

Minnesota Volunteer Fire Relief Association
Working Group Meeting

Office of the State Auditor
Thursday, August 20, 2009
11 a.m. to 1 p.m.

- I. Call to Order**
Chair Auditor Otto.
- II. Introductions**
- III. Review and Approval of Working Group Meeting Minutes**
Exhibit A. Draft January 27, 2009 Meeting Minutes
- IV. Working Group Process Discussion**
Exhibits B through E.
- Working Group Meeting Schedule
 - Working Group Purpose Statement
 - Working Group Process
 - Working Group Membership List
- V. Discussion of Working Group Topic Suggestions**
Exhibit F.
- VI. Other Business**
- VII. Next Meeting**
Tuesday, September 22, 2009
11 a.m. to 1 p.m.
Office of the State Auditor
- VIII. Adjournment**

Volunteer Fire Relief Association Working Group

Office of the State Auditor

Tuesday, January 27, 2009

11 a.m. to 2 p.m.

Members Present

Wayne Anderson, Coon Rapids Fire Department Inspector (defined contribution plans)

Ed Dietz, Maplewood Fire Relief Association Treasurer (defined benefit lump sum plans)

Dave Ganfield, Apple Valley Fire Relief Association Administrator (defined benefit monthly/lump sum combination plans)

Jim Hansen, Minnesota Area Relief Association Coalition Representative

Dave Jaeger, Mahnommen Fire Relief Association Treasurer (defined benefit lump sum plans)

Larry Martin, Legislative Commission on Pensions and Retirement Director

Rebecca Otto, State Auditor

Bruce Roed, Mentor Fire Relief Association Trustee (defined contribution plans)

Steven Wallner, Watertown City Finance Director

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

Members Excused

Tim Simon, Elk River City Finance Director

Others Present

Jim Adams, West Metro Fire Relief Association Secretary

Colleen Bollom, Minnesota Firefighter Pension Consultants Representative

Aaron Dahl, Pension Analyst

Anne Finn, League of Minnesota Cities Representative

Celeste Grant, Deputy State Auditor/General Counsel

Rose Hennessy Allen, Pension Director

Lucas Hinz, Pension Analyst

Mike Miller, Integra Shield Financial Group Representative

The following motions were duly made, seconded and approved:

RESOLVED to approve the December 16, 2008, Working Group Meeting Minutes.

RESOLVED to table the discussion on expanding the exchange traded fund investment authority and to recommend the next Working Group review the topic along with a broader review of relief association investment authority.

RESOLVED to recommend no changes to the 10-year amortization period for lump sum plans.

RESOLVED to adopt the draft return to service language.

RESOLVED to adopt the draft language that provides an exception to the prohibition on volunteer firefighting service by a minor.

RESOLVED to adopt the draft language that allows a designated beneficiary to be a trust in cases where a lump sum benefit will be paid.

RESOLVED to adopt the draft language that allows special fund assets to be used to purchase insurance from the state Volunteer Firefighters Benefit Association, or an

insurance company licensed by the State of Minnesota offering casualty insurance.

RESOLVED to adopt the Defined Contribution Plan Sub-Group draft legislation, as amended.

RESOLVED to strike lines 1.11 through 1.19 of the draft language that authorizes state fire aid to be used by municipalities for their employer contributions to PERA in cases where there is no volunteer fire relief association in existence, but there are full-time firefighters covered by PERA.

RESOLVED to adopt the draft “technical” topic draft legislation, as amended.

RESOLVED to take no action on the proposed special law that would increase the number of ex officio trustees for the Brimson Fire Relief Association.

RESOLVED to adopt Working Group’s draft legislation as amended, with permission to make edits as needed as long as they are consistent with the Group’s intent.

I. Call to Order

Chair Auditor Otto called the meeting to order.

II. Review and Approval of Working Group Meeting Minutes

The members reviewed the December 16, 2008, meeting minutes that had been provided in advance. Ganfield made a motion to adopt the meeting minutes. Wallner seconded the motion, which was adopted unanimously.

