's investment performance. Relief associations cannot establish deferred interest rates retroactively, however. The interest rates can become effective on the date that they are approved, or a date in the future. An optional change to avoid this confusion and to make deferred service pension calculations easier and more consistent is to make the deferred interest rate become effective on the upcoming January 1. The rate would be in effect until the relief association board sets a new rate, which would become effective on the January 1 following the rate's approval. Optional Change #2 below would make this revision.

## 424A.02 DEFINED BENEFIT RELIEF ASSOCIATIONS; SERVICE PENSIONS.

...

Subd. 7. **Deferred service pensions.** (a) A member of a defined benefit relief association is entitled to a deferred service pension if the member:

(1) has completed the lesser of either the minimum period of active service with the fire department specified in the bylaws or 20 years of active service with the fire department;

(2) has completed at least five years of active membership in the relief association; and

(3) separates from active service and membership. The requirement that a member separate from active service and membership is waived for persons who have discontinued their volunteer firefighter duties and who are employed on a full-time basis under section 424A.015, subdivision 1.

(b) The deferred service pension is payable when the former member reaches at least age 50, or at least the minimum age specified in the bylaws governing the relief association if that age is greater than age 50, and when the former member makes a valid written application.

(c) A defined benefit relief association that provides a lump-sum service pension governed by subdivision 3 may, when its governing bylaws so provide, pay interest on the deferred lump-sum service pension during the period of deferral. If provided for in the bylaws, interest must be paid in one of the following manners:

(1) at the investment performance rate actually earned on that portion of the assets if the deferred benefit amount is invested by the relief association in a separate account established and maintained by the relief association;

(2) at the investment performance rate actually earned on that portion of the assets if the deferred benefit amount is invested in a separate investment vehicle held by the relief association; or

(3) at an interest rate of up to five percent, compounded annually, as set by the board of directors and approved as provided in subdivision 10.

(d) Interest under paragraph (c), clause (3), is payable **(Optional Change #2)** beginning on January 1 following the date on which the municipality has approved the deferred service pension interest rate established by the board of trustees.

(e) Unless the bylaws of a relief association that has elected to pay interest or additional investment performance on deferred lump-sum service pensions under paragraph (c) specifies a different interest or additional investment performance method, including the interest or additional investment performance period starting date and ending date, the interest or additional investment performance on a deferred service pension is creditable as follows:

(1) for a relief association that has elected to pay interest or additional investment performance under paragraph (c), clause (1) or (3), **(Optional Change #1)** beginning on the date that the member separates from active service and membership and ending on the accounting date immediately before the deferred member commences receipt of the deferred service pension first day of the month next following the date on which the member separates from active service and membership and ending on the last day of the

month immediately before the month in which the deferred member commences receipt of the deferred service pension; or

(2) for a relief association that has elected to pay interest or additional investment performance under paragraph (c), clause (2), beginning on the date that the member separates from active service and membership and ending on the date that the separate investment vehicle is valued immediately before the date on which the deferred member commences receipt of the deferred service pension.

(f) For a deferred service pension that is transferred to a separate account established and maintained by the relief association or separate investment vehicle held by the relief association, the deferred member bears the full investment risk subsequent to transfer and in calculating the accrued liability of the volunteer firefighters relief association that pays a lump-sum service pension, the accrued liability for deferred service pensions is equal to the separate relief association account balance or the fair market value of the separate investment vehicle held by the relief association.

(g) The deferred service pension is governed by and must be calculated under the general statute, special law, relief association articles of incorporation, and relief association bylaw provisions applicable on the date on which the member separated from active service with the fire department and active membership in the relief association.