Minnesota Volunteer Fire Relief Association
Working Group Meeting

State Auditor's Office
Monday, November 22, 2004
11 a.m. to 1 p.m.

I. Call to Order
Rotating Chair Nyle Zikmund.

II. Review and Approval of November 8, 2004 Draft Minutes
Exhibit A.

III. Investment Requirements for Fire Relief Associations
Larry Martin to present.
Exhibit B, Sections H and I.

IV. Investment Discussion
- Fixed Income
- Corporate Stock
- Mutual Funds
- Other Investments

V. Insurance Coverage Options

VI. Marriage Dissolution
Exhibit C.

VII. Reference Items
Exhibits D through J.

VIII. Next Meeting
Monday, December 6, 2004
11 a.m. to 1 p.m.
State Auditor's Office

Volunteer Fire Relief Association Working Group

State Auditor's Office
Monday, November 8, 2004
11 a.m. to 1 p.m.

Members Present
League of Minnesota Cities Representative Anne Finn, Legislative Commission on Pensions and Retirement Director Larry Martin, Mahnomen Fire Relief Association Treasurer Dave Jaeger (defined benefit lump sum plans), Maple Grove Fire Relief Association President Curt Roberts (defined contribution plans), Minnesota State Fire Chief Association Representative Nyle Zikmund (defined benefit monthly plans), Minnesota Area Relief Association Coalition Representative Jim Hansen, Northfield Fire Relief Association Secretary Tom Nelson, State Auditor Patricia Anderson and White Bear Lake Finance Manager Don Rambow.

Members Excused
Delano City Administrator Phil Kern, Maplewood Fire Relief Association Treasurer Ed Dietz (defined benefit lump sum plans) and Minnesota State Fire Department Association Representative Dave Ganfield (defined benefit monthly/lump sum combination plans).

Others Present
Delano City Finance Director Brian Bloch, Legislative Commission on Pensions and Retirement Deputy Director Ed Burek, Minnesota State Fire Department Association President Tom Pressler, Deputy State Auditor/General Counsel Carla Heyl, Pension Director Judith Strobel and Pension Analysts Rose Hennessy Allen, Eric Bulygo, Jami Crummy and Brian Martenson.

Welcome and Introductions
Rotating Chair Anne Finn welcomed Tom Pressler and Brian Bloch to the Working Group. After mentioning a few housekeeping items, she referred the members to the agenda.

October 18, 2004 Minutes
Finn asked if the members needed additional time to read and review the draft minutes in Exhibit B. Tom Nelson move to approve the minutes with a second from Don Rambow. The motion passed unanimously.

Funding For Fire Relief Associations

Rambow outlined Exhibit C that shows recent state fire aid funding for the White Bear Lake Fire Relief Association. Rambow said White Bear has seen a dramatic change in this funding source that isn't seen by the taxpayers. He questioned how much is enough funding to recruit and retain firefighters. He said he sees pressure to increase benefits when state fire aid went up 30 percent in 2004.

Jim Hansen said he is not concerned about continued increases and thinks things will level off because homeowners are starting to settle back. He doesn't anticipate large jumps in the future saying that hailstorms drove fire premiums to their present level.

Rambow said when citizens do not have money coming out of their pockets as with the two percent insurance premium money it becomes a hidden tax that they do not see.

Martin said state fire aid is derived from a tax. It is taxpayer money in that sense, he said, because insurance companies pay the tax on premiums in lieu of paying corporate taxes.

Jaeger said the state fire aid increases have been very welcome and needed in greater Minnesota. He said the money has helped out a lot because hardly any contributions from the city itself are enough to recruit and retain firefighters.

Nelson said it is similarly difficult to retain firefighters in Northfield. He said we do not have people who come and work at feed mill for 20 years anymore so the relief association is trying to push its pension to the max to keep firefighters for 20 to 30 years.

Rambow asked if this amount of money is necessary to retain people and said his fear is what happens in the future when relief associations may be faced with deficits.

In response to Rambow's question, Roberts said there could never be enough state fire aid if a relief association is struggling to keep qualified firefighters. He said he is not a salesman for defined contribution plans but cities with that type of pension plan are not on the hook for deficits as they would be under certain conditions with defined benefit lump sum plans.

Roberts said the firefighters in his defined contribution plan take the good and the bad with their investment performance and the city is not liable for bad times. It is difficult in his city of 55,000 people to recruit firefighters but the city and firefighters need to work out ways to successfully recruit and retain firefighters. What may work for a big city may not be good for a small city, he added.

Financial Requirements for Relief Associations
Relief associations must comply with various state laws to be eligible to be certified for receipt of state fire aid. The requirements include completing the Broker Certification form, only investing in authorized investments, and only disbursing special fund assets for purposes expressly allowed.

The Guidelines Act requires the determination of the minimum municipal obligation on forms that must be submitted to the State Auditor's Office. The intent of the Guidelines Act is to permit municipalities to prepare budgets locally with full knowledge of the relief association's financial needs. Reasonable estimates are to be determined with care and provided by August 1 to the city at the outset of the levy process. Relief associations should not wait to give the city this information or fail to certify the necessary amount before the levy.

Martin clarified that the levy process looks forward whereas the review of the relief association's legal compliance by the State Auditor's Office looks backward to ensure that the pension plan was properly funded.

Page 9 of Exhibit D lists the funding requirements for the state's volunteer firefighter pension plans. At present, actuarial valuations are done by consultant actuaries for about 25 to 30 plans with more than 500 lump sum plans completing the Schedule. Tab G is comprised of the Schedule and Schedule instructions.

Martin explained that monthly plans require actuarial work because they are subject to significant mortality risk from paying benefits to members for life. The bulk of the relief associations provide lump sum benefits that do not contain the same mortality risk because benefits are usually paid in one check. In general, members must reach age 50 and have 20 years of service to draw a full pension.

The Schedule is the cookbook version of actuarial science for the lump sum plans per Martin. The only real issue is to make sure enough money available when they conclude their service, he said. The original table is based on a three percent interest rate that is conservative because it overstates rather than understates a pension plan's liabilities. The accrued liability table for the lump sum plans is premised on members starting at about age 30 and qualifying for a retirement at age 50.

Discussion
$200,000 Asset or Liability Threshold
There has not been a change in the $200,000 asset or liability amount that triggers the requirement for a relief association to obtain a full audit rather than a financial attestation since enactment It was observed that some relief associations would prefer to index or increase the amount to avoid the time and costs involved in obtaining a full audit.

Zikmund said his experience indicates that it may be best for all relief associations to obtain an audit regardless of the amount of their assets or liabilities. Martin said the $200,000 language was put in state law to ensure the quality of financial reviews for larger relief associations. Previously, the only signature needed was from someone familiar with math – but not with an accounting background.

Martin said the amount could be tied to some consumer price index or determined by finding the amount now held by the same number of relief associations that were above $200,000 when the law passed. He said, however, he would side with Zikmund's recommendation.

Nelson asked whether there would be more problems with an audit. Audits would be valuable for all relief associations because of the professional help from accountants but some may object to the fees particularly if they have few transactions.

In response to a question from Jaeger, both large and small relief associations had difficulty meeting their submission deadlines this year causing a delay in preparation of the Compilation Report. Even the two-week extension to the deadline for the first round of state fire aid payments from the Department of Revenue primarily helps those that have filed sufficiently on time to have their issues identified.

Zikmund recommended maintaining the current $200,000 threshold and requiring those that cross it to continue to stay in the audit category even if their assets or liabilities later drop below $200,000. Rambow said he agrees with Zikmund's threshold recommendation. State Auditor Anderson recommended that an audit be submitted with the following reporting year's forms after the reporting year the threshold was crossed. She said this practice would provide sufficient notice to relief associations that may need to obtain a new accountant and incur an additional expense.

Electronic Fund Transfers

When municipalities receive electronic fund transfers (EFTs) for state fire aid payments or supplemental benefit reimbursements there appears to be some uncertainty among city clerks and relief associations regarding the appropriate allocation of the underlying amounts. It was suggested that the Department of Revenue and/or the Department of Finance detail the contents of EFTs for municipalities. Municipalities can unknowingly retain relief association funds that are to be transferred within 30 days of receipt under state law.

Tom Pressler said an email from the state could detail the amount of state fire aid payments. Zikmund said the Department of Revenue maintains a breakdown of population and market value statistics that make up state fire aid. He asked if that information also could be provided.

Martin said the Department of Revenue does have this information. If it cannot be provided directly to the municipalities and relief associations, it could be placed on the web sites of the Pension Commission or State Auditor's Office. Finn said the League of Minnesota Cities would also be interested in receiving notice of this information.

Ancillary Benefit Amount Cap

Chapter 424A sets a limit on the amount of benefits that can be paid by a relief association. To protect the pension fund's financial stability, the total benefit paid to a member cannot exceed the member's total earned service pension. Ancillary benefits (disability, survivor and funeral benefits) may be paid but are not mandated under state law.

If a funeral benefit is paid with a survivor benefit, the total of both benefits cannot go over the earned service pension amount. It is difficult for relief associations to contact survivors who have been overpaid. Zikmund suggested putting a cap on funeral benefits in state law.

Jaeger asked whether funeral benefits are being paid by small plans or primarily large plans. The 2003 reporting year information indicates that funeral benefits are primarily offered by larger plans. Roberts asked if the provision of ancillary benefits must be included in a relief association's bylaws. The answer was yes with some relief associations capping those benefits if the members so desire and the language complies with state law.

Levy Process Responsibilities

Relief associations have a requirement to certify any required contribution to the municipality for levy purposes to comply with the Guidelines Act. Documentation of the certification process by the relief association and city may be required to be submitted to the State Auditor's Office if the relief association does not subsequently receive the entire required contribution amount.

Martin addressed the relief associations' responsibilities to provide their minimum financial requirements to cities to put in their budgets. He said the levy process is set up for a different purpose than the State Auditor's Office that checks to make sure the financial statements are done right. The guidelines look forward whereas the review is after the fact.

Relief associations are required to certify the required relief association funding requirements amount by August 1. They are not supposed to wait to see what their state fire aid will be. If relief associations do not receive the amount that was certified to the city, they are required to go to the County Auditor who can levy for the omitted municipal contribution amount.

Jaeger said a lot of city administrators do not think they must budget for any shown amount on the Schedule form. He said training could be provided by the League of Minnesota Cities to inform administrators that they must go through this budgeting process.

Monthly plans have some deference as to what amount must be received from the city based on their annual actuarial valuations. Monthly plans must receive funding between state fire aid and municipal contributions to at least meet the minimum financial requirement for the year. While the plan would certify a municipal contribution amount for levy purposes, the actual amount to be contributed by the municipality could change depending upon the actual state fire aid received.

Martin mentioned that some relief associations have had issues with unauthorized administrative expenses and investment practices that jeopardized their state fire aid. Finn said some of these issues are on the radar screen with the League of Minnesota Cities and can be better addressed through training that may not always require statutory changes.

State Fire Aid Qualification
Martin then explained that state fire aid is dedicated to relief association pension funds and must only be used for fire department equipment if no relief association exists. To be eligible for state fire aid, he said fire departments must meet certain qualifications that include having at least ten firefighters and minimum firefighting equipment. In addition, relief associations must report certain financial and investment information under state law.

Zikmund said existing fire departments are self-regulated for these requirements. Jaeger said the reporting process for fire departments has not been extensive during recent years.

Martin said that some fire departments have just seven firefighters when state law requires that they have at least ten firefighters. Zikmund said there is not much difference between a fire department with seven members and one with ten members. He further stated that consolidation of these very small fire departments would be difficult because in some areas the closest town is about 30 miles away.

While it was stated that at least 15 firefighters are required to fight an interior structure fire, Pressler pointed out that coverage of interior structure fires is not a requirement.

The members also discussed the relationship between meeting requirements and adequately responding to a fire. Success is not measured by saving structures but by preventing the fire from damaging adjacent buildings and property, said Zikmund.

Zikmund suggested that fire departments also be required to report to the State Fire Marshal under the Minnesota Fire Incident Reporting System (MFIRS) as an additional state fire aid qualification requirement. He said it is almost impossible to operate without MFIRS reporting and there should be sufficient controls to assure the insurance agencies about proper qualification for state fire aid. At present, there may be 50 to 70 fire departments that are currently not reporting to MFIRS, according to Martin.

Required Reporting Form Compliance
In light of time constraints, the members were encouraged to look at Exhibits E and F after the meeting. The information shows the filing submission dates of the relief associations for their 2003 reporting forms. The outline illustrates the impact of late filings and the advantages of early or timely filing.

Jaeger said he understands that some relief associations can bring their information to a CPA in March but be put off until after tax time.

Working Group Process
Draft language and public policy observations on previously discussed topics will be provided to the members on an ongoing basis in the agenda packets. An additional meeting will be held on Monday, December 13, 2004 to accommodate further discussion of this material before the upcoming legislative session.

Other Business
Members were notified that parties interested in the Working Group discussions and recommendations may visit the State Auditor's website: www.auditor.state.mn.us and the Pension Commission website: www.lcpr.leg.mn.

Next Meeting
The next meeting of the Working Group will be Monday, November 22, 2004 from 11 a.m. to 1 p.m. in the State Auditor's Conference Room. Member suggestions for the agenda must be forwarded to the Pension Division by Tuesday, November 16, 2004.

Background Information on Volunteer Firefighter Relief Associations

A. In General. Fire coverage in Minnesota is provided through approximately 800 firetowns. Pension coverage for paid firefighters is provided by the Public Employees Police and Fire Plan (PERA-P&F), three paid firefighter relief associations (Bloomington, Minneapolis, and Virginia), and 18 former paid firefighter consolidation accounts that were merged into PERA-P&F in 1999 (Albert Lea, Austin, Chisholm, Columbia Heights, Crookston, Duluth, Faribault, Hibbing, Mankato, Red Wing, Richfield, Rochester, St. Cloud, St. Louis Park, St. Paul, South St. Paul, West St. Paul, and Winona).

Coverage for volunteer firefighters in the state's roughly 800 firetowns is provided by approximately 700 volunteer firefighter relief associations. Although the Bloomington Firefighters Relief Association provides retirement coverage to firefighters in a volunteer fire department, the coverage is based on the salary of a salaried (police) position and is thus considered a paid firefighters relief association for statutory regulation purposes.

In Minnesota, volunteer firefighters typically have pension coverage as part of their compensation package and that pension coverage is provided by the various local volunteer firefighter relief associations located in the state. These volunteer firefighter relief associations are creatures of state law and are subject to various statutory regulations.

B. Legal Status and Structure. Under Minnesota Statutes, Section 424A.001, Subdivision 4, volunteer firefighter relief associations are required to be nonprofit corporations organized under Minnesota Statutes, Chapter 317A, the Minnesota Nonprofit Corporation Act. Minnesota Statutes, Chapter 317A, applies to all Minnesota nonprofit corporations and contains numerous requirements on the manner of incorporation, general powers, scope of bylaws, function of the board and officers, rights and obligations of members, processes of consolidation, merger, or dissolution, and corporate registration. In several areas, Minnesota Statutes, Chapter 424A, contains additional regulation or conflicting regulation, and the more particularized regulatory provisions of that chapter apply. For instance, Minnesota Statutes, Section 317A.203, provides for a board of directors of at least three individuals, but Minnesota Statutes, Section 424A.04, Subdivision 1, provides for a board of trustees generally comprised of nine members. Also, Minnesota Statutes, Sections 317A.701 through 317A.791, generally governs the dissolution of a nonprofit corporation, but Minnesota Statutes, Section 424A.02, Subdivision 11, specifically governs the dissolution of a volunteer firefighter relief association.

A volunteer firefighter relief association under Minnesota Statutes, Chapter 424A, can exist in one of three ways:

1. Separate Corporation. As a separate nonprofit corporation directly associated with a municipal fire department established by municipal ordinance;

2. Division of Another Relief Association. As a volunteer division or account of a part paid and part volunteer firefighter relief association directly associated with a municipal fire department established by municipal ordinance; or

3. Subsidiary Corporation. As a separate nonprofit corporation subsidiary to an independent nonprofit firefighting corporation also organized under Minnesota Statutes, Chapter 317A, and operating exclusively for firefighting purposes.

A volunteer firefighter relief association, under Minnesota Statutes, Section 424A.001, Subdivision 4, has the status of a governmental entity, receiving public money, and providing benefit coverage for individuals providing the governmental services of firefighting and emergency first response.

C. Volunteer Firefighter Relief Association Governance. Minnesota Statutes, Section 424A.04, Subdivision 1, requires either a nine-member board of trustees or a ten-member board of trustees. The board composition differs depending on whether the relief association is associated with a municipal fire department or is subsidiary to an independent nonprofit firefighting corporation, as follows:

Relief Association Associated With Municipal Fire Department	Relief Association Subsidiary to Independent Nonprofit Firefighting Corporation
Six trustees elected from the relief association membership (one can be a retiree receiving a monthly benefit, at relief association's discretion).	Six trustees elected from the relief association membership (one can be retiree receiving a monthly benefit, at relief association's discretion).

Relief Association Associated With Municipal Fire Department	Relief Association Subsidiary to Independent Nonprofit Firefighting Corporation
Three trustees from municipal officials (the mayor, clerk, the clerk-treasurer or finance director, and the municipal fire chief).	Three trustees from municipal officials (if one municipality served, three officials designated by municipality; if two municipalities served, two officials from largest municipality and one official from other municipality, designated by municipalities; if three or more municipalities served, one official from each of the three largest municipalities, designated by municipalities). One trustee, who is the fire chief of the independent nonprofit firefighting corporation.

If a fire department is not located in or associated with an organized municipality, the County Board of Commissioners must appoint the ex officio board members from the fire department service area.

Ex-officio trustees have the same rights and duties as elected trustees, except that ex-officio trustees may not serve as an officer of the board of trustees. Elected trustees have a term length as specified in the relief association bylaws, but it may not be longer than three years and it must be staggered if it is more than one year in length.