III. Discussion of Working Group Topic Suggestions

- **Exchange Traded Fund Investments**

Under current law, relief associations are only authorized to invest in exchange traded funds that invest solely in investments that are directly authorized on the expanded list of authorized investment securities. This means that exchange traded funds that invest in “other investments” are not authorized. At the last meeting some members of the Group split off to discuss allowing exchange traded funds to invest in the same things that relief associations can invest in through mutual funds. Auditor Otto explained that there are concerns with this approach, because relief associations can invest in risky types of short and ultra-short investments through mutual funds. Legislation that would expand the investment authority for relief associations and allow them to get into riskier types of investments would have a difficult time passing, especially in light of recent market losses. In addition, Auditor Otto explained that the investment authority provisions of state law also apply to the larger local public pension plans. Any changes to the investment statutes would affect these others plans, so the Working Group would need to get support from the larger local plans for the proposal to pass. For these two reasons, Auditor Otto suggested that this Working Group topic needs further review and recommended that it be held over. The Group agreed, with Jaeger making a motion to table the topic until the next Working Group convenes. Wallner seconded the motion, which was adopted unanimously.

- Amortization Period

Under current law, deficits for lump sum plans are amortized over a 10-year period, while deficits for monthly plans are amortized over a 20-year period. A suggestion was made to increase the amortization period for lump sum plans. The effect of amortizing deficits over a longer time period is to reduce the municipal contribution amount required to be paid to the relief association each year. Auditor Otto explained that this proposal would have a cost to the Office of the State Auditor, since complex formula changes would need to be made to the Schedule Form and to the Office's database application. Because of the current state budget deficit, Auditor Otto said that she is hesitant to commit to taking on any unfunded projects. Several of the Working Group members said that they prefer the current 10-year amortization period. Dietz made a motion to make no changes. Jaeger seconded the motion, which was adopted unanimously.

- Breaks in Service and Return to Service

Auditor Otto explained that the breaks in service issue and return to service issue were discussed separately during the Working Group meetings, but since it appears the Group would like the conditions on resuming active service to be the same under both situations, the topics are dealt with together in the draft language that was provided. The return to service issue is the current draconian law that requires members to repay their service pension if they resume active service with the same volunteer fire department after retirement. The breaks in service issue relates to members that return to active service after a break in service, but have not yet been paid a service pension. Martin provided an explanation of each section of the draft language and explained why monthly benefit payments would be suspended for monthly retirees that return to active service. The Working Group members agreed that the draft language accomplishes most of what they wanted, and that the provision could be revisited in the future if needed. Zikmund made a motion to adopt the draft language. Ganfield seconded the motion, which was adopted unanimously.

- Months of Service Definition

At the last meeting the Group decided to allow relief associations to define in their bylaws what constitutes a month of active service. The Group implemented a default, in case the bylaws do not define a "month," which must be a completed calendar month of active service. Auditor Otto explained that this may be viewed as a change from current practice. Currently, most relief associations calculate months of service based on each member's entry date. For example, a member starting on January 15 must serve until February 15 to receive one month of service credit. Under the Working Group's proposal, it seems that members starting on January 15 would be required to service until March 1 to receive one month of service credit. Draft language was provided to the Group that offered an alternative approach to reflect current practice. The Working Group agreed that the intent is to reflect current practice. Ganfield made a motion to adopt the alternative language (option 2 on the handout). Jaeger seconded the motion, which was adopted unanimously.

IV. Discussion of Working Group Draft Legislation

- **Volunteer Firefighting Service by Minors**

The Working Group members reviewed the draft language and agreed it reflected their intent to provide an exception to the prohibition on volunteer firefighting service by a minor. Zikmund made a motion to adopt the draft language. Ganfield seconded the motion, which was adopted unanimously.

- **Designated Beneficiary and Trusts**

The Working Group members reviewed the draft language that allows a designated beneficiary to be a trust in cases where a lump sum benefit will be paid. Roed made a motion to adopt the draft language. Dietz seconded the motion, which was adopted unanimously.

- **Authorized Administrative Expenditures**

The Working Group members reviewed the draft language that allows special fund assets to be used to purchase insurance from the state Volunteer Firefighters Benefit Association, or an insurance company licensed by the State of Minnesota offering casualty insurance. The Group discussed concerns about allowing relief associations to purchase life insurance or exorbitant disability insurance amounts. Grant said that the term “casualty insurance” isn’t broad enough to allow life insurance purchases. This Working Group recommendation is not intended to expand the types of coverage that can be purchased using special fund assets, just who the coverage can be purchased through. Dietz made a motion to adopt the draft language. Jaeger seconded the motion, which was adopted unanimously.

