

Minnesota Volunteer Fire Relief Association Working Group Meeting

Location: Retirement Systems Building

60 Empire Drive

Saint Paul, MN 55103

Tuesday, December 17, 2019

11 a.m. to 1 p.m.

I. Call to Order

Chair State Auditor Blaha.

II. Review and Approval of Working Group Meeting Minutes

Exhibit A. Draft November 26, 2019 Meeting Minutes

III. Discussion of Vesting Requirements

Exhibit B.

IV. Review of Draft Language Changing Accrued Liability Calculation for Defined-Benefit Lump-Sum Plans

Exhibit C.

V. Discussion of Fire Chief Service Credit Certification

Exhibit D.

VI. Other Business

Next Working Group Topic Rankings (if time permits)

- Discussion of Bonus Payments or Incentives to Retain Firefighters
- Discussion of Allowing Emergency of Hardship Distributions
- Discussion of Increase to \$500,000 Statutory Audit Threshold

VII. Next Meeting

Thursday, January 23, 2020

11 a.m. to 1 p.m.

Retirement Systems Building

VIII. Adjournment

Volunteer Fire Relief Association Working Group

Office of the State Auditor
Tuesday, November 26, 2019
11 a.m. to 1 p.m.

Members Present

Julie Blaha, State Auditor
Eric Bullen, Minnesota State Fire Chiefs Association Representative (defined benefit lump sum plans)
Steve Donney, City of Harmony Mayor
Bruce Hemstad, Bemidji Fire Relief Association Secretary (defined benefit lump sum plans) (by phone)
Sue Iverson, City of Lake Elmo Finance Director
Ron Johnson, Minnesota State Fire Department Association Representative (defined contribution plans)
Aaron Johnston, Coon Rapids Fire Relief Association Treasurer (defined contribution plans)
Michael Kruse, Falcon Heights Fire Relief Association Treasurer (defined contribution plans)
Kevin Wall, Lower Saint Croix Valley Fire Relief Association President (defined benefit lump sum plans)
Thomas Wilson, Eden Prairie Fire Relief Association Trustee (defined benefit monthly/lump sum plans)

Members Excused

Dave Jaeger, Mahnomon Fire Relief Association Treasurer (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
Rose Hennessy Allen, Office of the State Auditor Pension Director
Susan Lenczewski, Legislative Commission on Pension and Retirement Executive Director

Others Present

David Andrews, Public Employees Retirement Association Representative
Rodger Coppa, City of Plymouth Fire Chief
Anne Finn, League of Minnesota Cities Representative
Angie Huss, Lockridge Grindal Nauen Representative
Emily Knutson, Van Iwaarden Associates Representative
Ann Lenczewski, Lockridge Grindal Nauen Representative for MNFAC
Jim McCoy, City of Austin Fire Chief
Donald McFarland, Office of the State Auditor Communications and Legislative Affairs Director
Molly Resch, Office of the State Auditor Pension Analyst
Brian Rice, Rice Michels & Walther Representative
Amy Strenge, Public Employees Retirement Association Representative
Mike Stroeing, Public
Nyle Zikmund, City of Mounds View Administrator

I. Call to Order

Auditor Blaha called the meeting to order. There were no objections to the agenda.

II. Review and Approval of Working Group Meeting Minutes

The members reviewed the November 8, 2019, meeting minutes that had been provided in advance. S. Lenczewski identified that the next meeting date specified in the minutes was incorrect. The minutes were accepted as amended by unanimous consent.

III. Discussion of Vesting Requirements

Auditor Blaha explained that the topic of vesting requirements was raised when the 2019 Working Group bill was heard by the Legislative Commission on Pensions and Retirement. Some commission members wondered whether the requirements for full and partial vesting were too long, and asked the Working Group to consider the topic. Hennessy Allen shared that the 2019 Working Group bill changes go into effect on January 1, and allow relief associations with a defined benefit plan to offer full vesting after at least ten completed years of active service. When the changes go into effect, vesting requirements for the defined benefit and defined contribution plans will be the same. For both plan types, members must have at least five years of active service to be partially vested.

Auditor Blaha asked the Working Group if the current vesting requirements are too long, and whether relief associations should continue to have the option of requiring up to 20 years of active service for full vesting. The Working Group agreed that local control is important, and that relief associations should have the option of setting vesting requirements within the current statutory parameters. The Working Group also said that it takes between four and five years for a firefighter to be trained and provide a return on the initial investment made by the local community for the firefighter's equipment and training costs. The Working Group members agreed that no changes should be sought to lower the current vesting requirements.

IV. Review of Firefighter and Combination Fire Department Definitions

Auditor Blaha explained that last year, the Working Group started reviewing the various definitions of "volunteer firefighter" that are found in statute. The Working Group decided this year to expand the review and discussion to include definitions of "paid on call" and "part time" firefighter, and "combination fire department." Auditor Blaha said that working to create new definitions and update all of the current references in statute will be a big project. If the Working Group decides to move forward this topic, Auditor Blaha said that the Office of the State Auditor would take up this project during the spring and summer, seek input from stakeholder groups, and provide next year's Working Group with a draft proposal. The Working Group agreed to move forward with the project.