Minnesota Statutes, Section 424A.04, Subdivision 1, provides for at least three officers of a volunteer firefighter relief association. The three officers must include a president, a secretary, and a treasurer. The officers must be drawn from the relief association board of trustees, from the elected board membership. The officers can be elected by the board of trustees or by the relief association membership as the bylaws specify. No person is allowed to occupy more than one officer position at one time. Officers have a term length as specified in the relief association bylaws, but the term may not be longer than three years.

D. Volunteer Firefighter Relief Association Fund Structure. Minnesota Statutes, Section 424A.05, requires that every relief association establish and maintain a special fund. The special fund is the fund from which volunteer firefighter pension benefits are payable and into which state aid, municipal contributions, and other public money is deposited. Beyond fire state aid and municipal tax revenue, the special fund also must receive all money or property donated by any person if so designated. Investment income on special fund assets also must be deposited in the special fund. Beyond the payment of service pensions, the special fund can also be disbursed for disability benefits, survivor benefits, funeral benefits, Minnesota State Fire Department Association and State Volunteer Firefighters' Benefit Association dues, and authorized administrative expenses. A survivor benefit may be paid to a designated beneficiary (which must be a natural person) if there is no surviving spouse or children. The payment of fees or assessments is permitted to the Minnesota Area Relief Association Coalition (MARAC). All benefit payments are required to be in accord with the requirements of law and the relief association bylaws.

The relief association treasurer is required to be the custodian of the special fund and recipient on behalf of the special fund of its revenue. The treasurer is required to maintain records documenting any transaction affecting the assets or revenues of the special fund. The records of the treasurer, as well as the relief association bylaws, are public and open for public inspection.

The assets of the special fund must be invested in authorized securities, which are either a limited list of securities for small relief associations, or a separate codified list which represents the pre-1994 list of authorized investment securities for the State Board of Investment for larger relief associations.

Relief associations under Minnesota Statutes, Section 69.775, also have authority to invest in mutual funds that are restricted to the same authorized securities, or to invest in the Minnesota Supplemental Investment Fund administered by the State Board of Investment.

Minnesota Statutes, Section 424A.06, allows a volunteer firefighter relief association to establish and maintain a general fund. The general fund is the fund into which non-tax or non-public funds are deposited and from which moneys can be expended as the relief association sees fit, as governed by its bylaws. The general fund traditionally is supported by member dues and by revenues raised from community fundraising events.

E. Volunteer Firefighter Relief Association Membership Inclusions and Exclusions. State law is largely silent on the question of which persons are required to be or may be included in the membership of or coverage by a volunteer firefighter relief association. Except for a definition of the term "volunteer firefighter" in Minnesota Statutes, Section 353.01, Subdivision 36, existing for purposes of providing an exclusion of volunteer firefighters from the Public Employees Retirement Association or Public Employees Police and Fire (PERA-P&F) coverage, the term "volunteer firefighter" is not defined in state law. Under Minnesota Statutes, Chapters 317A and 424A, each volunteer firefighter relief association sets its own qualifications or requirements for membership, subject to certain statutory membership exclusions. The determination of volunteer firefighter status occurs in conjunction with the municipal fire department or the independent nonprofit firefighting corporation membership requirements, since Minnesota Statutes, Section 424A.02, Subdivision 1, sets certain benefit qualifications in terms of active membership with the fire department in addition to relief association membership. Volunteer firefighters are not always individuals who donate their time for free to assist in fire suppression activities. Many volunteer firefighters are reimbursed for their out-of-pocket expenses, or are paid a minimum fire run amount, or are paid an hourly rate when engaged in fire department duties. Some volunteer firefighter relief associations cover salaried firefighters who also have PERA-P&F coverage. Fire department duties can include activities beyond strict fire suppression activities, including fire equipment maintenance, firefighters training, fire department administration, fire prevention, emergency first response services. When the fire department is the sponsoring entity for ambulance services, the activities can include paramedic or other ambulance and emergency medical duties. Because service pensions from a volunteer firefighters relief association are a function in large measure of the amount of fire state aid per relief association member, which is an amount determined independent of volunteer firefighter relief association requirements, there is an economic incentive for a relief association to be selective or restrained in fashioning the local definition or classification of a volunteer firefighter.

Minnesota Statutes, Section 424A.01, sets forth several exclusions from volunteer firefighter relief association membership or coverage. Minnesota Statutes, Section 424A.01, Subdivision 1, prohibits municipalities or independent nonprofit firefighting corporations from employing minors as volunteer firefighters, hence also excluding minors from volunteer firefighter relief association membership. Minnesota Statutes, Section 424A.01, Subdivision 2, excludes substitute volunteer firefighters from volunteer firefighter relief association membership. Minnesota Statutes, Section 424A.01, Subdivision 3, provides that members of the fire department who also decline to be members of the volunteer firefighter relief association are ineligible for volunteer firefighter relief association benefit coverage. Minnesota Statutes, Section 424A.01, Subdivision 4, allows a volunteer firefighter relief association board of trustees to exclude applicants for membership in the volunteer firefighter relief association from membership if they have a pre-existing physical or mental impairment or condition that would constitute a predictable and unwarranted risk of ancillary (disability or death) benefit liability, and if the relief association makes that determination based on medical evidence.

F. Benefit Coverage Provided By Volunteer Firefighter Relief Associations

1. In General. The state law regulating the benefit coverage provided to volunteer firefighters by volunteer firefighter relief associations from the relief association special fund is primarily Minnesota Statutes, Sections 424A.02, 424A.03, and 424A.10. Minnesota Statutes, Chapter 424A, was enacted in 1979. Unlike most public employee pension coverage, where state law specifies all or most aspects of the benefit plan, the statutory regulation of volunteer firefighter relief associations largely consists of specifying certain minimum eligibility requirements and certain benefit maximums, with the actual benefit plan assembled in the articles of incorporation or the bylaws of the particular volunteer firefighter relief association. The primary benefit coverage provided by a volunteer firefighter relief association is the service pension coverage, and most minimum eligibility requirements and benefit maximums relate to the service pension coverage.

   The primary benefit payable from a volunteer fire relief association is a service pension. Most volunteer fire relief associations provide a lump sum service pension, with a minority providing a monthly benefit service pension (some with an alternative lump sum service pension). Service pensions are not payable before age 50, and usually are payable in full only with 20 years of service. Some volunteer fire relief associations have casualty (disability and death) benefit coverage if a service pension is not otherwise payable.

   The funding of volunteer fire relief associations is primarily the annual fire state aid, which is allocated to cities based half on population compared to statewide totals, and half on their property value compared to the statewide total. The aid is dedicated for pension purposes. Additionally, if the actuarial cost of the volunteer firefighters relief association exceeds the fire state aid, the municipality must levy a property tax to support the volunteer fire relief association.

2. Service Pension Eligibility Requirements. Minnesota Statutes, Section 424A.02, Subdivision 1, authorizes a volunteer firefighter relief association to provide a service pension to a member of the relief association if certain conditions are met by the volunteer firefighter. The volunteer firefighter must meet the following conditions:

   i. Terminate Active Service. The person must separate from active service as a firefighter with the fire department, defined as the cessation of the performance of fire suppression duties and the cessation of the supervision of fire suppression activities. In 2002, certain retirees were authorized to receive and retain a volunteer firefighter pension although subsequently employed full-time within the fire department by the applicable city or independent nonprofit firefighting corporation, providing that the employer determines the position would be difficult to fill with another similarly qualified applicant, and providing the relief association bylaws permit it. If a firefighter resumes service, no additional service pension accrues and the individual must repay any previously received service pension.

   ii. Attain at Least Age 50. The person must reach at least age 50.

   iii. Have Credit for at Least Five Years Fire Department Service. The person must have credit for at least five years of service as an active member of the fire department with which the relief association is associated.

   iv. Have Credit for at Least Five Years Relief Association Membership. The person must have credit for at least five years of active membership in the relief association before separating from service (open to modification for a new relief association covering an existing volunteer fire department, with firefighters having prior service).

   v. Compliance with Additional Conditions. The person must comply with any additional age, service or membership conditions prescribed in the relief association bylaws.

3. Partial Vesting With Less Than 20 Years Service Credit. A vesting requirement is a requirement for a public pension plan member or beneficiary to obtain an enforceable entitlement to a pension benefit, typically the acquisition of credit for a specific minimum period of allowable service. Vesting requirements exist in defined benefit plans to provide a minimum threshold to be achieved before the pension plan member gains a nonforfeitable entitlement to an eventual retirement benefit. Vesting requirements can contribute significantly to the actuarial turnover gain that funds the retirement benefits payable to other public pension plan members.

   Vesting requirements also reflect the contribution that public pension plan coverage is intended to provide to the public employing unit's personnel system. The minimum vesting requirement for any retirement benefit and the minimum vesting requirement for a full retirement benefit will generally induce many public employees to continue in public employment for at least one of those periods of time.

   The volunteer firefighter personnel system varies considerably in the 700+ localities in Minnesota with volunteer fire department coverage, with some localities providing a considerable compensation package to volunteer firefighters and other localities providing no compensation beyond the volunteer firefighters relief association service pension. A vesting period for the volunteer firefighters relief association service pension will allow a locality to recover any resources that it expended in training a volunteer firefighter and will reduce the turnover of firefighters which consequentially demands efforts to recruit new firefighters.

   Volunteer firefighter relief associations have traditionally required 20 years of service for a person to become eligible to receive a service pension. Before 1977, the minimum vesting period permitted by statute was 20 years of firefighting service. A shorter vesting period that was not necessarily supported by the volunteer fire community (as represented by the League of Minnesota Cities) was added in 1977, at the instigation of the then Pension Commission chair, but it was not widely implemented. As part of the 1979 revision of volunteer firefighters relief association laws assembled jointly by the Pension Commission staff, the Minnesota Fire Department Association, and the League of Minnesota Cities, the current vesting provision replaced the 1977 early vesting provision. Between 1979 and 1989, ten years of service were required as the minimum service requirement for entitlement to a partial service pension. In

1989, the ten years service requirement was reduced to five years. Under state law, the maximum service pension payable with less than 20 years of service is limited to a portion of the service pension earned or accrued. The applicable statutory provision is Minnesota Statutes, Section 424A.02, Subdivision 2. The percentage of the accrued or earned benefit must be set forth in the articles of incorporation or the bylaws of the relief association. The 2004 Legislature permitted defined contribution volunteer firefighter relief associations to utilize a different vesting schedule than the vesting schedule applicable to lump sum volunteer firefighter relief associations.

The vesting schedule for lump sum volunteer firefighter relief associations and monthly benefit volunteer firefighter relief associations is as follows:

Completed Years of Service	Nonforfeitable Percentage of Pension Amount
5	40 percent
6	44 percent
7	48 percent
8	52 percent
9	56 percent
10	60 percent
11	64 percent
12	68 percent
13	72 percent
14	76 percent
15	80 percent
16	84 percent
17	88 percent
18	92 percent
19	96 percent
20 and thereafter	100 percent

The vesting schedule for defined contribution volunteer firefighter relief associations authorized by the 2004 Legislative Session is as follows:

Completed Years of Service	Nonforfeitable Percentage of Pension Amount
5	40 percent
6	52 percent
7	64 percent
8	76 percent
9	88 percent
10 and thereafter	100 percent

Five volunteer firefighter relief associations have special laws from before 1979 that provide vesting earlier than 20 years (Brooklyn Park (1975), Caledonia (1963), Dassel (1969), Golden Valley 91973), and Rockford (1976)). Only two volunteer firefighter relief associations have had special legislation enacted to provide early vesting since 1979, Minnetonka (Laws 1989, Chapter 319, Article 11, Section 5) and Eden Prairie (Laws 1995, Chapter 262, Article 10, Section 5).

The Minnetonka Volunteer Firefighters Relief Association early vesting was full proportional vesting at five years of service (i.e., for a $500 pension, a pension of $2,500 with five years and $5,000 with ten years). The Eden Prairie Volunteer Firefighters Relief Association early vesting was 40 percent of the accrued amount at five years up to 100 percent of the accrued amount at ten years (i.e., for a $500 pension, $1,000 at five years and $5,000 at ten years).

4. <u>Flexible Service Pension Maximums</u>.

   i. <u>Service Pension Maximums Before 1979</u>. Volunteer firefighter service pensions have always been subject to a benefit maximum, either under Minnesota Statutes, Section 69.06 (1905-1979) or Minnesota Statutes, Section 424A.02, Subdivision 3 (1979 to present). In the system used before 1979, a single-benefit maximum was stated in law, but without any mention of the financing needed to support that benefit level, and without any guidance for reasonable benefit levels that could be supported in municipalities where funding support was low. Prior to 1957, the maximum service pension payable to a retiring volunteer firefighter was a $40 monthly benefit (plus two dollars per month per year of service beyond 20 years to a maximum of $60 per month) or $100 per year of service credit lump sum benefit. In 1957, the lump sum benefit maximum was increased to $200 per year of service credit. In 1973, the lump sum benefit maximum was increased to $300 per year of service credit. In 1976, the monthly benefit maximum was increased to $80 per month (plus four dollars per month per year of service beyond 20 years to a maximum of $120 per month) or $600 per year of service credit lump sum benefit.

ii. Service Pension Maximums 1979 and After. In 1979, with the passage of Minnesota Statutes, Chapter 424A, recodifying the law governing volunteer fire pension coverage, the single dollar amount service pension maximums were eliminated in favor of flexible service pension maximums. The flexible service pension maximums established a sliding scale of benefit maximums based on the level of funding per firefighter for the previous three-year period, with the greatest monthly benefit service pension of $15 per month per year of service up to 30 years of service if the funding per firefighter was at least $744 per year and with the greatest lump sum benefit service pension of $2,000 per year of service if the funding per firefighter was at least $960 per year. In 1983, the upper end of the monthly benefit service pension flexible maximum sliding scale was increased to $22.50 per year of service credit up to 30 years of service with at least $1,678 funding per firefighter per year, and the upper end of the lump sum service pension flexible maximum sliding scale was increased to $3,000 per year of service credit with at least $1,440 funding per firefighter per year. In 1990, the monthly benefit service pension flexible maximum sliding scale was increased from $22.50 per month per year of service to $30.00 per month per year of service credit. In 1993, the maximum permitted lump sum pension was increased from $3,000 per year of service to $4,000 per year of service, to be phased in by 1996.

In 1997, the maximum permitted service pension was increased from $30 per month per year of service to $40 per month per year of service and from $4,000 per year of service lump sum to $5,500 per year of service lump sum.

The flexible service pension maximums were again increased by the 2000 Legislature. The 2000 Session changes increased the maximum monthly pension from $40 per month per year of service to $56, to be phased in by the end of calendar 2003. The maximum lump sum pension was increased from $5,500 to $7,500 per year of service, with a similar phase-in.

iii. Current Service Pension Maximums. Minnesota Statutes, Section 424A.02, Subdivision 3, establishes a maximum service pension payable to a retiring former volunteer firefighter. Before 1979, the predecessor provision (Minnesota Statutes 1978, Section 69.06) set a single dollar amount maximum on volunteer fire service pensions. With the enactment of Minnesota Statutes, Section 424A.02, Subdivision 3, the service pension maximum has been a sliding scale depending on the financial resources of the relief association on a per firefighter basis. If a volunteer firefighter relief association has a substantial portion of the funding required to support a given level of service pension under the 1971 Volunteer Firefighter Relief Association Guidelines Act, Minnesota Statutes, Sections 69.771 through 69.776, the relief association is allowed to provide in its articles of incorporation or bylaws that service pension level.

The service pension can be a monthly benefit service pension (a specified dollar level per month per year of service credit, payable for life) or a lump sum service pension (a specified dollar level per year of service credit, payable in a lump sum or in a number of installment payments). If a relief association provides both a monthly benefit service pension and a lump sum service pension as an alternative, the amount of each type of service pension must comply with the flexible service pension maximum. The funding amount on which the flexible service pension maximum scale is based is the amount of funding available per firefighter, computed on a three-year average. The funding used in the computation is the amount of fire state aid received, the amount of any municipal funding provided, and one-tenth of the amount of any funding surplus (assets in excess of actuarial accrued liability).

5. Defined Contribution Lump Sum Service Pension Coverage. Minnesota Statutes, Section 424A.02, Subdivision 4, allows a volunteer firefighter relief association to provide a defined contribution (or split-the-pie) service pension in lieu of a defined benefit monthly benefit or lump sum service pension. The defined contribution service pension coverage necessitates that the

volunteer firefighter relief association establish a separate account for each member, to which an equal share of any fire state aid, municipal contributions or turnover gain (forfeited amounts upon early terminations under Minnesota Statutes, Section 424A.02, Subdivision 2) must be credited to each individual account. Investment income based on the account balance also must be credited to each individual account.

6. Benefit Calculation Uniformity. Minnesota Statutes, Section 424A.02, Subdivision 6, provides that the method of calculating service pensions must be applied uniformly for all years of active service. It also provides that credit must be given for all years of service other than those covered by the 30-year service credit maximum and the partial early vesting provisions. The provision also prohibits the payment of a service pension to a person who remains an active firefighter, prohibits the payment of other special fund benefits to a person receiving a service pension, exempts volunteer firefighter relief association pensions and benefits from garnishment, judgement, execution or legal process other than marriage dissolution or child support obligations, and prohibits the assignment of any service pension or benefit from a volunteer firefighter relief association.

7. Deferred Service Pensions. For a volunteer firefighter who has completed the length of service credit required for vesting, has at least five years of relief association active membership, but separates from active volunteer firefighter service and volunteer firefighter relief association membership before age 50, Minnesota Statutes, Section 424A.02, Subdivision 7, provides for a deferred service pension payable when the former firefighter reaches at least age 50. The service pension is calculated based on the law in effect when active service terminated, but a lump sum service pension may be credited with interest. Before 2000, the relief association was permitted to pay interest on a deferred lump sum service pension at the rate actually earned by the relief association, but not to exceed the five percent interest rate actuarial assumption underlying lump sum volunteer firefighter relief association funding. In 2000, the lump sum deferred service pension interest provision was modified, to encompass three options. If the relief association bylaws so provide, interest can be provided on a lump sum deferred service pension at the actual rate of interest earned if the deferred pension amount is placed in a separate relief association account established for that purpose, at the actual rate of interest earned if the deferred pension amount is invested in a separate investment vehicle held by the relief association, or at a flat five percent interest rate. In addition, in 2004 legislation, relief associations may pay interest on a deferred pension equal to the actual time weighted rate of return of the pension plan as reported by the State Auditor, not to exceed five percent, if the bylaws are amended accordingly, with this authority expiring on December 31, 2008.