V. Review of Sub-Group Draft Legislation

Last fall the Working Group discussed the draft language forwarded by the Defined Contribution Plan Sub-Group. The Working Group members made some suggested edits that have not yet been incorporated into the draft document. The suggested edits were minor punctuation and grammatical changes. Jaeger made a motion to adopt the draft language as amended to include the Working Group’s edits. Zikmund seconded the motion, which was adopted unanimously.

VI. Discussion of “Technical” Topic Suggestions

- **Discussion of Draft Legislation**

Martin provided an explanation of each section of the draft legislation. The Group discussed the suggested change to allow municipalities to use state fire aid for their employer contributions to the Public Employees Retirement Association (PERA) in cases where there are full-time firefighters. The Group was concerned about allowing state fire aid to be used for PERA contributions if there is a volunteer fire relief association in existence. Martin explained that a change to current law is needed, since there is no clear authority for cities, such as Saint Paul, that have no volunteer firefighters but receive state fire aid, to use the aid for PERA contributions. The Working Group members proposed amending the draft language so that if there is a volunteer fire relief association is

existence, the state fire aid must be transferred to the association. If there is no volunteer fire relief association but there are full-time firefighters covered by PERA, then the municipality could use the state fire aid for its employer contributions to PERA. Zikmund made a motion to strike lines 1.11 through 1.19 of the draft language. Anderson seconded the motion, which was adopted unanimously.

The Group discussed the other technical topic suggestions, which included: adding a specific due date for submission of the Schedule Form to the Office of the State Auditor; clarifying the calculation that determines whether municipal ratification is required for benefit changes; updating the reference for the CFA Institute; requiring that the relief association, rather than the Office of the State Auditor, recover service pensions paid above the statutory maximum; simplifying the calculation for installment payments and allowing installment payments in cases of a survivor benefit distribution; clarifying the number of required ex officio trustees for relief associations affiliated with a fire department operated as a joint powers entity, township, or unorganized municipality; and modifying the supplemental benefit definitions for consistency with other definitions within Chapter 424A. Jaeger made a motion to adopt the draft language, as amended. Ganfield seconded the motion, which was adopted unanimously.

- Discussion of Proposed Special Law

Auditor Otto explained that trustees from the Brimson Fire Relief Association have requested for several years that they be allowed to increase the number of ex officio trustees on the relief association board, so that each affiliated municipality is represented. Martin explained that it is appropriate for the Working Group to review the proposed special law, but that the state constitution prohibits combining special laws with other special laws in a bill. The Working Group bill doesn't contain any other special laws, but it will be incorporated into the Pension Omnibus Bill, if adopted. The Working Group members agreed that the Group's purpose is to work on issues that are applicable to all or most relief associations, rather than proposals for just one group. Anderson made a motion to take no action on the proposed special law. Zikmund seconded the motion, which was adopted unanimously.

VII. Other Business

- Record Retention Requirements

Auditor Otto explained that the Office of the State Auditor occasionally receives requests from relief associations about their record retention requirements. It does not appear that relief associations are covered by the general record retention laws that apply to local units of government, although there are some other requirements for relief associations that are scattered throughout statute. Auditor Otto said that the Office would work on a Statement of Position to provide information to relief associations. If more guidance is needed, the Working Group members agreed that the topic could be brought up by the next Group.

- **Timing of Wage Payments to Fire and Ambulance Employees**

The League of Minnesota Cities is considering a bill that would modify how often fire and ambulance service employees are paid their on-call wages. Currently, employers must pay all wages earned at least once every 31 days. Under the League's proposal, wages must be paid at least once each quarter. The employer and employee could establish an agreement that would allow the wages to be paid at least once every 12 months. Auditor Otto explained that the League would like the Working Group's feedback on the proposal. Most of the Working Group members agreed with the concept of the proposal and said that their communities make wage payments only once or twice a year.

- **Working Group Bill**

Martin said that he would incorporate the Working Group's edits to the draft language and provide a final copy of the bill. Hennessy Allen will forward the bill via email to the Working Group members and seek any final comments. Wallner made a motion to adopt the Working Group's draft legislation as amended, with permission for Martin to make edits as needed as long as they are consistent with the Group's intent. Anderson seconded the motion, which was adopted unanimously.