The Working Group members discussed the terms "volunteer firefighter," "paid on call firefighter," "part-time firefighter," and "full-time/career firefighter." The definitions are

dependent on whether the firefighter is compensated, whether the firefighter has a choice on his or her availability, and the pension plan that the firefighter has an option of joining. It was agreed that any changes the Working Group pursues should not prevent an individual from fitting into different definitions during different periods of service.

S. Lenczewski explained that for purposes of the fire state aid bills being drafted, a combination fire department is defined as a fire department with at least one full-time firefighter and at least one volunteer firefighter. A large percentage of the fire departments currently identified as combination fire departments only have one full-time firefighter. The Working Group members discussed whether a larger number of full-time firefighters should be required for a fire department to be considered a combination fire department, and decided to keep the requirement that only one full-time firefighter is needed for a fire department to be considered a combination fire department.

V. Discussion of Interest or Additional Investment Income for Deferred Members

The Working Group members reviewed draft language that requires relief associations with a defined contribution plan to pay interest or additional investment performance to deferred members. The bylaws may allow the interest to be the actual return on a separate investment account or investment vehicle for the deferred member, or be the member's proportional share of the relief association's full investment gains or losses. If the bylaws do not specify, interest must be paid based on the member's proportional share of the investment gains and losses. The Working Group members supported the draft language. The Working Group members also agreed that the language should be clarified so that it applies to currently deferred members who are receiving fixed-rate interest or no interest, so that going forward they receive interest or additional investment income based on one of the three currently-allowable methods. The language will be updated to reflect these changes and be brought back to the Working Group for final approval.

The Working Group members reviewed a draft document that explains why the Working Group is recommending no changes be made to deferred interest authority for relief associations with a defined benefit plan. The Working Group members supported the document and had no edits.

VI. Other Business

There was no other business.

VII. Next Meeting

Tuesday, December 17, 2019

11 a.m. to 1 p.m.

Retirement Systems Building

VIII. Adjournment

The meeting was adjourned shortly before 1:00.

Exhibit B

Vesting Requirements

For the reasons identified below, the Volunteer Fire Relief Association Working Group recommends that no changes be made to relief association vesting requirements.

1) Training Requirements – Required training for firefighters takes several years to complete, making the first few years of a firefighter’s career on-the-job training. Reducing vesting from the current five-year minimum requirement would allow a firefighter to retire and receive a service pension before being a fully-trained firefighter.

2) Onboarding Costs – When a firefighter is hired the local community spends thousands of dollars on equipment and training for that firefighter. These upfront costs are not recovered until the firefighter has worked for about four or five years. Allowing vesting before five years of service results in firefighters becoming eligible for a service pension before the local community has received its return on investment.

3) Local Control – Relief association vesting requirements are one factor considered by local communities when setting fire department staffing models and compensation packages. The current statutes are permissive, and allow local communities to set vesting requirements within set ranges. Local control is an important tool for communities as they look at options to address recruitment and retention issues and to make sure their fire departments are equipped to handle the various needs of their residents.

Exhibit C

Accrued Liability Calculation

Topic:

On January 1, 2020, relief associations with a defined-benefit plan will have authority to offer full vesting after ten completed years of active service. When the Working Group approved this vesting change last year, it did so with the understanding that the liability factors would be reviewed to determine if changes are needed to avoid underfunding. The liability factors in statute assume that members will serve for 20 years to become fully vested. Contribution requirements are based on these liability amounts. If members are able to receive a larger benefit amount after fewer years of service, the concern is that relief associations will not receive the contributions needed to fully-fund earned benefits.

Over the summer and fall, actuaries with Van Iwaarden Associates analyzed relief association data and the current formula, and provided some updated sample calculations. The updated sample calculations are based on a relief association's vesting requirement and each member's age and length of service. The updated calculations result in liability amounts that are more precise and provide more accurate funding calculations.

Staff with the Office of the State Auditor then ran comparisons to determine the difference between liability amounts using the updated calculations and liability amounts using the current statutory formula. For 2018 Schedule Form data, assuming ten-year full vesting, accrued liability amount changes ranged from \$8 to \$302,541 per relief association, with an average difference in liabilities of \$14,590. The differences could be significant for some relief associations.

To make sure that relief associations calculate accurate liability amounts and receive the funding that they need, we recommend that the Working Group consider pursuing a statutory change to update the liability formula. The optional change below removes the current accrued liability factors and formula from statute, and requires that the liabilities be calculated using the standards for actuarial work established by the Legislative Commission on Pensions and Retirement (LCPR). Defining the calculations in the LCPR standards allows for greater flexibility to update the formula, if necessary.

Optional Change:

424A.092 RELIEF ASSOCIATIONS PAYING LUMP-SUM SERVICE PENSIONS.