8. Installment Payments for Lump Sum Service Pensions. Volunteer firefighter relief associations that pay lump sum service pensions are authorized by Minnesota Statutes, Section 424A.02, Subdivision 8, to pay the lump sum service pension in installments. No limit in the number of installments is specified. The installments are to have the same present value as the lump sum service pension, based on a five percent interest assumption.

9. Conversion of Lump Sum Service Pensions Into Annuities Through Single Premium Insurance Annuity Purchase. Minnesota Statutes, Section 424A.02, Subdivision 8a, allows a volunteer firefighter relief association that pays a lump sum service pension to purchase a single premium insurance annuity for the retiring volunteer firefighter from an insurance company approved to do this type of business by the state Commerce Commissioner.

10. Ancillary Benefit Limits. Minnesota Statutes, Section 424A.02, Subdivision 9, places limits on ancillary retirement benefit coverage. Ancillary benefits are those benefits provided by a volunteer firefighter relief association other than the service pension, such as disability benefits, death benefits, or survivor benefits. The limitations are needed to protect the financial solvency regulation of volunteer firefighter relief associations, which is built around determining the accrued liability and financial requirements for the level of the service pension coverage provided by the volunteer firefighter relief association. The limitations are:

    i. No Post-Retirement Benefit Beyond the Lump Sum Service Pension. Volunteer firefighter relief associations that provide lump sum service pensions are prohibited from paying any additional benefit to a retired firefighter or on behalf of a retired firefighter once payment of the service pension commences; and

ii. Maximum Ancillary Benefit Available. All volunteer firefighter relief associations are limited in the payment of pre-retirement and post-retirement ancillary benefits to the amount of the accrued service pension of the volunteer firefighter, except that the survivor benefit payable on behalf of a deceased short service firefighter may be based on a five years of service accrued benefit if that produces a larger accrued service pension amount.

11. Post-Retirement Increases. A volunteer firefighter relief association paying a monthly service pension may, if it chooses, provide a post-retirement increase to service pension and benefit recipients upon providing a benefit increase to active firefighters, under Minnesota Statutes, Section 424A.02, Subdivision 9.

12. Municipal Approval of Benefit Changes; State Filing Requirements. Minnesota Statutes, Section 424A.02, Subdivision 10, requires municipal approval of any benefit changes or amendments to the relief association articles of incorporation or bylaws impacting on benefits unless the volunteer firefighter relief association has authority under the 1971 Volunteer Firefighter Relief Association Financing Guidelines Act to implement the benefit increase without local approval. The benefit change approval request must be accompanied by an estimate of the actuarial impact of the benefit change. Upon making a benefit change, the volunteer firefighter relief association must file a copy of the revised articles of incorporation or bylaws with the Commissioner of Commerce in order to retain eligibility for fire state aid.

13. Volunteer Firefighter Relief Association Dissolution and Consolidation. Minnesota Statutes, Chapter 424B, governs the dissolution and consolidation of volunteer firefighter relief associations. With approval of the governing bodies of each municipality, two or more relief associations servicing contiguous fire districts may initiate consolidation. Initiation involves proposing a consolidation resolution to the relief association board of trustees, notification of members, and a public hearing. If adopted by the majority of the board, a copy of the resolution must be filed with other relief associations which may be part of the consolidation. If two or more of the applicable relief associations adopt a consolidation resolution, those relief associations are consolidated as of the following January 1. If the subsequent relief association following the consolidation is a new relief association, the association must incorporate as a nonprofit corporation and the new board must include at least one board member from each prior association. If the consolidation retains one association and dissolves the others, the articles of incorporation of the remaining association must be revised as necessary. The president, secretary, and treasurer of the consolidated relief association must be elected by the association membership. On the effective date of the consolidation, the assets of the prior relief association special funds transfer to the consolidated special fund, and all liabilities, fund management and plan administration, and all records transfer to the new board of trustees. The consolidated relief association is the successor in interest in all claims for and against the special funds of the prior relief associations. Before consolidation, the secretaries of the prior relief associations must settle all accounts payable from the respective general fund. Remaining balances transfer to the general fund of the consolidated relief association. Following transfer of administration, records, special and general fund assets and liabilities, the prior relief associations cease to exist. The Secretary of State, State Auditor, Commissioner of Revenue, and the Commissioner of the federal Internal Revenue Service are to be notified of the termination. Administrative expenses consistent with Minnesota Statutes, Section 69.80 (authorized special fund administrative expenses) may be paid from the consolidated special fund. All other expenses must be paid from the general fund. The service pension of the consolidated relief association is the highest service pension amount payable by any of the relief associations that were included in the consolidation. Subsequent benefit increases after that date must conform to general law applicable to volunteer fire benefit levels. Unless the municipalities agree in writing to another procedure, the minimum annual financial obligation to the consolidated relief association must be allocated between the applicable municipalities in proportion to their fire state aid. If a municipality fails to pay its share, contributions must be covered by the remaining municipalities. The municipality which is delinquent or deficient in its payments must reimburse the other municipalities plus a 25 percent surcharge.

    If a relief association is dissolved without consolidation, prior to the effective date of the dissolution the board must pay all accounts payable against the special fund other than the accrued liabilities for pensions and other benefits. The remainder of the special fund assets after settling those non-benefit-related obligations are transferred, in cash or securities, to the municipal finance officer. The board also transfers any records needed to settle future benefit-related claims. The assets of the prior special fund create a municipal trust fund to be invested according to investment and fiduciary law applicable to volunteer fire plans. The municipality and the trust fund are responsible for any remaining liabilities of the prior special fund, including any unfunded liabilities. The board must notify the Commissioner of Revenue, the State Auditor, and the Secretary of State of the dissolution action within 30 days of the effective date of the dissolution.

In lieu of the asset transfer to the municipality mentioned above, the board of the dissolving relief association may purchase annuity contracts. Payment of the annuity for which the contract is purchased may not begin before the retirement age specified in law and bylaw. Legal title to the annuity contract transfers to the municipality in trust.

14. Combined Volunteer Firefighter Relief Association Service Pensions. If the volunteer firefighter relief association elects to do so, the relief association under Minnesota Statutes, Section 424A.02, Subdivision 13, can recognize total service rendered for any other participating volunteer firefighter relief association in meeting its vesting requirement and can pay a prorated service pension based on the accrual service rendered in that relief association.

15. Supplemental Benefit for Lump Sum Volunteer Firefighter Relief Associations. Minnesota Statutes, Section 424A.10, requires a volunteer firefighter relief association that pays a lump sum service pension to pay a supplemental benefit from the relief association special fund to retiring firefighters who receive a lump sum service pension. The supplemental benefit is an amount equal to ten percent of the lump sum service pension paid, up to $1,000. The supplemental benefit is reimbursable to volunteer firefighter relief associations annually, in March, from the state general fund by the Commissioner of Revenue, for the volunteer firefighter relief associations that apply for the reimbursement in the preceding February. The supplemental benefit was intended to offset the impact of a federal Internal Revenue Code ten percent income tax surcharge on pre-age 59-1/2 non-annuity pension distributions. The supplemental benefit is in lieu of a state income tax exclusion for lump sum retirement benefit distributions.

G. Volunteer Firefighter Relief Association Funding Requirements.

1. Volunteer Firefighter Relief Association Financing Guidelines Act of 1971. Minnesota Statutes, Sections 69.771 through 69.776, the Volunteer Firefighter Relief Association Financing Guidelines Act of 1971, governs the calculation of the actuarial accrued liability and annual funding requirement of volunteer firefighter relief associations, the determination of the financial requirements of volunteer firefighter relief associations, the determination of the minimum obligation of municipalities or independent nonprofit firefighting corporations toward the volunteer firefighter relief association, the requirement for municipal ratification of volunteer firefighter relief association plan amendments, and the investment of volunteer firefighter relief association special fund assets.

2. Calculation of Volunteer Firefighter Relief Association Actuarial Accrued Liability and Annual Funding Requirement. State law differentiates in the calculation of volunteer firefighter relief association actuarial accrued liabilities or its equivalent and the annual funding requirements. For volunteer firefighter relief associations providing monthly benefit service pensions, because there is a mortality risk and the need for making complicated computations, the relief association is required by Minnesota Statutes, Section 69.773, to utilize an approved actuary and have a quadrennial actuarial valuation prepared. For volunteer firefighter relief associations providing lump sum service pensions, because there is no mortality risk and the liability and funding calculations are less complicated, the relief association officers are required by Minnesota Statutes, Section 69.772, to estimate the association's actuarial liabilities and its annual funding requirement by using a simplified statutory valuation procedure.

   The monthly benefit volunteer firefighter relief association actuarial work is governed essentially by the same requirements applicable for other Minnesota public pension plans, Minnesota Statutes, Sections 356.215, and 356.216. The actuarial valuations will disclose the relief association's actuarial accrued liability, the assets, unfunded actuarial accrued liability, normal cost, and amortization of the unfunded actuarial accrued liability (typically using a 20-year amortization period.) The financial requirement of the monthly benefit relief association is the combination of four items:

   i. The normal cost;
   ii. The amortization requirement if the relief association has an unfunded actuarial accrued liability;
   iii. The prior year's administrative expenses, multiplied by a factor of 1.035; and

iv. One-tenth of the relief association's funding surplus, if the relief association has assets in excess of its actuarial accrued liability.

The lump sum volunteer firefighter relief association computations are required to follow simplified calculation procedures set forth in Minnesota Statutes, Section 69.772, Subdivision 2. The table and related provisions in Minnesota Statutes, Section 69.772, Subdivision 2, were developed by the Commission and its consulting actuary in 1970-1971. The statutory table is basically a present value table assuming a lump sum benefit payable immediately after 20 years of service, based on a three percent interest assumption, and assuming no pre-retirement turnover or mortality. The following is the statutory pension liability table, applicable for a $100 per year of service lump sum benefit:

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

The relief association's accrued liability is calculated annually using the table, after being multiplied by a factor to adjust the $100 lump sum per year of service table to the actual lump sum service pension amount provided by the volunteer firefighter relief association. Thus, for a volunteer firefighter relief association paying a $1,000 per year of service lump sum service pension, the factor would be 10 ($1,000 divided by $100.) The calculated accrued liability is compared to the special fund assets to determine whether or not the relief association has an unfunded accrued liability. The following year's projected accrued liability is then calculated, based on an additional year of service per member, and the increase in the accrued liability over the current year's accrued liability is the annual accruing liability of the relief association, which is the functional equivalent of the normal cost calculation in an actuarial valuation prepared by an actuary under Minnesota Statutes, Section 356.215. The financial requirements of the relief association are the combination of three or four items:

i. The computed annual accruing liability;
ii. One-tenth of the computed current year's unfunded accrued liability, if the relief association has an unfunded accrued liability;
iii. The prior year's administrative expense, multiplied by a factor of 1.035; and
iv. One-tenth of the relief association's funding surplus, if the relief association has assets in excess of the accrued liability.

3. <u>Calculation of the Minimum Municipal Obligation</u>. The Volunteer Firefighter Relief Association Financing Guidelines Act of 1971, Minnesota Statutes, Sections 69.771 through 69.776, requires municipal support of a relief association if the main other revenue source, the fire state aid program under Minnesota Statutes, Sections 69.011 through 69.051, is insufficient. Specifically, Minnesota Statutes, Section 69.772, Subdivision 3, for lump sum volunteer firefighter relief associations, and Minnesota Statutes, Section 69.773, Subdivision 5, for monthly benefit volunteer firefighter relief associations, require that the municipality include in its budget, levy for, and pay over to the relief association the amount of the financial requirements of the relief

association, reduced by the amount of the fire state aid anticipated to be received in the following year. For lump sum volunteer firefighter relief associations, the relief association financial requirement also are reduced by an amount equal to five percent of the assets of the relief association, to adjust for the next year's future expected interest earnings. The determination of the minimum municipal obligation must be made by the officers of the relief association, and must be certified to the municipality as part of the municipal budget preparation process.

4. Compliance with Municipal Funding Requirement. If the municipality fails to include the minimum municipal obligation in its budget or fails to spread the obligation in its property tax levy, Minnesota Statutes, Section 69.772, Subdivision 4, for lump sum volunteer firefighter relief associations, and Minnesota Statutes, Section 69.773, Subdivision 5, for monthly benefit volunteer firefighter relief associations, require that the relief association officers certify the required municipal obligation amount to the county auditor, who is required to levy that amount as part of the property taxes of that municipality

5. Applicable Actuarial Funding And Procedures, Relief Association Discontinuing Monthly Pensions, Or Purchasing Annuities To Finance Monthly Pensions. If a volunteer fire relief association discontinues providing monthly pensions or purchases annuities to cover the monthly pensions, the funding procedures and minimum municipal obligation requirements applicable to lump sum plans apply, rather than those applicable to monthly benefit plans.

H. Volunteer Firefighter Relief Association Investment Authority. Volunteer firefighter relief associations are either subject to a limited list of authorized investment securities or to an expanded list of authorized investment securities.

Minnesota Statutes, Section 356A.06, Subdivision 6, provides that a relief association that has less than $1 million in assets based on book value is a limited list plan unless the relief association:

1. Invests at least 60 percent of its assets based on book value using the services of an investment advisor registered with the securities and exchange commission in accordance with the federal Investment Advisors Act of 1940 or uses a licensed investment advisor under state law; or
2. Invests at least 60 percent of its assets based on book value through the State Board of Investment; or
3. Uses a combination of a registered/licensed investment advisor and the State Board of Investment to invest at least 75 percent of its assets based on book value.

A relief association which has more than $1 million in assets based on book value or which meets one or more of the above requirements is an expanded list plan and is permitted to invest according to the expanded list of authorized investment securities under Minnesota Statutes, Section 356A.06, Subdivision 7.

Section 356A.06, Subdivision 6, includes the following investment securities in the limited list of authorized investment securities:

1. Insured certificates of deposit and savings accounts.
2. Fixed income government obligations which have yield and quality comparable to non-tax exempt issues, and which have been issued by government units which back the securities by full taxing authority and which have not defaulted on any interest and principal during the preceding ten years (revenue bonds must be self supporting for the last five years).
3. Domestic corporate obligations, including bonds, notes, debentures, or other regularly issued and readily marketable forms of indebtedness, providing that average pre-tax earnings for the past five years are at least 150 percent of total interest and principal payments, and providing that the debt is in the top three quality ratings of Moody's Investors Service or Standard and Poor's ratings.
4. Mutual fund shares, providing that the securities the mutual fund holds comply with (1) through (3) above.

Section 69.775 permits stock investing through a mutual fund. Section 69.775 indicates that, notwithstanding Section 356A.06, Subdivision 6, volunteer firefighter relief associations can invest up to 75 percent of the market value of their assets in open end mutual funds if the investments of those funds are consistent with the expanded list of authorized investments.

Those volunteer firefighter relief associations that are not subject to the limited list are permitted by Section 356A.06, Subdivision 7, to invest in the full range of acceptable investments for the State Board of Investment prior to 1994. This creates a difference between the relief associations that are subject to the limited list and those which are not. The difference concerns the form of the investments. Limited list relief associations can invest through mutual funds in securities of the types applicable to expanded list volunteer firefighter relief associations. Those associations subject to the expanded list and not subject to the limited list can invest in these assets without use of a mutual fund.

The expanded list of authorized investment securities includes the following:

1. Government obligations, including notes, bills, bonds, and mortgages backed by the full faith and credit of the issuer and with a rating within the top four quality rating categories of a nationally recognized rating agency. Acceptable investments include guaranteed and insured issues of the United States and its agencies, the states and their political subdivisions, Canadian issues and those of the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided that the principal and interest is payable in United States dollars;
2. Domestic corporate debt, including bonds, notes, debentures, and transportation equipment obligations, providing the obligations are rated among the top four quality categories by a nationally recognized rating agency, and Canadian debt meeting these quality requirements, providing the principle and interest payments are in United States dollars;
3. Various other forms of investments, including bankers acceptances, certificates of deposit, commercial paper, mortgage participation certificates and pools, guaranteed investment contracts, savings accounts, guaranty fund certificates, surplus notes, and mutual insurance company debt, providing various quality and insurance requirements regarding these various investments as specified in detail in the statutes are met;
4. Stocks and convertibles of any domestic corporation, Canadian corporation, or any corporation whose stock trades on the New York or American Stock Exchanges; and
5. Venture capital, real estate and resource limited partnerships, below investment grade debt, and international securities, with limits regarding the minimum number of other unrelated owners of the limited partnership investments and the maximum portion of a portfolio that can be devoted to these types of investments, in order to limit the risk exposure.

Finally, Minnesota Statutes, Section 356.71, permits any public pension plan whose assets are not invested by the State Board of Investment to invest in Minnesota situs nonfarm real estate ownership interests or loans secured by mortgages or deeds of trust.

I. <u>Fiduciary Obligations</u>. The fiduciary obligations of volunteer firefighter relief association administrators and the standards which they must follow in conducting those duties are codified in Minnesota Statutes, Chapter 356A, the Public Pension Fiduciary Responsibility Law. This regulation includes:

1. <u>Fiduciary Status</u>. Board members and the chief administrating officer of volunteer firefighter relief associations are fiduciaries. As fiduciaries, they have a duty to active members, deferred retirees, and benefit recipients, to the state, and to local taxpayers.