VIII. Adjournment

Auditor Otto thanked the Working Group members for taking time to serve on the Group and said that the Group would convene again in the fall. The meeting was adjourned shortly after 2:00.

Exhibit B
Working Group Meeting Schedule

Thursday, August 20, 2009

Tuesday, September 22, 2009

Tuesday, October 6, 2009

Tuesday, October 20, 2009

Tuesday, November 10, 2009

Tuesday, December 8, 2009

State Auditor Rebecca Otto, Chair
Office of the State Auditor Conference Room
11:00 a.m. to 1:00 p.m.

Exhibit C
Working Group Purpose Statement

To identify and work through current and pressing relief association issues. We will do this by bringing together the major volunteer fire relief association stakeholders to develop relationships, facilitate communication, discuss relief association issues and make the Pension Process easier and more effective. The ultimate goal is to help volunteer fire relief association plans be successful.

Exhibit D

Working Group Process

- Identify and discuss topics and make recommendations to clarify state laws,*
- Forward suggested statutory changes to the Legislative Commission on Pensions and Retirement, and
- Identify ways to simplify reporting forms, identify training needs and other issues.

*Unanimous consent is required for all proposals to move forward, although proposals that receive only one dissenting vote may be revisited and reconsidered.

Working Group Membership List 2009/2010

- 1. City Finance Manager**
Tim Simon, Finance Director
City of Elk River
13065 Orono Parkway
Elk River, MN 55330
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- 2. Defined Contribution Plans**
Wayne Anderson, Inspector
Coon Rapids Fire Department
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- 3. Defined Benefit Lump Sum Plans**
Bruce Duncan, President
Excelsior Fire Relief Association
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Phone: (651) 297-3975
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- 4. Legislative Commission on Pensions & Retirement**
Lawrence A. Martin, Director
Edward Burek, Deputy Director
55 State Office Building
Saint Paul, MN 55155
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lisa.dieslin@lcpr.leg.mn

- 5. Minnesota Area Relief Association Coalition**
Jim Hansen, Vice President of Legislative Advocacy
Spring Lake Park Fire Relief Association
1710 County Highway 10 NE
Spring Lake Park, MN 55432
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jhansen@sbmfire.com
- 6. Minnesota State Fire Chiefs Association/Monthly Plans**
Nyle Zikmund, Chief
Spring Lake Park, Blaine & Mounds View Fire Department
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Spring Lake Park, MN 55432
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- 7. Defined Benefit Monthly/Lump Sum Combination Plans**
Dave Ganfield, Administrator
Apple Valley Fire Relief Association
7100 – 147th Street West
Apple Valley, MN 55124
Phone: (612) 598-6369
dganfield@hotmail.com
- 8. Minnesota State Fire Department Association**
To Be Appointed
- 9. City Finance Manager**
Steven Wallner, Finance Director
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Watertown, MN 55388
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10. Defined Benefit Lump Sum Plans

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11. Defined Contribution Plans

Bruce Roed, Trustee
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12. State Auditor Rebecca Otto

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Volunteer Fire Relief Association Working Group

2009/2010 Potential Topic List

<u>Topic</u>	<u>Description</u>	<u>Holdover</u>	<u>New</u>
Administrative Expenses (69.80)	1. Consider allowing vice presidents to be paid salaries from the special fund.	x	
	2. Consider allowing deductibles for treasurer bonds to be paid from the special fund.	x	
	3. Allow for assets mistakenly deposited into the special fund to be disbursed to the correct fund.		x
Board of Trustees (424A.04)	4. Consider whether the fire chief should be a required trustee position on the board.	x	
	5. Allow more than one retired member to serve on the board of a relief association that offers a monthly or monthly/lump sum combination service pension.	x	
	6. Allow the secretary and treasurer positions to be combined if the relief association is audited; increase general trustees by one so that the board maintains nine trustees total.		x
Contribution Calculations/Payment Requirements (69.772, 69.773)	7. Consider increasing the amortization period for lump sum plans to 20 years. Consider changing the amortization period for monthly and monthly/lump sum combination plans to 20 years for both investment and experience losses.		x
	8. Consider clarifications for relief associations affiliated with a fire department operated as or by a joint powers entity. Examples: which entity (joint powers or the participating municipalities) must approve benefit level changes, which entity must pay required contributions, etc.		x
	9. Revisit 2009 Sub-Group motion to send a letter to the LCPR regarding municipal contributions to defined contribution plans.		x
	10. Consider allowing required contributions to be paid to relief associations in installment payments that extend beyond the calendar year in which they are due.		x
	11. Consider using a three-year averaging of investment returns when calculating contribution requirements.		x