Subdivision 1. **Application.** This section shall apply to any firefighters relief association specified in section 424A.091, subdivision 1, which pays a lump-sum service pension, but which does not pay a monthly service pension, to a retiring firefighter when at least the minimum requirements for entitlement to a service pension specified in section 424A.02, or any applicable special legislation and the articles of incorporation or bylaws of the relief association have been met. Each firefighters relief association to which this section applies shall determine the accrued liability of the special fund of the relief association in accordance with ~~the accrued liability table set forth in~~ subdivision 2 and subdivision 2a, if applicable, and the financial requirements of the relief association and the minimum obligation of the municipality in accordance with the procedure set forth in subdivision 3.

Subd. 2. **Determination of accrued liability.** (a) Each firefighters relief association which pays a service pension when a retiring firefighter meets the minimum requirements for entitlement to a service pension specified in section 424A.02 ~~and which in its articles of incorporation or bylaws requires service credit for a period of service of at least 20 years of active service for a totally nonforfeitable service pension~~ shall determine the accrued liability of the special fund of the firefighters relief association relative to each active member of the relief association, calculated using the standards for actuarial work established by the Legislative Commission on Pensions and Retirement under section 3.85, subdivision 10. ~~individually using the following table:~~

Cumulative Year	Accrued Liability
1	\$ 60
2	124
3	190
4	260
5	334
6	410
7	492
8	576
9	666
10	760
11	858
12	962
13	1070
14	1184

15	1304
16	1428
17	1560
18	1698
19	1844
20	2000
21 and thereafter	100 additional per year

~~(b) As set forth in the table the accrued liability for each member of the relief association corresponds to the cumulative years of active service to the credit of the member. The accrued liability of the special fund for each active member is determined by multiplying the accrued liability from the chart by the ratio of the lump sum service pension amount currently provided for in the bylaws of the relief association to a service pension of \$100 per year of service. If a member has fractional service as of December 31, the figure for service credit to be used for the determination of accrued liability pursuant to this section shall be rounded to the nearest full year of service credit. The total accrued liability of the special fund as of December 31 shall be the sum of the accrued liability attributable to each active member of the relief association.~~

(c) To the extent that the state auditor considers it to be necessary or practical, the state auditor may specify and issue procedures, forms, or mathematical tables for use in performing the calculations of the accrued liability for deferred members pursuant to this subdivision.

Exhibit D Fire Chief Service Credit Certification

Topic:

A Working Group proposal that went into effect on January 1, 2019, requires the fire chief to certify service credit information for each volunteer firefighter. The amount of the service credit certified by the fire chief must be the number of completed months of the previous calendar year during which an active volunteer firefighter rendered at least the minimum level of duties as specified and required by the fire department's rules, regulations, and policies.

The certification must be made annually by March 31 to an officer of the relief association and to the municipal clerk or clerk-treasurer of the largest municipality in population served by the associated fire department.

The fire chief must also notify each firefighter who had active service during the previous calendar year of the amount of service credited to the firefighter. The notification provided by the fire chief to each firefighter must include a description of the process and deadlines for if the firefighter wants to challenge the fire chief's determination of service credit. The notification must be provided to each firefighter 60 days before the fire chief certifies the service credit amounts to the relief association and municipality.

If a firefighter challenges the service credit amount determined by the fire chief, the fire chief must accept and consider any additional pertinent information and make a final determination of the service credit amount.

Considerations:

1. Should a change to the certification requirement be made so that the fire chief need not wait 60 days to certify the service credit amounts to the municipality and relief association after providing notice to each firefighter, if each firefighter has received the notification and provided confirmation that the amount is correct?
2. What are options for handling disagreements about certified service credit amounts?

Statute:

424A.003 CERTIFICATION OF SERVICE CREDIT.

(a) When a municipal fire department, a joint powers fire department, or an independent nonprofit firefighting corporation is directly associated with the volunteer firefighters relief association, the fire chief shall certify annually by March 31 the service credit for the previous calendar year of each volunteer firefighter rendering active service with the fire department.

(b) The certification shall be made to an officer of the relief association's board of trustees and to the municipal clerk or clerk-treasurer of the largest municipality in population served by the associated fire department.

(c) The fire chief shall notify each volunteer firefighter rendering active service with the fire department of the amount of service credit rendered by the firefighter for the previous calendar year. The service credit notification and a description of the process and deadlines for the firefighter to challenge the fire chief's determination of service credit must be provided to the firefighter 60 days prior to its certification to the relief association and municipality. If the service credit amount is challenged, the fire chief shall accept and consider any additional pertinent information and shall make a final determination of service credit.

(d) The service credit certification must be expressed as the number of completed months of the previous year during which an active volunteer firefighter rendered at least the minimum level of duties as specified and required by the fire department under the rules, regulations, and policies applicable to the fire department. No more than one year of service credit may be certified for a calendar year.

(e) If a volunteer firefighter who is a member of the relief association leaves active firefighting service to render active military service that is required to be governed by the federal Uniformed Services Employment and Reemployment Rights Act, as amended, the firefighter must be certified as providing service credit for the period of the military service, up to the applicable limit of the federal Uniformed Services Employment and Reemployment Rights Act. If the volunteer firefighter does not return from the military service in compliance with the federal Uniformed Services Employment and Reemployment Rights Act, the service credits applicable to that military service credit period are forfeited and canceled at the end of the calendar year in which the time limit set by federal law occurs.