2. <u>Fiduciary Activities</u>. The activities of volunteer firefighter plan fiduciaries include, but are not limited to:

   i. <u>Determination of Plan Benefits</u>. Administrators must correctly compute benefits and provide only authorized benefits to plan members;

   ii. <u>Determining Funding Requirements and Contributions</u>. Funding requirements must be properly determined;

   iii. <u>Maintaining Membership and Financial Records</u>. Accurate, well maintained membership data and financial information must be maintained;

   iv. <u>Plan Administrative Expenses</u>. Administrative expenses must be reasonable and necessary; and

   v. <u>Investment of Plan Assets</u>. Investments should be properly diversified, prudent, and consistent with laws indicating authorized investments for the particular fund.

All fiduciary activities must be conducted in accordance with the purpose and intent of the by-laws and relevant laws, and must be conducted faithfully and without prejudice. No fiduciary or relative of a fiduciary may receive anything more than nominal compensation in consideration for a pension plan disbursement. The administrators are also bound in all their actions by the prudent person standard, which requires the fiduciary to act in good faith and to exercise the degree of judgement and care that persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, and, for investments, not undertaken for speculation, considering the probable safety of the plan capital as well as the probable investment return to be derived from the assets.

3. Specific Investment Requirements. Section 356A.06 details investment-related fiduciary requirements, as follows:

   i. Financial control of assets. Plan assets may be held only by the plan treasurer, the depository agent of the plan, or the State Board of Investment or its depository agent;

   ii. Diversification. Investment must be properly diversified among investment types to minimize the risk of substantial investment losses;

   iii. Sufficient Liquidity. Plans must invest sufficient assets in cash equivalent securities to meet immediate liquidity needs, thus avoiding losses due to forced early liquidation of other securities;

   iv. Collateralization. Plans are required to designate a financial institution as the depository for plan assets not held by the plan's custodian bank and is subject to the applicable federal government insurance limits unless collateralized by the institution.

   v. Investment Authority Disclosure. Before using any investment broker, the plan is required to provide the broker with a written statement of the applicable state law and plan policy investment restrictions and the broker must acknowledge receipt of the statement and must agree to comply with those restrictions.

   vi. Conflicts of Interest. Any conflict of interest must be avoided and no fiduciary may personally profit, directly or indirectly, from the investment of plan assets;

   vii. Prohibited Transactions. Certain transactions are explicitly prohibited, which include, but are not limited to, sales, exchanges, or leases of real estate between the pension plan and a fiduciary of the plan, lending of money or extensions of credit by the plan to a fiduciary, transfers of assets between a fiduciary and the plan, and sales of services by a fiduciary to a plan;

   viii. Economic Interest Statement. To help identify actual or potential conflicts of interest, members of the governing board and the chief administrative officer of the relief association must file an annual economic interest statement which is available for public inspection, which must identify ownership interests in investment brokerage businesses, real estate sales, insurance agencies, banks, or other financial institutions, and which must identify any relationship or financial arrangement that can lead to a conflict of interest;

   ix. Investment Business Recipient Disclosure. The chief administrative officer must annually disclose the recipients of investment business or investment commissions paid to brokers, banks, or other investment managers; and

   x. Authorized Investments. Volunteer fire relief associations are either "limited list" associations, or "expanded list" associations, depending on the size of their asset base or whether the plan uses professional investment advisors. Plans with more than $1 million in assets, or smaller plans that use professional investment advisors are expanded list associations, enabling them to invest following essentially the same investment authorization as the State Board of Investment had prior to 1994. In addition, under other statutes, these plans are given broader real estate investment authorization than the State Board of Investment. Limited list plans are somewhat more restricted, although they share the same real estate investment authorization as the expanded list plans. In all cases, investments must meet prudent investment standards.

4. Required Disclosure to the Membership. The chief administrating officer of the volunteer firefighter relief association must provide a benefit summary to all plan participants. A copy of all financial reports and actuarial reports required of volunteer fire plans, or a summary of these reports, must be provided to relief association members.

5. Adverse Determination Review Procedure. A review procedure covering adverse determination of eligibility, benefits, or other rights under the plan must be available to volunteer firefighter relief association members. Members must be given timely notice and a reasonable opportunity to be heard in the review process. If a specific review procedure is not specified by other law, the volunteer firefighters relief association must develop and adopt a review procedure.

6. Fiduciary Continuing Education Requirement. Fiduciaries must make a reasonable effort to obtain the knowledge and skills necessary to perform their obligations effectively. The governing boards of the volunteer firefighter relief associations must develop continuing education programs for relief association board of trustee members who are not proficient in all areas of their fiduciary responsibilities.

7. Consultant Certificate of Insurance. Before hiring or contracting with a consultant, a volunteer fire relief association must obtain a copy of the consultant's certificate of insurance. A consultant is an individual or firm providing legal or financial advice, including an actuary; attorney; accountant; investment advisor, manager, counselor, or investment manager selection consultant; pension benefit design advisor or consultant; or any other financial consultant.

J. Background Information on Fire State Aid.

1. Establishment. The Fire State aid program was initially established in 1885 (Laws 1885, Chapter 187). The program is codified in Minnesota Statutes, Sections 69.011 through 69.051.

   The Fire State aid was initially intended to assist municipal and other fire departments in obtaining firefighting equipment and in providing firefighter pension coverage. In 1943, for municipalities and nonprofit firefighting corporations with fire pension coverage, the Fire State aid was dedicated to fire pension funding. Fire State aid is payable to municipalities and fire department with paid or volunteer firefighters or with a combination of paid and volunteer firefighters.

2. Source of Fire State Aid Revenue. The Fire State aid program is funded from a premium tax on various types of minimum coverage, primarily fire insurance. The 1885 law established a one-half of one percent tax on insurance premiums for property located in municipalities having a fire protection service. Laws 1903, Chapter 20, raised the tax to the two percent premium tax level and specified uses for the money raised. The funds were to be used to provide retirement and disability benefits to fire department members and their survivors, and to help maintain the fire department, including covering purchase and maintenance costs of fire equipment.

   After 1903, the most fundamental changes in the Fire State aid laws were to restrict the use of the aid to providing pension and disability related benefits, and to change the nature of the aid distribution system. Authority to use the aid to purchase fire equipment and to cover other costs of operating the fire service existed from 1885 until 1943, when Laws 1943, Chapter 323, Section 2, deleted the language authorizing this use. Laws 1945, Chapter 225, provided for the use of fire State aid for firefighting equipment purposes only if no firefighter relief association is associated with the fire department.

   Before 1995, the Fire State aid program was financed from the dedicated proceeds of a generally applicable two percent premium tax on fire, lightning, sprinkler damage, and extended coverage insurance on property located within the State. Minnesota Statutes, Section 60A.15, Subdivision 1, imposed a premium tax on fire and related insurance of two percent for most insurance companies, and one-half of one percent for town and farmer's mutual insurance companies and mutual property and casualty insurance companies with assets less than $1.6 billion. The Fire State aid under Minnesota Statutes, Section 69.021, Subdivision 5, Paragraph (b), was funded by an appropriation equal to the amount of fire and related insurance premium taxes collected. Half of the total Fire State aid amount was distributed in proportion to the population according to the last federal census and half was distributed in proportion to property market values, excluding mineral values but including tax-exempt property. This allocation method reflected an assumption that local property values and population relative to the whole State reflect the relative need for fire protection services. Before 1995, the last major revision in the insurance premium tax rates underlying the fire State aid program occurred in 1988 (Laws 1988, Chapter 719, Article 2, Sections 1 through 5) when the fire and related insurance premium tax rates were reduced for certain mutual insurance companies. Before 1995, the last major revision in the amount of State tax revenue available for allocation as Fire State aid occurred in

1991 (Laws 1991, Chapter 291, Article 13) when the appropriation for the Fire State aid program was reduced to the amount of the insurance premium taxes raised.

The 1995 Omnibus Tax Bill, Laws 1995, Chapter 264, increased the various insurance premium taxes and also increased the revenue available for the fire State aid program. Laws 1995, Chapter 264, Article 9, Section 3, amending Minnesota Statutes, Section 60A.15, Subdivision 1, increased the insurance premium tax rates for town and farmers' mutual insurance companies and for mutual property casualty companies with assets no greater than $1.6 billion. The pre-1995 insurance premium tax rate for these mutual insurance companies was one-half of one percent of the amount of all premiums. The rate was increased by the 1995 Legislature to two percent of all life insurance premiums, one percent of all other insurance premiums for all town and farmers' mutual insurance companies and for the smaller mutual property and casualty companies (assets of no more than $5 million) and 1.26 percent of all other insurance premiums for the larger mutual property and casualty companies (assets over $5 million and no greater than $1.6 billion). Laws 1995, Chapter 264, Article 9, Section 5, amending Minnesota Statutes, Section 69.021, Subdivision 5, increases the insurance premium tax revenue dedicated to the fire State aid program and the police State aid program. For the fire State aid program, the dedicated revenue is increased from the amount of insurance premium taxes collected on fire, lightning, sprinkler leakage, and extended coverage insurance, to the greater of either 107 percent of the fire, lightning, sprinkler leakage, and extended coverage insurance premium taxes collected or an amount equal to one percent of the fire, lightning, sprinkler leakage, and extended coverage premiums written by town and farmers' mutual insurance companies and by mutual property and casualty companies with assets not exceeding $5 million and to two percent of the fire, lightning, sprinkler leakage, and extended coverage premiums written by all other fire risk insurers.

In 1996, Minnesota Statutes, Sections 69.021, Subdivision 7, and 423A.02, were amended to implement a minimum Fire State aid floor for volunteer firefighter relief associations that would otherwise receive a disproportionately small amount of Fire State aid on a per-active-member basis.

Total Fire State aid has increased over time, as follows:

Year	Total Fire State Aid	Aid to Volunteer Firefighters	Aid to Paid Firefighters
1988	$10,840,404	$7,528,581	$3,311,823
1989	10,923,145	7,601,263	3,321,882
1990	10,872,111	7,508,647	3,363,464
1991	10,491,446	7,650,439	2,841,532
1992	10,530,014	7,716,007	2,814,007
1993	9,997,957	7,349,215	2,648,742
1994	10,665,543	7,869,847	2,795,696
1995	11,336,631	8,405,060	2,931,571
1996	14,797,126	11,006,256	3,790,870
1997	15,148,160	11,476,519	3,671,641
1998	16,088,768	11,976,222	4,112,546
1999	16,682,376	12,419,342	4,263,034
2000	17,265,502	12,879,980	4,385,522
2001	17,964,376	13,595,203	4,369,173
2002	19,912,608	14,930,886	4,981,722

3. Qualification Requirements for Receipt of Fire State Aid. Before 1969, Fire State aid was provided to municipalities that had an organized fire department upon the filing of a certificate by the municipal clerk stating that the fire department exists, stating that the fire department does not employ any minor under age 18, and indicating the fire department’s water supply, the number of fire department organized companies, the number of fire department engines and trucks, the number of hose carts in use, and the number of hose feet in use.

   In 1969, the qualifications for Fire State aid were increased. Municipalities and independent nonprofit firefighting corporations using paid, volunteer, or a combination of paid and volunteer firefighters can qualify to receive the aid. To determine which municipalities and independent nonprofit firefighting corporations qualify for the aid, the municipal clerk or the secretary of the nonprofit firefighting corporation, if appropriate, and fire chief certify by March 15 of each year to the Department of Revenue that a municipal fire department or nonprofit firefighting corporation exists which meets minimum required standards for the aid. These standards include a requirement that the fire department or nonprofit firefighting corporation be in existence at least one year, that it have at least ten paid or volunteer firefighters, that regularly scheduled meetings are held for training and equipment maintenance, and that the department has a fire truck and other necessary firefighting equipment.

4. Allocation of Fire State Aid. Initially, Fire State aid was allocated to the various municipalities and independent nonprofit firefighting corporations based on the amount of fire insurance written in that firetown, as identified by the various insurance agents and insurance companies. The allocation method eventually proved problematic, in part because of errors made by insurance company agents in identifying applicable firetowns.

   In 1969, the allocation method was shifted to a combination of population ranking and property value ranking. One half of the Fire State aid was distributed in proportion to the population according to the last federal census and one half was distributed in proportion to property market values, excluding mineral values but including tax-exempt property. This allocation method reflected an assumption that local property values and population relative to the whole State reflect the relative need for fire protection services.

   In 1996, for municipalities and independent nonprofit firefighting corporations with wholly volunteer fire departments, an additional allocation of aid is made to bring the municipal or corporation total up to the minimum volunteer firefighter fire State aid amount multiplied by the total number of active volunteer firefighters to a maximum of 30 firefighters.

5. Permissible Use of Fire State Aid. Initially, in 1885, fire State aid could be used to pro-vide firefighters with pension coverage or to maintain the fire department, including the purchase of fire equipment. In 1943, the Fire State aid was dedicated solely to firefighter pension funding if the firefighters have pension coverage. For municipalities and non-profit firefighting corporations where the associated firefighters do not have pension coverage, Fire State aid must be used to maintain the fire department or purchase fire equipment.

6. Source Of Additional Revenues if Shortfall Occurs. If a relief association funding requirements exceed all applicable revenue sources, including tax revenues derived from taxes on life insurance providers and town and farmers' mutual insurance companies and mutual property and casualty companies, any shortfall or additional revenue needs must be paid from the state's general fund if appropriated by the Legislature. The provision is not to be interpreted as relieving any municipality of its obligations to a relief association.

K. Background Information on the Minimum Volunteer Fire State Aid Program.

1. Establishment. The minimum volunteer Fire State aid program was enacted in 1996 (Laws 1996, Chapter 438, Article 4, Section 2). The program is codified as Minnesota Statutes, Sections 69.021, Subdivision 7, Paragraph (d), and 423A.01, Subdivision 7, Paragraph (a). The minimum Fire State aid program was an effort to address a long-standing concern that the State fire tax aid provides unreasonable low aid amounts per firefighter in many communities in the State. Many jurisdictions were receiving well under $100 per firefighter. After the minimum Fire State aid program was introduced, the floor aid per eligible firefighter was increased to slightly over $260 per firefighter.

2. Source of Minimum Fire State Aid. Thirty percent of any unallocated amortization or supplemental amortization State aid is dedicated as a minimum Fire State aid amount for volunteer fire relief associations. Amortization State aid and supplemental amortization State aid becomes unallocated when there is the payment of a thirteenth check by the Minneapolis Fire Relief Association or by the Minneapolis Police Relief Association or when a former local police or paid firefighter consolidation account became fully funded.

   The amount of amortization State aid and supplemental amortization State aid dedicated to the minimum fire State aid (and added to the fire insurance premium tax equivalent amount dedicated to pension purposes and already included in the total fire State aid in the preceding section) is as follows:

Year	Total Additional Aid Dedicated to Volunteer Firefighters
1996	$ 663,788
1997	667,610

Year	Total Additional Aid Dedicated to Volunteer Firefighters
1998	974,076
1999	1,034,608
2000	1,210,366
2001	1,065,323
2002	1,846,119

3. Qualification Requirements for the Receipt of Minimum Fire State Aid. The minimum volunteer firefighter Fire State aid is payable to municipalities with volunteer firefighters and with Fire State aid calculated on the basis of relative property value and relative population that is modest, with these minimum receipt municipalities brought up to the minimum fire State aid amount for firefighters, not to exceed 30, until the funding dedicated for the program is exhausted. Roughly half of the municipalities with volunteer firefighter relief associations receive some minimum Fire State aid amount.

4. Allocation of Minimum Fire State Aid. The minimum Fire State aid program is targeted to volunteer fire relief associations that receive low aid per firefighter under the State fire tax aid program. The firefighter count used in the allocation procedure is the number of firefighters, not to exceed 30, in each relief association in 1993. The minimum floor Fire State aid program brings the funding for those associations receiving the least aid per firefighter up to a higher, uniform level. Volunteer fire relief associations established after 1999 also are eligible for inclusion in the minimum floor fire aid distribution. The member count the association will use in the distribution is the member count, up to a limit of 20 firefighters, reported in the first annual financial reporting submitted to the State Auditor by the association.

5. Permissible Uses of Minimum Fire State Aid. Minimum Fire State aid is included in the Fire State aid allocation and is subject to the same permissible use as fire State aid.

L. Background Information on the First Class City Fire Insurance Premium Tax Surcharge.

1. Establishment. The first class city fire insurance premium tax surcharge was enacted in 1934 (Extra Session Laws 1934, Chapter 53, Sections 1 through 3). It is codified in Minnesota Statutes, Section 297I.10.

   The first class city fire insurance premium tax surcharge was enacted to assist the three first class city fire department relief associations in paying the service pensions and other retirement benefits that are payable. The provisions were enacted at a time when the Duluth Fire Department Relief Association, the Minneapolis Fire Department Relief Association, and the St. Paul Fire Department Relief Association were funded in virtually a current disbursements (or "pay-as-you-go") manner, when there were substantial statutory limits on the amount of municipal taxes that could be levied in support of the relief associations, and before the enactment of the 1969 Police and Paid Fire Relief Association Financing Guidelines Act mandating some measure of actuarial funding.

2. Source of Program Revenue. The first class city fire insurance premium tax surcharge is funding from the dedicated proceeds of a surcharge on the premiums paid on fire insurance written in a city of the first class. The surcharge is an amount equal to two percent of those premiums. The surcharge is collected by the Commissioner of Commerce and deposited in the State General Fund.

3. Qualification Requirement for Receipt of Surcharge Amounts. There are no qualification requirements for the receipt of the first class city fire insurance premium tax surcharge proceeds.

4. Allocation of First Class City Fire Insurance Premium Tax Surcharge. The first class city insurance premium tax surcharge is allocated based on the geographical source of the insurance premium tax surcharge. Thus, the fire insurance premium tax surcharge proceeds collected from Duluth are payable to the Duluth Fire Consolidation Account, the fire insurance premium tax surcharge proceeds collected from Minneapolis are payable to the Minneapolis Firefighters Relief Association, and the fire insurance premium tax surcharge proceeds collected from St. Paul are payable to the St. Paul Fire Consolidation Account.