Data Requests/Data Practices	12.	Create a Record Retention Schedule for approval by the Records Disposition Panel.		x
Deferred Interest (424A.02, subd. 7)	13.	Allow deferred interest to be paid for completed years of deferral, with the year a floating year based on the member's separation date.		x
Defined Contribution Plans (424A.016)	14.	Add specific authority for defined contribution plans to provide investment allocations to inactive members, if and as provided for in the bylaws.		x
	15.	Allow defined benefit plans to create a defined contribution plan that will provide retirement coverage for new members, while maintaining the defined benefit plan for current and retired members.		x
Firefighter Per-Call Payments	16.	Allow wages to be paid less frequently than at least once every 31 days, as current law requires.	x	
Flexible Service Pension Maximums (424A.02, subd. 3a)	17.	Consider changing the flexible service pension maximum calculation to take greater consideration of the relief association's funded status.	x	
Investments (356.219, subd. 3 and 356A.06, subd. 7)	18.	Consider changing the mutual fund investment authority to prohibit investment in short and ultra-short investments.		x
	19.	Consider drafting a separate investment authority section for volunteer fire relief associations, so that they are separate from the large local public pension		x
	20.	Allow investment in exchange traded funds that invest in "other investments."	x	
Investment Reporting Requirements (356.219, subd. 3)	21.	Consider increasing the \$25 million dollar threshold that triggers more detailed investment reporting.		x
Return to Service (424A.01, subd. 6)	22.	Add language to the return to service provision that allows members to return to service and membership after an approved leave of absence without being subject to the minimum period of resumption service requirements. Allow relief associations to define a leave of absence as something other than a break in service, for purposes of the return to service requirements.		x
	23.	Add language to return to service provision that clarifies how pensions would be calculated for defined contribution plan members.		x
	24.	Allow monthly retirees to continue receiving monthly pensions if they return to active service and membership.		x

	25.	Clarify whether members that return to service after being paid a service pension must meet the vesting requirements upon a subsequent cessation of duties to be eligible for a second service pension.		x
Rollovers (424A.015)	26.	Allow rollovers to 401(k) retirement plans.	x	
	27.	Allow members to rollover their account balance to an IRA before reaching age 50.	x	
Service Credit	28.	Clarify that all pensions and benefits must be calculated at the rate in effect on the date of the member's separation from active service and membership. Consider including a specific formula for calculating a service pension.	x	
	29.	Allow members to receive a year of service credit if they work at least a minimum number of days (e.g., 360 days).		x
	30.	Define how service credit should be calculated, documented, and credited to members.		x
Survivor Benefits (424A.02, subd. 9)	31.	Consider allowing funeral benefits for plans that solely offer monthly service pensions.	x	
Technical Changes	32.	Add language to the beginning of 424A that specifies which plans are covered by the chapter and which ones aren't (plans covered by 69.77, subd. 1a excluded).		x
	33.	Review 69.775 for consistency with 356A.06.		x
	34.	Confirm that the language in the new 424A.01 is correct (membership by minors).		x
	35.	Confirm that the reference for minimum liquidity requirements in 356A.06 is correct. Should the reference be for the expanded list plans, rather than the limited list plans?		x
	36.	Update 69.051, subd. 3 and 424A.08 so that municipalities whose firefighters are covered by PERA don't have to report to the OSA to be eligible for state aid.		x
	37.	Review the municipal approval language in 424A.02, subd. 10 for consistency with 69.772 and 69.773.		x
	38.	Clarify that for relief associations affiliated with an independent nonprofit firefighting corporation, the independent corporation is the entity that must approve bylaw changes if approval is required.		x

	39.	Change ancillary benefit language for DC plans so that for active members, the benefit is equal to the vested <i>and</i> nonvested portion of the member account.		x
Vesting Requirements (424A.02, subd. 2)	40	Consider allowing lump sum and monthly plans to have full vesting after 10 years of service.	x	