M. Background on the Volunteer Fire Lump Sum Supplemental Benefit and State Reimbursement.

1. Establishment. In 1988 (Laws 1988, Chapter 719, Article 19, Section 22), as part of that legislative session's tax bill, the Legislature mandated that volunteer firefighter relief associations that pay a lump sum service pension also pay a supplemental benefit equal to ten percent of the amount of the lump sum service pension payable to retiring members, to a maximum of $1,000 per lump sum service pension. The provision is coded as Minnesota Statutes, Section 424A.10. The supplemental benefit was intended to reimburse retiring volunteer firefighters for a change in Minnesota tax law, enacted in the late 1980s, which caused Minnesota public pensions to be taxable under Minnesota law. Given the relatively modest level of volunteer fire pensions, at least as of the late 1980s, the 1988 enactment of the volunteer fire lump sum supplemental benefit may have been intended to offset the impact of that new Minnesota taxation, so that the new tax treatment did not discourage individuals from providing volunteer fire services.

2. Source of the Volunteer Fire Lump Sum Supplemental Benefit State Reimbursement. The volunteer fire lump sum supplemental benefit State reimbursement is payable from a State General Fund appropriation to the Department of Revenue.

3. Qualification Requirements for Receipt of the Volunteer Fire Lump Sum Supplemental Benefit State Reimbursement. The supplemental benefit is reimbursable by the State if the volunteer firefighter relief association that paid the supplemental benefit applies with the Commissioner of Revenue by the subsequent February 15, with the reimbursement paid on March 15 from a State General Fund appropriation for that purpose.

4. Amount of the Volunteer Fire Lump Sum Supplement Benefit State Reimbursement. The amount of the State General Fund appropriation to the Department of Revenue for payment by the Department of Revenue of volunteer fire lump sum supplemental benefits is as follows:

Fiscal Year	Supplemental Benefit Reimbursement Appropriation	Fiscal Year	Supplemental Benefit Reimbursement Appropriation
1989	not available	1996	$400,000
1990	not available	1997	378,000
1991	not available	1998	375,000
1992	not available	1999	370,000
1993	not available	2000	378,000
1994	not available	2001	420,000
1995	$400,000	2002	420,000

5. Permissible Uses for Reimbursement Amounts. The State reimbursement of volunteer fire lump sum supplemental benefits are required to be deposited into the special fund of the applicable volunteer firefighter relief association and may be expended for any lawful purpose for the relief association.

LAWS APPLICABLE TO VOLUNTEER FIREFIGHTER RELIEF ASSOCIATIONS

A. Lump Sum Municipal Volunteer Firefighter Relief Associations

Minnesota Statutes, Chapter 69:	
Minnesota Statutes, Section 69.011	Qualifying for State Aid
Minnesota Statutes, Section 69.021	Reporting Premiums; Calculation of Aid
Minnesota Statutes, Section 69.031	Commissioner of Finance's Warrant, Appropriation, Payment and Administration
Minnesota Statutes, Section 69.041	Shortfall From General Fund
Minnesota Statutes, Section 69.051	Financial Report, Bond, Examination
Minnesota Statutes, Section 69.771	Volunteer Firefighters' Relief Association Financing Guidelines Act; Application
Minnesota Statutes, Section 69.772	Relief Associations Paying Lump Sum Service Pensions
Minnesota Statutes, Section 69.775	Investments
Minnesota Statutes, Section 69.776	Citation; Application of Other Laws
Minnesota Statutes, Section 69.80	Authorized Administrative Expenses
Minnesota Statutes, Chapter 317A:	Nonprofit Corporations
Minnesota Statutes, Chapter 356:	
Minnesota Statutes, Section 356.20	Public Pension Fund Financial Reporting Requirement
Minnesota Statutes, Section 356.219	Disclosure of Public Pension Plan Investment Portfolio and Performance
Minnesota Statutes, Section 356.63	Limitation on Use of Public Pension Plan Assets
Minnesota Statutes, Section 356.64	Real Estate Investments
Minnesota Statutes, Section 356.65	Disposition of Abandoned Public Pension Fund Amounts
Minnesota Statutes, Chapter 356A:	Public Pension Fiduciary Responsibility
Minnesota Statutes, Chapter 424A:	
Minnesota Statutes, Section 424A.001	Definitions
Minnesota Statutes, Section 424A.01	Membership in a Volunteer Firefighters' Relief Association
Minnesota Statutes, Section 424A.02	Volunteer Firefighters; Service Pensions
Subdivision 1	Authorization
Subd. 2	Nonforfeitable portion of service pension
Subd. 3	Flexible service pension maximums
Subd. 3a	Penalty for paying pension greater than applicable maximum
Subd. 6	Payment of service pensions; nonassignability
Subd. 7	Deferred service pensions
Subd. 8	Lump sum service pensions; installment payments
Subd. 8a	Purchase of annuity contracts
Subd. 8b	Transfer to individual retirement account
Subd. 9	Limitation on ancillary benefits
Subd. 9b	Repayment of service pension in certain instances
Subd. 10	Local approval of bylaw amendments; filing requirements
Subd. 12	Transfer of service credit to new district
Subd. 13	Combined service pensions
Minnesota Statutes, Section 424A.03	Uniformity of Volunteer Firefighter Service Pension and Retirement Benefits
Minnesota Statutes, Section 424A.04	Volunteer Relief Associations; Board of Trustees
Minnesota Statutes, Section 424A.05	Relief Association Special Fund
Minnesota Statutes, Section 424A.06	Relief Association General Fund
Minnesota Statutes, Section 424A.09	Application to Certain Relief Associations
Minnesota Statutes, Section 424A.10	State Supplemental Benefit; Volunteer Firefighters
Minnesota Statutes, Chapter 424B:	Volunteer Firefighter Relief Associations, Dissolutions, and Consolidations

B. Monthly Benefit Municipal Volunteer Firefighter Relief Associations

Minnesota Statutes, Chapter 69:	
Minnesota Statutes, Section 69.011	Qualifying for State Aid
Minnesota Statutes, Section 69.021	Reporting Premiums; Calculation of Aid
Minnesota Statutes, Section 69.031	Commissioner of Finance's Warrant, Appropriation, Payment and Administration
Minnesota Statutes, Section 69.041	Shortfall From General Fund
Minnesota Statutes, Section 69.051	Financial Report, Bond, Examination

Minnesota Statutes, Section 69.771	Volunteer Firefighters' Relief Association Financial Guidelines Act; Application
Minnesota Statutes, Section 69.773	Relief Associations Paying Monthly Service Pensions
Minnesota Statutes, Section 69.775	Investments
Minnesota Statutes, Section 69.776	Citation; Application of Other Laws
Minnesota Statutes, Section 69.80	Authorized Administrative Expenses
Minnesota Statutes, Chapter 317A:	Nonprofit Corporations
Minnesota Statutes, Chapter 356:	
Minnesota Statutes, Section 356.20	Public Pension Fund Financial Reporting Requirement
Minnesota Statutes, Section 356.215	Actuarial Valuations and Experience Studies
Minnesota Statutes, Section 356.216	Contents of Actuarial Valuations for Local Police and Fire Funds
Minnesota Statutes, Section 356.219	Disclosure of Public Pension Plan Investment Portfolio and Performance
Minnesota Statutes, Section 356.63	Limitation on Use of Public Pension Plan Assets
Minnesota Statutes, Section 356.64	Real Estate Investments
Minnesota Statutes, Section 356.65	Disposition of Abandoned Public Pension Fund Amounts
Minnesota Statutes, Chapter 356A:	Public Pension Fiduciary Responsibility
Minnesota Statutes, Chapter 424A:	
Minnesota Statutes, Section 424A.001	Definitions
Minnesota Statutes, Section 424A.01	Membership in a Volunteer Firefighters' Relief Association
Minnesota Statutes, Section 424A.02	Volunteer Firefighters; Service Pensions
Subdivision 1	Authorization
Subd. 2	Nonforfeitable portion of service pension
Subd. 3	Flexible service pension maximums
Subd. 3a	Penalty for paying pension greater than applicable maximum
Subd. 6	Payment of service pensions; nonassignability
Subd. 7	Deferred service pensions
Subd. 9	Limitation on ancillary benefits
Subd. 9a	Postretirement increases
Subd. 9b	Repayment of service pension in certain instances
Subd. 10	Local approval of bylaw amendments; filing requirements
Subd. 12	Transfer of service credit to new district
Subd. 13	Combined service pensions
Minnesota Statutes, Section 424A.03	Uniformity of Volunteer Firefighter Service Pension and Retirement Benefits
Minnesota Statutes, Section 424A.04	Volunteer Relief Associations; Board of Trustees
Minnesota Statutes, Section 424A.05	Relief Association Special Fund
Minnesota Statutes, Section 424A.06	Relief Association General Fund
Minnesota Statutes, Section 424A.09	Application to Certain Relief Associations
Minnesota Statutes, Section 424A.10	State Supplemental Benefit; Volunteer Firefighters
Minnesota Statutes, Chapter 424B:	Volunteer Firefighter Relief Associations, Dissolutions, and Consolidations

C. Defined Contribution Municipal Volunteer Firefighter Relief Associations

Minnesota Statutes, Chapter 69:	
Minnesota Statutes, Section 69.011	Qualifying for State Aid
Minnesota Statutes, Section 69.021	Reporting Premiums; Calculation of Aid
Minnesota Statutes, Section 69.031	Commissioner of Finance's Warrant, Appropriation, Payment and Administration
Minnesota Statutes, Section 69.041	Shortfall From General Fund
Minnesota Statutes, Section 69.051	Financial Report, Bond, Examination
Minnesota Statutes, Section 69.771	Volunteer Firefighters' Relief Association Financial Guidelines Act; Application
Minnesota Statutes, Section 69.775	Investments
Minnesota Statutes, Section 69.776	Citation; Application of Other Laws
Minnesota Statutes, Section 69.80	Authorized Administrative Expenses
Minnesota Statutes, Chapter 317A:	Nonprofit Corporations
Minnesota Statutes, Chapter 356:	
Minnesota Statutes, Section 356.20	Public Pension Fund Financial Reporting Requirement

Minnesota Statutes, Section 356.219	Disclosure of Public Pension Plan Investment Portfolio and Performance
Minnesota Statutes, Section 356.63	Limitation on Use of Public Pension Plan Assets
Minnesota Statutes, Section 356.64	Real Estate Investments
Minnesota Statutes, Section 356.65	Disposition of Abandoned Public Pension Fund Amounts
Minnesota Statutes, Chapter 356A:	Public Pension Fiduciary Responsibility
Minnesota Statutes, Chapter 424A:	
Minnesota Statutes, Section 424A.001	Definitions
Minnesota Statutes, Section 424A.01	Membership in a Volunteer Firefighters' Relief Association
Minnesota Statutes, Section 424A.02	Volunteer Firefighters; Service Pensions
Subdivision 1	Authorization
Subd. 2	Nonforfeitable portion of service pension
Subd. 4	Defined contribution lump sum service pensions
Subd. 6	Payment of service pensions; nonassignability
Subd. 7	Deferred service pensions
Subd. 8	Lump sum service pensions; installment payments
Subd. 8a	Purchase of annuity contracts
Subd. 8b	Transfer to individual retirement account
Subd. 9	Limitation on ancillary benefits
Subd. 9b	Repayment of service pension in certain instances
Subd. 10	Local approval of bylaw amendments; filing requirements
Minnesota Statutes, Section 424A.03	Uniformity of Volunteer Firefighter Service Pension and Retirement Benefits
Minnesota Statutes, Section 424A.04	Volunteer Relief Associations; Board of Trustees
Minnesota Statutes, Section 424A.05	Relief Association Special Fund
Minnesota Statutes, Section 424A.06	Relief Association General Fund
Minnesota Statutes, Section 424A.09	Application to Certain Relief Associations
Minnesota Statutes, Section 424A.10	State Supplemental Benefit; Volunteer Firefighters
Minnesota Statutes, Chapter 424B:	Volunteer Firefighter Relief Associations, Dissolutions, and Consolidations

D. Nonprofit Firefighting Corporation Volunteer Firefighter Relief Associations

Minnesota Statutes, Chapter 69:	
Minnesota Statutes, Section 69.011	Qualifying for State Aid
Minnesota Statutes, Section 69.021	Reporting Premiums; Calculation of Aid
Minnesota Statutes, Section 69.031	Commissioner of Finance's Warrant, Appropriation, Payment and Administration
Minnesota Statutes, Section 69.041	Shortfall From General Fund
Minnesota Statutes, Section 69.051	Financial Report, Bond, Examination
Minnesota Statutes, Section 69.771	Volunteer Firefighters' Relief Association Financial Guidelines Act; Application
Minnesota Statutes, Section 69.774	Nonprofit Firefighting Corporations
Minnesota Statutes, Section 69.775	Investments
Minnesota Statutes, Section 69.776	Citation; Application of Other Laws
Minnesota Statutes, Section 69.80	Authorized Administrative Expenses
Minnesota Statutes, Chapter 317A:	Nonprofit Corporations
Minnesota Statutes, Chapter 356:	
Minnesota Statutes, Section 356.20	Public Pension Fund Financial Reporting Requirement
Minnesota Statutes, Section 356.215	Actuarial Valuations and Experience Studies
Minnesota Statutes, Section 356.216	Contents of Actuarial Valuations for Local Police and Fire Funds
Minnesota Statutes, Section 356.219	Disclosure of Public Pension Plan Investment Portfolio and Performance
Minnesota Statutes, Section 356.63	Limitation on Use of Public Pension Plan Assets
Minnesota Statutes, Section 356.64	Real Estate Investments
Minnesota Statutes, Section 356.65	Disposition of Abandoned Public Pension Fund Amounts
Minnesota Statutes, Chapter 356A:	Public Pension Fiduciary Responsibility
Minnesota Statutes, Chapter 424A:	
Minnesota Statutes, Section 424A.001	Definitions
Minnesota Statutes, Section 424A.01	Membership in a Volunteer Firefighters' Relief Association

Minnesota Statutes, Section	Volunteer Firefighters; Service Pensions
Subdivision 1	Authorization
Subd. 2	Nonforfeitable portion of service pension
Subd. 3	Flexible service pension maximums
Subd. 3a	Penalty for paying pension greater than applicable maximum
Subd. 6	Payment of service pensions; nonassignability
Subd. 7	Deferred service pensions
Subd. 8	Lump sum service pensions; installment payments
Subd. 8a	Purchase of annuity contracts
Subd. 8b	Transfer to individual retirement account
Subd. 9	Limitation on ancillary benefits
Subd. 9a	Postretirement increases
Subd. 9b	Repayment of service pension in certain instances
Subd. 10	Local approval of bylaw amendments; filing requirements
Subd. 12	Transfer of service credit to new district
Subd. 13	Combined service pensions
Minnesota Statutes, Section 424A.03	Uniformity of Volunteer Firefighter Service Pension and Retirement Benefits
Minnesota Statutes, Section 424A.04	Volunteer Relief Associations; Board of Trustees
Minnesota Statutes, Section 424A.05	Relief Association Special Fund
Minnesota Statutes, Section 424A.06	Relief Association General Fund
Minnesota Statutes, Section 424A.07	Nonprofit Firefighting Corporations; Establishment of Relief Associations
Minnesota Statutes, Section 424A.09	Application to Certain Relief Associations
Minnesota Statutes, Section 424A.10	State Supplemental Benefit; Volunteer Firefighters

Minnesota Statutes, Chapter 424B: Volunteer Firefighter Relief Associations, Dissolutions, and Consolidations

Division of Pension Benefits as Marital Property in a Marriage Dissolution Action and Volunteer Firefighter Relief Associations

Pension benefits or pension rights acquired during the course of a marriage have been recognized as marital property available for division for decades by the Minnesota courts and specifically by state statute since 1978 (see Laws 1978, Chapter 772, Section 48).

For private section plans, federal law (Section 206(d)(3) of the Employee Retirement Income Security Act of 1974 (ERISA)) recognized pension interests as marital property subject to division by the court upon a marriage dissolution in an exception to the general prohibition on the assignment or alienation of pension benefits if a "qualified domestic relations order (QDRO)" procedure is utilized. Public pension plans are not included in much ERISA regulation and the QDRO provisions of ERISA do not apply to Minnesota public pension plans.

Before 1987, Minnesota public pension benefits divided in a marriage dissolution award were not enforceable in favor of the second payee against the pension plan because of statutory non-assignment/non-garnishment/non-alienation provisions (see Minnesota Statutes 1986, sections 3A.13; 352.15; 352B.071; 353.15; 354.10; 422A.24; 424A.02, Subdivision 6; and 490.126), so the division was enforceable by garnishment or attachment by the ex-spouse only upon the receipt of the pension benefit by the public pension plan member or upon the deposit of the benefit in the plan member's bank account.

In 1987 (Laws 1987, Chapter 157), the Minnesota public pension non-assignment/non-garnishment/non-alienation provisions were amended to permit the enforcement of a marriage dissolution judgement dividing public pension interests against the public pension plan if the court judgment met various conditions designed to avoid the imposition of any additional unfunded liability on the pension plan and of any extended administrative burden on the pension plan administrators. The 1987 public pension plan marital property marriage dissolution division conditions were:

(1) <u>Payment Only If No Liquid Marital Property Exists</u>. The division of marital property is, if possible, to be effected by the sale or disposition of liquid assets (e.g. cash and securities) or of readily liquidated assets (marketable personal or real property) before the pension benefits are divided.

(2) <u>Payment Only Upon Plan Member Retirement</u>. The division may not occur until the plan member applies for a benefit and the benefit becomes payable.

(3) <u>Limited To Benefit Plan Terms</u>. The division is payable only to the extent that the benefit plan terms permit.

(4) <u>Limited To Benefit Duration</u>. The division may not be a benefit that is payable for a period longer than the recipient's duration of receipt (i.e. for the pension plan member's life).

(5) <u>No Lump Sum Payment</u>. The division of a retirement annuity may not be in the form of a lump sum payment.

(6) <u>Designated Trustee For Payment of Any Residual Amount</u>. Any divided benefit payable to an ex-spouse who predeceases the plan member is payable only to a trustee designated for that purpose.

The 1987 amendments, which were drafted in large part by the staff of the Legislative Commission on Pensions and Retirement and which were reviewed and recommended by the Legislative Commission on Pensions and Retirement, also included an authorization of the division of pension rights as a survivor benefit if the pension plan by law allows the payment of a survivor benefit, included a procedure for the valuation of pension benefits or rights by an actuary, and included the directive for the provision of pension information by public pension plans to the parties of an actual or potential dissolution proceeding.

In 1988 (Laws 1988, Chapter 668, Sections 15, 16, and 20), the 1987 public pension plan marital property division provisions were broadened to include private sector pension plans.

Many practicing lawyers in Minnesota will be familiar with ERISA requirements and QDRO procedures, but will generally not be knowledgeable about public pension plan marital property division provisions.

For lump sum volunteer firefighter relief associations and defined contribution volunteer firefighter relief associations, the benefit plan is limited (service pensions are limited to a single payment or a small number of payments; survivor or funeral benefits are payable only to surviving spouses and surviving children, or a designated beneficiary if there is no surviving spouse or surviving child) and most QDROs, if otherwise adapted for the simple nature of volunteer firefighter relief association benefit coverage, will likely not exceed the limitations of Minnesota Statutes, Section 518.58, Subdivision 4. For these volunteer firefighter relief associations, an ex-spouse who has been awarded a portion of the volunteer firefighter's service pension simply becomes an additional payee when the service pension account is payable, upon the application of the retiring volunteer firefighter, either as a dollar amount or as a percentage of the total as designated in the court order. If a deferred service pension is involved, the marriage dissolved before the deferral period started, and the domestic relations order does not specifically address the issue, the relief association should not assume that any deferred lump sum service pension interest is also payable to the ex-spouse and should seek competent legal advice on how to interpret the order.

For monthly benefit volunteer firefighter relief associations and combination volunteer firefighter relief associations, the volunteer firefighter relief association benefit plan is more complex and the requirements and limitations of Minnesota Statutes, Section 518.58, Subdivision 4, must be more carefully observed. For these relief associations, the value of the relief association benefit coverage is more difficult to determine before the dissolution order is finalized and the payment of a portion of the service pension will continue for an extended period of time. The relief association will probably need to direct the parties to the dissolution action and their attorneys to the actuary who has been retained by the relief association to obtain benefit valuation information, which should be at the parties' expense and not at the expense of the relief association. The service pension is payable only for the lifetime of the retired firefighter, and is limited to the dollar amount or percentage of the total service pension each month as awarded by the court. For combination plans, where a retiring firefighter has a choice of the benefit form (lump sum or monthly benefit), and if the court did not mandate which benefit form, the type of pension for division will be based on the choice of the retiring firefighter.

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Volunteer Firefighter Relief Association Working Group

FROM: Lawrence A. Martin, Executive Director

RE: Document LCPR04-281; Lump Sum Volunteer Firefighter Relief Association Deferred Service Pension Interest Options

DATE: October 28, 2004

Summary of Document LCPR04-281

Document LCPR04-281 amends Minnesota Statutes, Section 424A.02, Subdivision 7, the general deferred volunteer firefighter service pension provision, by eliminating the current five percent interest option and by adding an option for interest at a rate up to five percent per annum, set by the board of trustees of the relief association and if approved by the applicable municipality, and payable from the first of the month next following the separation from active service until the last day of the month preceding the application for the deferred service pension upon a former active member attaining the normal retirement age.

Potential Policy Analysis

Document LCPR04-281 substitutes an option for deferred service pension a rate specified by the board of trustees and approved by the applicable municipality, up to five percent, for the current flat five percent deferred service pension interest option. The proposed change, if forwarded by the working group to the Legislature for consideration during the 2005 Legislative Session, will likely raise the following issues for Legislative Commission on Pensions and Retirement consideration as identified by the Commission staff:

1. Appropriate Role of Deferred Service Pensions and the Extent of Relief Association Encouragement of Deferrals. The policy issue is the question of the appropriate role of deferred service pensions and interest on deferred service pensions and the extent of desirable encouragement by relief associations of service pension deferrals. The philosophy of the volunteer firefighter community appears to have changed over the 25 years since the passage of Minnesota Statutes, Chapter 424A, the volunteer firefighter relief association law recodification, from minimal or nominal interest in providing any reward to deferred members in the past to considerable interest in rewarding deferred members currently. The policy goal of the Legislature in the 1979 recodification was to permit interest on deferred service pensions where a volunteer firefighter relief association was interested in doing so, but to do so in a manner that would protect the actuarial health of the relief association. In the 2000 amendments to Minnesota Statutes, Section 424A.02, Subdivision 7, the Minnesota Area Relief Association Coalition (MARAC) sought to allow deferred service pensioners to share in investment returns greater than the five percent interest assumption that underlies volunteer firefighter relief association actuarial work. The resulting 2000 legislation recommended by the Commission provided the separate account/separate investment vehicle as a means to provide a greater investment return on deferred service pensions and reward deferred service pensioners in a manner consistent with actuarial concerns and limitations. If the volunteer firefighter community desires to encourage volunteer firefighters to defer a service pension prior to reaching age 50 rather than to attempt to half-heartedly continue in active fire department service, deferred service pensions can be encouraged by providing interest on the pension amount during the deferral period. Greater interest on a deferred service pension will presumably provide a greater degree of encouragement, but the amount of interest should be consistent with the actuarial design of the volunteer firefighter relief association. Deferred service pension interest that does not exceed five percent is consistent with the actuarial design of volunteer firefighter relief associations.

2. Appropriateness of Eliminating the Flat Five Percent Interest Option. The policy issue is the appropriateness of eliminating the current flat five percent deferred volunteer firefighter service pension interest rate. The flat five percent rate option was introduced in 2000 (Laws 2000, Chapter 461, Article 15, Section 6), when the two prior options (i.e. no interest and interest at the relief association's actual investment performance rate up to five percent) were also expanded to include investment of the deferred service pension amount in a separate account or a separate investment vehicle where the deferred service pensioner bears the full investment risk of gain and loss. The five percent deferred service pension rate matches the five percent interest assumption that underlies the

funding of volunteer firefighter relief associations, meaning that a volunteer firefighter relief association does not take on any extraordinary risk of an unexpected funding loss by implementing the flat five percent interest rate.

3. Appropriateness of Setting Deferred Service Pension Interest at a Board-Established Rate. The policy issue is the appropriateness of permitting the volunteer firefighter relief association boards to set the interest rate on deferred service pensions at the discretion of the boards, subject to a five percent interest rate maximum. Since five percent is the underlying interest rate assumption, an interest rate on deferred service pensions set at less than five percent is not required to maintain the actuarial soundness of volunteer firefighter relief associations. The decision of a relief association board to credit deferred lump sum service pensions with less than a five percent interest rate logically must be driven by some other motivation, either a lack of confidence in the relief association's investment operation or a lack of commitment to deferred service pensioners. If a relief association's investments are unlikely to achieve a five percent average rate of investment performance, when the State's statewide and major local pension plans are expected to achieve an 8.5 percent average return, the efficiency and prowess of the relief association's investment program is seriously challenged. If the relief association lacks a commitment to deferred service pensioners, it raises the question of the rationale for the provision of any interest on deferred service pensions.

4. Appropriateness of Potentially Fluctuating Deferred Service Pension Interest Rates. The policy issue is the appropriateness of permitting volunteer firefighter relief associations to change the interest rate on deferred service pensions biannually, annually, semi-annually, or even monthly. If a relief association attempts to change the deferred service pension interest rate on a relatively frequent basis, the frequency of the potential changes will become administratively burdensome for the relief association and for the applicable municipality. Frequent changes in the interest rate creditable to deferred service pensions also will make the decision by a firefighter to defer a service pension more uncertain and potentially undesirable in achieving the overall goal of having a volunteer firefighter relief association service pension program.

A bill for an act

relating to retirement; volunteer firefighter relief associations; modifying the methods for crediting interest on deferred service pensions; amending Minnesota Statutes 2004, section 424A.02, subdivision 7.

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

Section 1. Minnesota Statutes 2004, section 424A.02, subdivision 7, is amended to read:

Subd. 7. **DEFERRED SERVICE PENSIONS.** (a) A member of a relief association ~~to which this section applies~~ is entitled to a deferred service pension if the member:

(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;

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

(3) separates from active service and membership before reaching age 50 or the minimum age for retirement and commencement of a service pension specified in the bylaws governing the relief association if that age is greater than age 50.

(b) The deferred service pension ~~starts~~ is payable when the former member reaches age 50, or 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 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 or if the deferred benefit amount is invested in a separate investment vehicle held by the relief association;

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

(3) at a rate equal to the actual time weighted total rate of return investment performance of the special fund as reported by the Office of the State Auditor under section 356.219, up to five percent, compounded annually, and applied consistently for all deferred service pensioners.

~~(d)~~ A relief association may not use the method provided for in paragraph (c), clause (3), until it has modified its bylaws to be consistent with that clause.

(d) Interest under paragraph (c), clause (2), is payable from the first day of the month next following the date on which the municipality has approved the deferred service pension interest rate established by the board of trustees or from the first day of the month next following the date on which the member separated from active fire department service and relief association membership, whichever is later, to the last day of the month immediately before the month in which the deferred member becomes eligible to begin receipt of the service pension and applies for the deferred service pension.

(e) 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.

(f) 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.

Sec. 2. **EFFECTIVE DATE.**

Section 1 is effective on July 1, 2005.

TO: Volunteer Firefighter Relief Association Working Group

FROM: Lawrence A. Martin, Executive Director

RE: Document LCPR04-283; Revised Financial Requirements for Monthly Benefit Volunteer Firefighter Relief Associations *(UPDATED 11/16/04)*

DATE: November 16, 2004

Summary of Document LCPR04-283

Document LCPR04-283 amends Minnesota Statutes, Section 424A.02, Subdivision 3, the lump sum volunteer firefighter relief association and monthly benefit volunteer firefighter relief association flexible service pension maximums, by reducing the amount of the three-year average annual financing required per firefighter for a given monthly benefit volunteer firefighter relief association service pension level from $84 for each dollar per month per year of service to $81.

Potential Policy Issues

Document LCPR04-283 would allow monthly benefit volunteer firefighter relief associations to pay a higher monthly benefit service pension with a given level of three-year average annual financing per firefighter, reducing the required level of three-year financing per dollar of monthly benefit per year of service from $84 to $81.

If the working group favors the change contained in Document LCPR04-283 as part of its eventual recommendations, the potential policy issues that the Commission staff would likely raise for the Legislative Commission on Pensions and Retirement would be the following:

1. Appropriateness of a Reduction in the Required Funding for Monthly Service Pensions. The policy issue is the appropriateness of a reduction in the funding required for a given monthly service pension amount under the flexible service pension maximums. The proposed $81 required average per firefighter financing requirement is based on Commission staff research. The Office of the State Auditor provided the Commission staff with data from the monthly benefit volunteer firefighter relief association actuarial valuations. The Commission staff reviewed the data and removed a few cases which would distort results, such as data which claimed that a plan was providing a monthly benefit but the indicated normal cost was zero, and examined the relationship between normal cost per member as determined from the actuarial valuations, and benefit levels per month per year of service provided by these plans. A graph of the results is contained in Attachment A. The graph suggests that for every one-dollar increase in monthly benefit per year of service, the normal cost of the plan will increase by $77.70. The scatter pattern of the individual cases suggests that the relationship is very consistent and linear. The Commission staff found that there is little justification for suggesting that a different relationship exists at lower levels than at higher levels. The Commission staff also applied techniques to refine estimates given the nature of the scatter the data creates. The variability around the graph line is higher at higher benefit levels and that revised statistical approach produced a similar result, suggesting that for each dollar increase in monthly benefits, the normal costs increases by $78.40.

   The proposed change would split the difference between the flexible service pension maximum schedule in existing law, which generally requires a support level increase of $84 for each one dollar increase in monthly benefits, and the approximately $78 increase in support for each one dollar increase in benefits suggested by the Commission staff study, or a requirement of an $81 increase in support for each one dollar increase in monthly benefit per year of service to produce a result that is reasonably conservative.

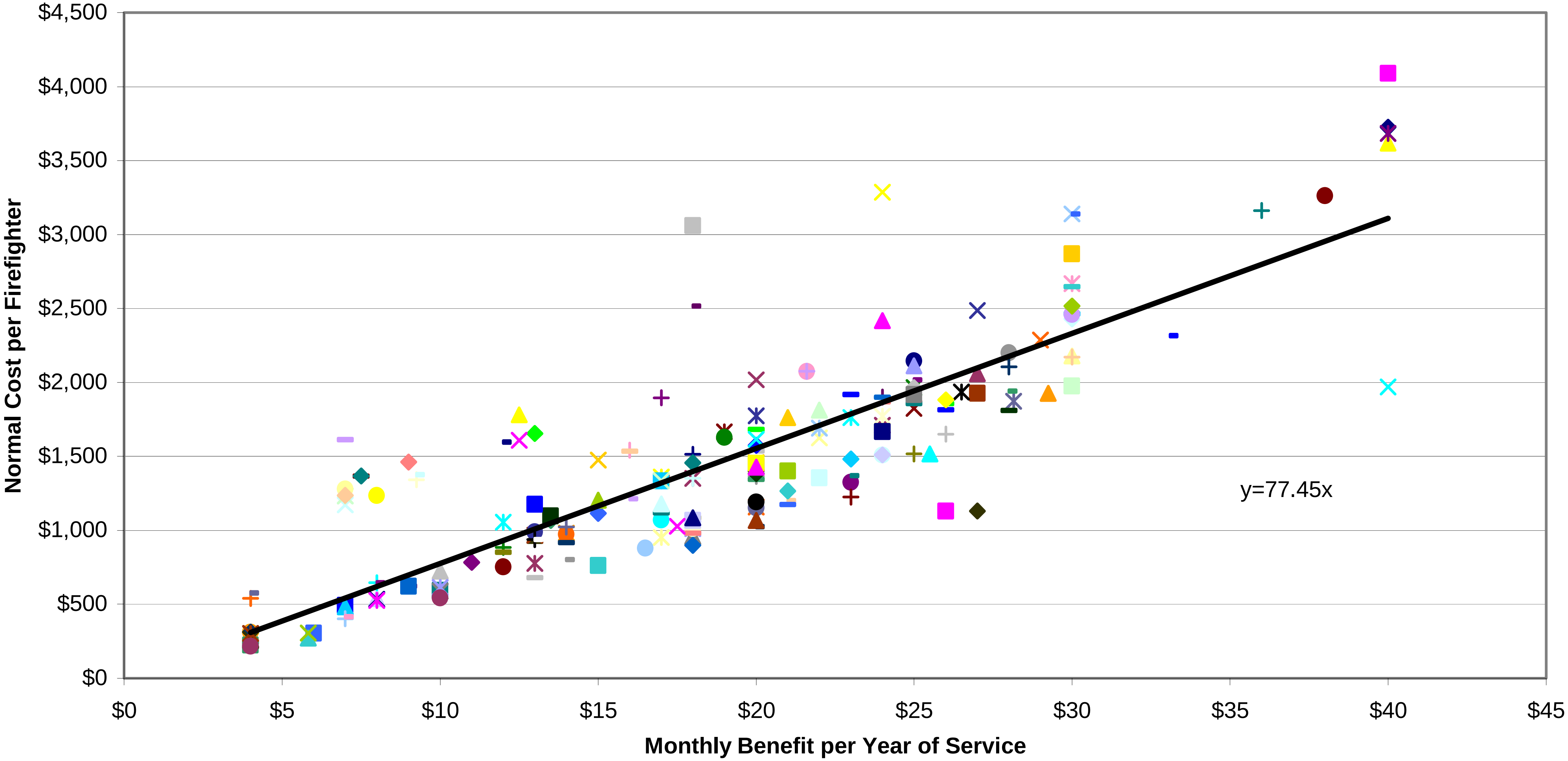
2. Appropriateness of Encouraging Monthly Benefit Volunteer Firefighter Relief Association Benefit Increases. The policy issue is the appropriateness of the encouragement for immediate monthly benefit volunteer firefighter relief association benefit increases that a reduction in the required average financing requirement per firefighter will likely produce. By virtue of the change, every monthly benefit volunteer firefighter relief association could increase its benefit by at least one dollar per month per year of service without any increase in the current level of the relief association average

financing per firefighter. Any benefit increase, however, would require municipal approval unless the relief association is exceedingly well funded before and after the benefit increase. While the current flexible service pension maximum three-year average financing requirement for any given level of benefits is clearly very conservative, promoting a benefit increase without a showing for each relief association that the current benefit level is insufficient to recruit new firefighters, to retain existing firefighters, and to systematically out-transition senior firefighters.

3. Appropriate Timing for Implementation. The policy issue is the appropriateness of the proposed timing for implementing the proposed change in the monthly benefit volunteer firefighter relief association flexible service pension maximums average financing requirements. The proposed timing for implementation would be July 1, 2005. Alternative effective dates could be an accelerated date, the day following enactment, or could be a delayed date, either December 31, 2005, or some later date.

4. Appropriateness of Grandparenting the Immediately Prior Service Pensions Amount as a Maximum Service Pension Amount. The related policy issue is the appropriateness of reinstating language from the original 1979 volunteer firefighter relief association recodifications and revisions that retains the prior service pension amount as the maximum service pension amount if the prior amount I s greater than the calculated maximum amount under the flexible service pension sliding scale procedure. The provision was eliminated in 1993 (Laws 1993, Chapter 244), when vetoed 1992 volunteer firefighter relief association legislation was reenacted by the Legislature, in favor of current Minnesota Statutes, Section 424A.02, Subdivision 3, Paragraph (f). Apparently, there are instances when the average amount of financing per firefighter drops for reasons unrelated to a relation ship of fire state aid or an increase in the number of firefighters and the post-1993 statute would cause an unintended benefit reduction by a volunteer firefighter relief association. The reincorporation of the pre-1993 language would avoid this hardship. Amendment LCPR04-295 adds the pre-1993 language.

Attachment A



M .... moves to amend S.F. No. ....; H.F. No. ...., Document LCPR04-283, as follows:

Page 2, line 13, after the first "the" insert "greater of the service pension amount provided for in the bylaws on the date of the calculation of the average amount of the available financing per active covered firefighter or the"

Page 4, line 13, after the second "the" insert "greater of the service pension amount provided for in the bylaws on the date of the calculation of the average amount of the available financing per active covered firefighter or the"

A bill for an act

relating to retirement; monthly benefit volunteer firefighter relief associations; modifying the average annual financing per firefighter requirement for the flexible service pension maximums; amending Minnesota Statutes 2004, section 424A.02, subdivision 3.

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

Section 1. Minnesota Statutes 2004, section 424A.02, subdivision 3, is amended to read:

Subd. 3. **FLEXIBLE SERVICE PENSION MAXIMUMS.** (a) Annually on or before August 1 as part of the certification of the financial requirements and minimum municipal obligation determined under section 69.772, subdivision 4, or 69.773, subdivision 5, as applicable, the secretary or some other official of the relief association designated in the bylaws of each relief association shall calculate and certify to the governing body of the applicable qualified municipality the average amount of available financing per active covered firefighter for the most recent three-year period. The amount of available financing shall include any amounts of fire state aid received or receivable by the relief association, any amounts of municipal contributions to the relief association raised from levies on real estate or from other available revenue sources exclusive of fire state aid, and one-tenth of the amount of assets in excess of the accrued liabilities of the relief association calculated under section 69.772, subdivision

2; 69.773, subdivisions 2 and 4; or 69.774, subdivision 2, if any.

(b) The maximum service pension which the relief association has authority to provide for in its bylaws for payment to a member retiring after the calculation date when the minimum age and service requirements specified in subdivision 1 are met must be determined using the table in paragraph (c) or (d), whichever applies.

(c) For a relief association where the governing bylaws provide for a monthly service pension to a retiring member, the maximum monthly service pension amount per month for each year of service credited that may be provided for in the bylaws is the maximum service pension figure corresponding to the average amount of available financing per active covered firefighter:

Minimum Average Amount of Available Financing per Firefighter	Maximum Service Pension Amount Payable per Month for Each Year of Service
$...	$ .25
~~42~~ 41	.50
~~84~~ 81	1.00
~~126~~ 122	1.50
~~168~~ 162	2.00
~~209~~ 203	2.50
~~252~~ 243	3.00
~~294~~ 284	3.50
~~335~~ 324	4.00
~~378~~ 365	4.50
~~420~~ 405	5.00
~~503~~ 486	6.00
~~587~~ 567	7.00
~~672~~ 648	8.00
~~755~~ 729	9.00
~~839~~ 810	10.00
~~923~~ 891	11.00
~~1007~~ 972	12.00
~~1090~~ 1053	13.00

3.1	~~1175~~ 1134	14.00
3.2	~~1259~~ 1215	15.00
3.3	~~1342~~ 1296	16.00
3.4	~~1427~~ 1377	17.00
3.5	~~1510~~ 1458	18.00
3.6	~~1594~~ 1539	19.00
3.7	~~1677~~ 1620	20.00
3.8	~~1762~~ 1701	21.00
3.9	~~1845~~ 1782	22.00
3.10	~~1888~~ 1823	22.50
3.11	~~1929~~ 1863	23.00
3.12	~~2014~~ 1944	24.00
3.13	~~2098~~ 2025	25.00
3.14	~~2183~~ 2106	26.00
3.15	~~2267~~ 2187	27.00
3.16	~~2351~~ 2268	28.00
3.17	~~2436~~ 2349	29.00
3.18	~~2520~~ 2430	30.00
3.19	~~2604~~ 2511	31.00
3.20	~~2689~~ 2592	32.00
3.21	~~2773~~ 2673	33.00
3.22	~~2857~~ 2754	34.00
3.23	~~2942~~ 2834	35.00
3.24	~~3026~~ 2916	36.00
3.25	~~3110~~ 2997	37.00
3.26	~~3194~~ 3078	38.00
3.27	~~3278~~ 3159	39.00
3.28	~~3362~~ 3240	40.00
3.29	~~3446~~ 3321	41.00
3.30	~~3530~~ 3402	42.00
3.31	~~3614~~ 3483	43.00
3.32	~~3698~~ 3564	44.00
3.33	~~3782~~ 3645	45.00
3.34	~~3866~~ 3726	46.00
3.35	~~3950~~ 3807	47.00
3.36	~~4034~~ 3888	48.00

~~4118~~ 3969	49.00
~~4202~~ 4050	50.00
~~4286~~ 4131	51.00
~~4370~~ 4212	52.00

Effective beginning December 31, 2003:

~~4454~~ 4293	53.00
~~4538~~ 4374	54.00
~~4622~~ 4455	55.00
~~4706~~ 4536	56.00

(d) For a relief association in which the governing bylaws provide for a lump sum service pension to a retiring member, the maximum lump sum service pension amount for each year of service credited that may be provided for in the bylaws is the maximum service pension figure corresponding to the average amount of available financing per active covered firefighter for the applicable specified period:

Minimum Average Amount of Available Financing per Firefighter	Maximum Lump Sum Service Pension Amount Payable for Each Year of Service
$..	$10
11	20
16	30
23	40
27	50
32	60
43	80
54	100
65	120
77	140
86	160
97	180
108	200
131	240
151	280
173	320
194	360

5.1	216	400
5.2	239	440
5.3	259	480
5.4	281	520
5.5	302	560
5.6	324	600
5.7	347	640
5.8	367	680
5.9	389	720
5.10	410	760
5.11	432	800
5.12	486	900
5.13	540	1000
5.14	594	1100
5.15	648	1200
5.16	702	1300
5.17	756	1400
5.18	810	1500
5.19	864	1600
5.20	918	1700
5.21	972	1800
5.22	1026	1900
5.23	1080	2000
5.24	1134	2100
5.25	1188	2200
5.26	1242	2300
5.27	1296	2400
5.28	1350	2500
5.29	1404	2600
5.30	1458	2700
5.31	1512	2800
5.32	1566	2900
5.33	1620	3000
5.34	1672	3100
5.35	1726	3200
5.36	1753	3250

6.1	1780	3300
6.2	1820	3375
6.3	1834	3400
6.4	1888	3500
6.5	1942	3600
6.6	1996	3700
6.7	2023	3750
6.8	2050	3800
6.9	2104	3900
6.10	2158	4000
6.11	2212	4100
6.12	2265	4200
6.13	2319	4300
6.14	2373	4400
6.15	2427	4500
6.16	2481	4600
6.17	2535	4700
6.18	2589	4800
6.19	2643	4900
6.20	2697	5000
6.21	2751	5100
6.22	2805	5200
6.23	2859	5300
6.24	2913	5400
6.25	2967	5500
6.26	3021	5600
6.27	3075	5700
6.28	3129	5800
6.29	3183	5900
6.30	3237	6000
6.31	3291	6100
6.32	3345	6200
6.33	3399	6300
6.34	3453	6400
6.35	3507	6500
6.36	3561	6600

3615	6700
3669	6800
3723	6900
3777	7000

Effective beginning December 31, 2003:

3831	7100
3885	7200
3939	7300
3993	7400
4047	7500

(e) For a relief association in which the governing bylaws provide for a monthly benefit service pension as an alternative form of service pension payment to a lump sum service pension, the maximum service pension amount for each pension payment type must be determined using the applicable table contained in this subdivision.

(f) If a relief association establishes a service pension in compliance with the applicable maximum contained in paragraph (c) or (d) and the minimum average amount of available financing per active covered firefighter is subsequently reduced because of a reduction in fire state aid or because of an increase in the number of active firefighters, the relief association may continue to provide the prior service pension amount specified in its bylaws, but may not increase the service pension amount until the minimum average amount of available financing per firefighter under the table in paragraph (c) or (d), whichever applies, permits.

(g) No relief association is authorized to provide a service pension in an amount greater than the largest applicable flexible service pension maximum amount even if the amount of available financing per firefighter is greater than the financing amount associated with the largest applicable flexible service pension maximum.

Sec. 2. **EFFECTIVE DATE.**

Section 1 is effective on July 1, 2005.

A bill for an act

relating to retirement; monthly benefit volunteer firefighter relief associations; modifying the average annual financing per firefighter requirement for the flexible service pension maximums; amending Minnesota Statutes 2004, section 424A.02, subdivision 3.

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

Section 1. Minnesota Statutes 2004, section 424A.02, subdivision 3, is amended to read:

Subd. 3. **FLEXIBLE SERVICE PENSION MAXIMUMS.** (a) Annually on or before August 1 as part of the certification of the financial requirements and minimum municipal obligation determined under section 69.772, subdivision 4, or 69.773, subdivision 5, as applicable, the secretary or some other official of the relief association designated in the bylaws of each relief association shall calculate and certify to the governing body of the applicable qualified municipality the average amount of available financing per active covered firefighter for the most recent three-year period. The amount of available financing shall include any amounts of fire state aid received or receivable by the relief association, any amounts of municipal contributions to the relief association raised from levies on real estate or from other available revenue sources exclusive of fire state aid, and one-tenth of the amount of assets in excess of the accrued liabilities of the relief association calculated under section 69.772, subdivision

2; 69.773, subdivisions 2 and 4; or 69.774, subdivision 2, if any.

(b) The maximum service pension which the relief association has authority to provide for in its bylaws for payment to a member retiring after the calculation date when the minimum age and service requirements specified in subdivision 1 are met must be determined using the table in paragraph (c) or (d), whichever applies.

(c) For a relief association where the governing bylaws provide for a monthly service pension to a retiring member, the maximum monthly service pension amount per month for each year of service credited that may be provided for in the bylaws is the maximum service pension figure corresponding to the average amount of available financing per active covered firefighter:

Minimum Average Amount of Available Financing per Firefighter	Maximum Service Pension Amount Payable per Month for Each Year of Service
$...	$ .25
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3.3	~~1342~~ 1296	16.00
3.4	~~1427~~ 1377	17.00
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3.6	~~1594~~ 1539	19.00
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3.8	~~1762~~ 1701	21.00
3.9	~~1845~~ 1782	22.00
3.10	~~1888~~ 1823	22.50
3.11	~~1929~~ 1863	23.00
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3.24	~~3026~~ 2916	36.00
3.25	~~3110~~ 2997	37.00
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3.29	~~3446~~ 3321	41.00
3.30	~~3530~~ 3402	42.00
3.31	~~3614~~ 3483	43.00
3.32	~~3698~~ 3564	44.00
3.33	~~3782~~ 3645	45.00
3.34	~~3866~~ 3726	46.00
3.35	~~3950~~ 3807	47.00
3.36	~~4034~~ 3888	48.00

~~4118~~ 3969	49.00
~~4202~~ 4050	50.00
~~4286~~ 4131	51.00
~~4370~~ 4212	52.00

Effective beginning December 31, 2003:

~~4454~~ 4293	53.00
~~4538~~ 4374	54.00
~~4622~~ 4455	55.00
~~4706~~ 4536	56.00

(d) For a relief association in which the governing bylaws provide for a lump sum service pension to a retiring member, the maximum lump sum service pension amount for each year of service credited that may be provided for in the bylaws is the maximum service pension figure corresponding to the average amount of available financing per active covered firefighter for the applicable specified period:

Minimum Average Amount of Available Financing per Firefighter	Maximum Lump Sum Service Pension Amount Payable for Each Year of Service
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32	60
43	80
54	100
65	120
77	140
86	160
97	180
108	200
131	240
151	280
173	320
194	360

5.1	216	400
5.2	239	440
5.3	259	480
5.4	281	520
5.5	302	560
5.6	324	600
5.7	347	640
5.8	367	680
5.9	389	720
5.10	410	760
5.11	432	800
5.12	486	900
5.13	540	1000
5.14	594	1100
5.15	648	1200
5.16	702	1300
5.17	756	1400
5.18	810	1500
5.19	864	1600
5.20	918	1700
5.21	972	1800
5.22	1026	1900
5.23	1080	2000
5.24	1134	2100
5.25	1188	2200
5.26	1242	2300
5.27	1296	2400
5.28	1350	2500
5.29	1404	2600
5.30	1458	2700
5.31	1512	2800
5.32	1566	2900
5.33	1620	3000
5.34	1672	3100
5.35	1726	3200
5.36	1753	3250

6.1	1780	3300
6.2	1820	3375
6.3	1834	3400
6.4	1888	3500
6.5	1942	3600
6.6	1996	3700
6.7	2023	3750
6.8	2050	3800
6.9	2104	3900
6.10	2158	4000
6.11	2212	4100
6.12	2265	4200
6.13	2319	4300
6.14	2373	4400
6.15	2427	4500
6.16	2481	4600
6.17	2535	4700
6.18	2589	4800
6.19	2643	4900
6.20	2697	5000
6.21	2751	5100
6.22	2805	5200
6.23	2859	5300
6.24	2913	5400
6.25	2967	5500
6.26	3021	5600
6.27	3075	5700
6.28	3129	5800
6.29	3183	5900
6.30	3237	6000
6.31	3291	6100
6.32	3345	6200
6.33	3399	6300
6.34	3453	6400
6.35	3507	6500
6.36	3561	6600

3615	6700
3669	6800
3723	6900
3777	7000
Effective beginning December 31, 2003:	
3831	7100
3885	7200
3939	7300
3993	7400
4047	7500

(e) For a relief association in which the governing bylaws provide for a monthly benefit service pension as an alternative form of service pension payment to a lump sum service pension, the maximum service pension amount for each pension payment type must be determined using the applicable table contained in this subdivision.

(f) If a relief association establishes a service pension in compliance with the applicable maximum contained in paragraph (c) or (d) and the minimum average amount of available financing per active covered firefighter is subsequently reduced because of a reduction in fire state aid or because of an increase in the number of active firefighters, the relief association may continue to provide the prior service pension amount specified in its bylaws, but may not increase the service pension amount until the minimum average amount of available financing per firefighter under the table in paragraph (c) or (d), whichever applies, permits.

(g) No relief association is authorized to provide a service pension in an amount greater than the largest applicable flexible service pension maximum amount even if the amount of available financing per firefighter is greater than the financing amount associated with the largest applicable flexible service pension maximum.

Sec. 2. **EFFECTIVE DATE.**

Section 1 is effective on July 1, 2005.

TO: Volunteer Firefighter Relief Association Working Group

FROM: Lawrence A. Martin, Executive Director

RE: Document LCPR04-284; Volunteer Firefighter Relief Association Board of Trustee Municipal Representation

DATE: October 28, 2004

Summary of Document LCPR04-284

Document LCPR04-284 amends Minnesota Statutes, Section 424A.04, Subdivision 1, the provision governing the membership of volunteer firefighter relief association boards of trustees, to make the municipal representation on the board more flexible by replacing ex officio members with elected or appointed municipal officers appointed by the municipal council to reduce the municipal representation on relief association boards of trustees associated with an independent nonprofit firefighting corporation from three board members to two board members, and to clarify the municipal representation for joint powers entities and townships.

Potential Policy Issues

Document LCPR04-284 revises the selection procedures for the municipal representation on volunteer firefighter relief association boards of trustees to allow for city council-appointed municipal representatives, reduces the municipal representation on relief association boards of trustees associated with independent nonprofit firefighting corporations, and specifically provides for the selection of municipal representation from joint powers entities and townships.

If the working group favors the changes contained in Document LCPR04-284 as part of its eventual recommendation, the potential policy issues that the Commission staff would likely raise for the Legislative Commission on Pensions and Retirement would be the following:

1. Appropriateness of the Shift From Ex Officio Municipal Representation to City Council-Appointed Municipal Representation. The policy issue is the appropriateness of shifting from ex officio municipal representatives on volunteer firefighter relief association boards of trustees to elected or appointed municipal officials appointed by the municipal governing board. Currently, there are three municipal representatives on most volunteer firefighter relief association boards of trustees, the mayor, the finance director/city clerk, and the fire chief. The change would replace the mayor and the finance director/city clerk with two elected or appointed officials of the municipality who are appointed by the city council. The change is intended to provide greater flexibility to municipalities and to improve interest and participation in relief association affairs by municipal representatives. Although the municipal representation on volunteer firefighter relief association boards of trustees has remained unchanged since 1907, when first regulated by State law, the process appears to have problems. As municipal mayors have become busier in official duties and volunteer firefighter relief association laws become less problematic by virtue of significant increases in fire state aid, participation by mayors and city finance directors apparently has become more sporadic. The proposal would utilize the same process that municipalities currently employ to fill positions on municipal advisory and regulatory commissions, with city council appointment of representatives to the volunteer firefighter relief association board of trustees. The representatives are required to be municipal officials, either elected or appointed.

2. Appropriateness of One-Year Terms for Municipal Representatives on Volunteer Firefighter Relief Association Boards of Trustees. The policy issue is the appropriateness of limiting the term of the municipal representatives on a volunteer firefighter relief association board of trustees to one year. Currently, the term of office of the ex officio municipal representative on the volunteer firefighter relief association board of trustees is the term of office of the mayor or the duration in office of the municipal finance director or the city clerk. The change in the term could result in a musical chairs situation on the municipal representative portion of the volunteer firefighter relief association board of trustees. Since the municipality is less well represented quantitatively than the volunteer firefighter relief association active membership, any further impairment of city representation by having those representatives constantly changing may leave the city with no effective representation.

3. Appropriateness of a Reduction in the Municipal Representation for Volunteer Firefighter Relief Associations Associated With Nonprofit Firefighting Corporations. The policy issue is the appropriateness of a proposed reduction in municipal representatives from three to two on the board of trustees of volunteer firefighter relief associations associated with independent nonprofit firefighting corporations. The current municipal representation for independent nonprofit firefighting corporation volunteer firefighter relief associations was incorporated into the volunteer firefighter relief association recodification in 1979 and did not have any earlier rendition. If the change for independent nonprofit firefighting corporations, paralleling the proposed procedure for municipalities, results in a volunteer firefighter relief association board that has a full complement of interested and competent members, the change is valuable. If the reduction in municipal representation results in some municipalities becoming unrepresented, the change may harm overall firefighting-related operations in local government.

4. Appropriateness of Proposed Joint Powers Entity and Township Representation on Volunteer Firefighter Relief Associations. The policy issue is the appropriateness of the extension of the municipal representation procedures to joint powers entities and townships. In 2000, Minnesota Statutes, Section 424A.04, Subdivision 1, was amended to add a procedure for county board appointment of municipal representatives from the fire department service area if the volunteer firefighter relief association was not associated with a city or an independent nonprofit firefighting corporation. Presumably, that 2000 procedure should have covered volunteer firefighter relief associations associated with townships and volunteer firefighter relief associations associated with joint powers entities. Little or no information has been assembled on the actual practice since 2000 with respect to townships and joint powers entities.

A bill for an act

relating to retirement; volunteer firefighter relief associations; modifying board of trustee membership requirements; amending Minnesota Statutes 2004, section 424A.04, subdivision 1.

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

Section 1. Minnesota Statutes 2004, section 424A.04, subdivision 1, is amended to read:

Subdivision 1. **MEMBERSHIP.** (a) ~~Every~~ A relief association that is directly associated with a municipal fire department ~~shall~~ must be managed by a board of trustees consisting of nine members. Six trustees ~~shall~~ must be elected from the membership of the relief association and three trustees ~~shall~~ must be drawn from the officials of the municipalities served by the fire department to which the relief association is directly associated. The bylaws of a relief association which provides a monthly benefit service pension may provide that one of the six trustees elected from the relief association membership may be a retired member receiving a monthly pension who is elected by the membership of the relief association. The three ~~ex officio~~ municipal trustees ~~shall be the mayor, the clerk, clerk-treasurer or finance director,~~ must be two elected or appointed municipal officials who are designated as municipal representatives by the municipal governing board annually and the chief of the municipal fire department.

(b) ~~Every~~ A relief association that is a subsidiary of an independent nonprofit firefighting corporation ~~shall~~ must be managed by a board of trustees consisting of ~~ten~~ nine members. Six trustees ~~shall~~ must be elected from the membership of the relief association, ~~three~~ two trustees ~~shall~~ must be drawn from the officials of the municipalities served by the fire department to which the relief association is directly associated, and one trustee shall be the fire chief serving with the independent nonprofit firefighting corporation. The bylaws of a relief association may provide that one of the six trustees elected from the relief association membership may be a retired member receiving a monthly pension who is elected by the membership of the relief association. The ~~three ex officio~~ two municipal trustees who are the elected officials ~~shall~~ must be elected or appointed municipal officials, selected as follows:

(1) if only one municipality contracts with the independent nonprofit firefighting corporation, the ~~ex officio~~ municipal trustees ~~shall~~ must be ~~three elected~~ two officials of the contracting municipality who are designated annually by the governing body of the municipality;

~~(2) if two municipalities contract with the independent nonprofit firefighting corporation, the ex officio trustees shall be two elected officials of the largest municipality in population and one elected official of the next largest municipality in population who are designated by the governing bodies of the applicable municipalities;~~ or

~~(3)~~ (2) if ~~three~~ two or more municipalities contract with the independent nonprofit corporation, the ~~ex officio~~ municipal trustees ~~shall~~ must be ~~one elected~~ an official of each of the ~~three~~ two largest municipalities in population who are designated annually by the governing bodies of the applicable municipalities.

(c) The municipal trustees for a relief association that is directly associated with a fire department operated as or by a joint powers entity must be designated annually by the joint powers board. The municipal trustees for a relief association that is directly associated with a fire department service a township must be designated by the township board.

(d) If a relief association lacks the ~~ex officio~~ municipal board members provided for in paragraph (a), (b) or ~~(b)~~ (c) because the fire department is not located in or associated with an organized municipality, joint powers entity, or township, the ~~ex officio~~ municipal board members must be appointed from the fire department service area by the board of commissioners of the applicable county.

(e) The term of these appointed ~~ex officio~~ municipal board members is ~~three years~~ one year or until the person's successor is qualified, whichever is later.

~~(d) An ex officio~~ (f) A municipal trustee under paragraph (a), (b), ~~or~~ (c), or (d) shall have all the rights and duties accorded to any other trustee except the right to be an officer of the relief association board of trustees.

~~(e)~~ (g) A board shall have at least three officers, ~~which shall be~~ who are a president, a secretary and a treasurer. These officers ~~shall~~ must be elected from among the elected trustees by either the full board of trustees or by the membership, as specified in the bylaws~~, and~~. In no event ~~shall~~ may any trustee hold more than one officer position at any one time. The terms of the elected trustees and of the officers of the board ~~shall~~ must be specified in the bylaws of the relief association, but ~~shall~~ may not exceed three years. If the term of the elected trustees exceeds one year, the election of the various trustees elected from the membership ~~shall initially and shall thereafter continue to~~ must be staggered on as equal a basis as is practicable.

Sec. 2. **EFFECTIVE DATE.**

Section 1 is effective on July 1, 2005.

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Volunteer Firefighter Relief Association Working Group

FROM: Lawrence A. Martin, Executive Director

RE: Potential Draft Proposed Legislation LCPR04-291; Trigger Date for the Required Filing of Financial Reports

DATE: November 16, 2004

<u>Summary of LCPR04-291</u>

Potential draft proposed legislation LCPR04-291 amends Minnesota Statutes, Section 69.051, Subdivisions 1 and 1a, the local police and firefighter relief association financial report and audit or financial statement requirements, by clarifying that the imposition of the more stringent requirement of a volunteer firefighter relief association financial report and audit, rather than a financial statement, would occur in the year after the relief association achieves $200,000 in either assets or liabilities, rather than during the same year, and the more stringent financial reporting requirement would continue thereafter, irrespective of the subsequent asset or accrued liability size of the volunteer firefighter relief association.

<u>Background Information on Relief Association Financial Reporting</u>

Since 1965 (Laws 1965, Chapter 359, Section 1), Minnesota public pension plans have been required to prepare annual financial reporting. The statutory requirement is codified as Minnesota Statutes, Section 356.20. For volunteer firefighter relief associations, a financial report under Minnesota Statutes, Section 69.051, is considered to meet the reporting requirements of Minnesota Statutes, Section 356.20.

The financial reporting requirement under Minnesota Statutes, Section 69.051, was first imposed as part of the fire state aid revisions of 1969 (Laws 1969, Chapter 1001, Section 5). From 1969 to 1986, all volunteer firefighter relief associations filed the same reporting form, which was initially prescribed by the Commissioner of Insurance and then by the Commissioner of Commerce. The 1969-1986 form was required to include the information needed by the Commissioner to reveal the true financial condition of the relief association and to reveal the extent of compliance by the relief association with the regulatory, financing, and funding provisions of the applicable state law. The financial report was to be prepared as of December 31 for the prior calendar year, was required to be countersigned by the municipal clerk, and was to be certified by an independent accountant or auditor, who was required to provide an opinion on the condition of the relief association and any exceptions.

In 1986, after the discovery of a significant fraud and misappropriation of funds involving the secretary of the Winona Police Relief Association, the local relief association financial reporting requirements to qualify for state aid under 69.051 were modified. The 1986 financial reporting law amendments gave the State Auditor authority and responsibility to audit all relief associations and centralized the receipt and certification of financial statements of all relief associations in the Office of the State Auditor, provided that the Commissioner of Revenue process the distribution of state aid only after notification by the State Auditor that a relief association's financial reports and actuarial valuations are complete, and provided more municipal oversight of the relief associations by requiring annual reports to the municipality of relief association financial affairs. The 1986 legislation also gave the Commission authority to request information from the various funds and the funds are authorized and directed to promptly furnish any data requested and required the State Auditor in performing an audit or examination of a pension plan to notify the Commission if the audit or examination reveals malfeasance, misfeasance, or nonfeasance in office and requires the Commissioner of Revenue to notify the Commission if the State Auditor has not filed with the Commissioner of Revenue the required financial compliance reports by the July 1 deadline. The State Auditor was required to oversee the completion and auditing of financial statements of fire relief associations rather than the Commissioner of Revenue and was required to notify the Commissioner of Revenue by July 1 in any year which relief associations that with the financial reporting requirements necessary to qualify for fire state aid, and the primary administration of the fire and police state aid program was transferred from the Department of Revenue to the State Auditor. The deadline for fire state aid applications was moved from June 1 to July 1.

The requirements for the preparation and submission of financial reports is based on the size of the relief association, and for volunteer associations with assets or liabilities of at least $200,000, the relief association must:

1) Prepare its annual financial reports on forms prescribed by the State Auditor;
2) File the report in its office for public inspection and present it to the city council; and
3) Submit audited financial statements to the State Auditor within 180 days after the close of the fiscal year.

For volunteer associations with assets and liabilities less than $200,000, the relief association must:

1) Prepare annually a detailed financial statement on a form prescribed by the State Auditor;
2) Have the detailed financial statement certified by an independent public accountant or auditor or the auditor that regularly examines the books of the municipality;
3) File the statement in its office for public inspection and present it to the city council within 45 days of the close of the fiscal year; and
4) Send a copy of the statement to the State Auditor within 90 days of the end of the fiscal year.

The surety bond of the volunteer firefighter relief association treasurer must be at least 10 percent of the assets, but is not required to exceed $500,000.

Discussion and Analysis

Draft LCPR04-291 would modify the timing of the shift of a small volunteer firefighter relief association, with under $200,000 in liabilities or assets, which becomes a larger volunteer firefighter relief association, with at least $200,000 in liabilities or assets, from the filing of financial statements to the filing of financial reports and audits, by changing the reporting requirements for the year next following the year of the liability or asset growth, and by requiring any volunteer firefighter relief association that is once required to file a financial report and audit to continue to be required to file financial reports and audits irrespective of its future liability or asset amount changes.

If the working group favors the change contained in Draft LCPR04-291 as part of its eventual recommendations, the Commission staff will likely raise the following pension and related public policy issues for the Legislative Commission on Pensions and Retirement to consider:

1. Appropriate Liability or Asset Breakpoint for Requiring Annual Financial Reports and Audits. The policy issue is the appropriate breakpoint in the amount of assets or liabilities for the imposition of the requirement for the use of greater professional accounting help and the preparation of annual financial reports and audits. Currently, the breakpoint is set at $200,000 in either liabilities or assets. As of the December 31, 2002, compilation of volunteer firefighter relief association information prepared by the State Auditor, 383 volunteer firefighter relief associations, or 54.71 percent of the total number of volunteer firefighter relief associations, had assets and liabilities under $200,000. By not being required to prepare and file a financial report and audit by an accountant rather than prepare and file a financial statement, these volunteer firefighter relief associations are not gaining the professional assistance that many likely need. These volunteer firefighter relief associations also avoid the several hundreds of dollars in accounting fees that would accompany that professional assistance. Minnesota, with the second largest number of public employee pension plans of the 50 states, has decided to utilize a decentralized approach to pension plan coverage and administration. With that decentralization, there is a substantial risk of substandard or unprofessional activities. Public pension plans function as specialized insurance companies and the operation of an insurance program requires a certain degree of sophistication and attention to detail. With volunteer fire departments, the foremost goal presumably is to achieve a significant degree of competence and professionalism in firefighting. If firefighters also happen to be competent pension plan managers, that is a policy benefit, but attempting to gain pension plan administrative competence could be competing effort or a distraction. Since greater pension plan administrative competence and professionalism can be gained through a contracted consultant, consideration should be given to encouraging that trend by lowering the breakpoint trigger amount that requires the use of a public accountant and the preparation of a full annual financial report.

2. Impact of Reporting Requirements on the Reviews by the Office of the State Auditor for Fire State Aid Qualification. The policy issue is the impact of the financial reporting deadlines on the determination of fire state aid qualification by the Office of the State Auditor and the appropriateness of reconsidering those deadlines. The 1986 financial reporting legislation (Laws 1986, Chapter 359)

that required the filing of a financial report and audit by the larger volunteer firefighter relief associations included a change in the deadline date for the review of the Office of the State Auditor and the determination of qualifications for fire state aid. Before 1986, all volunteer firefighter relief associations were required to be file on or before June 1, annually. In 1986, the financial statements by volunteer firefighter relief associations with assets or liabilities under $200,000 were required to be filed by April 1, annually and the financial reports and audits by volunteer firefighter relief associations with assets or liabilities equal to or in excess of $200,000 were required to be filed by July 1, annually. For 2003, the twin reporting deadlines resulted in 55 percent of the volunteer firefighter relief associations obligated to file before April 1 (90 days after the fiscal year end) and 45 percent of the volunteer firefighter relief associations obligated to file before July 1 (180 days after the fiscal year end). The Commission file on the 1986 legislation does not shed light on the specific rationale for the two particular reporting dates. The 2004 filings with the Office of the State Auditor indicate a potential trend for later and later volunteer firefighter relief association filings, which undoubtedly negatively impacts on the scheduling of the workload of that office. If a better allocation of the workload of the State Auditor's office is desired by policymakers or by volunteer firefighter relief association community, that improved allocation can be accomplished either by volunteer firefighter relief association self-help efforts or by further revisions in the filing deadlines.

3. Appropriateness of Pursuing a Collective Approach for Improved Volunteer Firefighter Relief Association Financial Reporting. The policy issue is whether or not it would be appropriate for volunteer firefighter relief associations to pursue a more collective approach to providing financial reporting. Both municipal governments and local pension plans have engaged in collective arrangements for the performance of functions in the past and some collective approach may be appropriate in this instance. In the late 1970s, when required to improve their actuarial reporting, the then 48 local police and paid firefighter relief associations collectively retained a consulting actuarial firm to prepare the necessary reporting with greater cost efficiency. Minnesota cities have entered into collective arrangements to gain or provide services, such as the League of Minnesota Cities Insurance Trust to provide property and casualty insurance coverage and workers' compensation coverage. Several Pennsylvania municipal pension plans contract with a common third party pension plan administrator for plan administration, financial reporting, and actuarial reporting. Under the auspices of the Minnesota Fire Department Association, the Minnesota Area Relief Association Coalition, the Minnesota Fire Chiefs Association, and the League of Minnesota Cities, volunteer firefighter relief associations could engage one accounting firm statewide or several accounting firms regionally to prepare the required financial reports and audits, presumably with greater expertise than is available with the myriad collection of accountants currently providing these services and at a more competitive cost.

A bill for an act

relating to retirement; volunteer firefighter relief associations; clarifying the minimum asset or liability figure triggering financial reports; amending Minnesota Statutes 2004, section 69.051, subdivisions 1 and 1a.

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

Section 1. Minnesota Statutes 2004, section 69.051, subdivision 1, is amended to read:

Subdivision 1. **FINANCIAL REPORT AND AUDIT.** The board of each salaried firefighters' relief association, police relief association, and volunteer firefighters' relief association as defined in section 424A.001, subdivision 4, with assets of at least $200,000 or liabilities of at least $200,000 <u>in the prior year or in any previous year</u>, according to the ~~most recent~~ <u>applicable</u> actuarial valuation or financial report if no valuation is required, shall:

(1) Prepare a financial report covering the special and general funds of the relief association for the preceding fiscal year on a form prescribed by the state auditor. The financial report ~~shall~~ <u>must</u> contain financial statements and disclosures which present the true financial condition of the relief association and the results of relief association operations in conformity with generally accepted accounting principles and in compliance with the regulatory, financing and funding provisions of this chapter and any other applicable laws. The financial

report ~~shall~~ must be countersigned by the municipal clerk or clerk-treasurer of the municipality in which the relief association is located if the relief association is a firefighters' relief association which is directly associated with a municipal fire department or is a police relief association, or countersigned by the secretary of the independent nonprofit firefighting corporation and by the municipal clerk or clerk-treasurer of the largest municipality in population which contracts with the independent nonprofit firefighting corporation if the volunteer firefighter relief association is a subsidiary of an independent nonprofit firefighting corporation;

(2) File the financial report in its office for public inspection and present it to the city council after the close of the fiscal year. One copy of the financial report ~~shall~~ must be furnished to the state auditor after the close of the fiscal year; and

(3) Submit to the state auditor audited financial statements which have been attested to by a certified public accountant, public accountant, or the state auditor within 180 days after the close of the fiscal year. The state auditor may accept this report in lieu of the report required in clause (2).

Sec. 2. Minnesota Statutes 2004, section 69.051, subdivision 1a, is amended to read:

Subd. 1a. **FINANCIAL STATEMENT.** (a) The board of each volunteer firefighters' relief association, as defined in section 424A.001, subdivision 4, ~~with assets of less than $200,000 and liabilities less than $200,000, according to the most recent financial report, shall~~ that is not required to file a financial report and audit under subdivision 1 must prepare a detailed statement of the financial affairs for the preceding fiscal year of the relief association's special and general funds in the style and form prescribed by the state auditor. The detailed statement must show the sources and amounts of all money received; all disbursements, accounts payable and accounts receivable; the amount of money remaining in the treasury; total assets including a listing of all investments; the accrued liabilities; and all items necessary to show accurately the revenues and expenditures and financial position of the relief association.

(b) The detailed financial statement required under paragraph (a) must be certified by an independent public accountant or auditor or by the auditor or accountant who regularly examines or audits the financial transactions of the municipality. In addition to certifying the financial condition of the special and general funds of the relief association, the accountant or auditor conducting the examination shall give an opinion as to the condition of the special and general funds of the relief association, and shall comment upon any exceptions to the report. The independent accountant or auditor ~~shall~~ must have at least five years of public accounting, auditing, or similar experience, and ~~shall~~ must not be an active, inactive, or retired member of the relief association or the fire or police department.

(c) The detailed statement required under paragraph (a) must be countersigned by the municipal clerk or clerk-treasurer of the municipality, or, where applicable, by the secretary of the independent nonprofit firefighting corporation and by the municipal clerk or clerk-treasurer of the largest municipality in population which contracts with the independent nonprofit firefighting corporation if the relief association is a subsidiary of an independent nonprofit firefighting corporation.

(d) The volunteer firefighters' relief association board must file the detailed statement required under paragraph (a) in the relief association office for public inspection and present it to the city council within 45 days after the close of the fiscal year, and must submit a copy of the detailed statement to the state auditor within 90 days of the close of the fiscal year.

Sec. 3. **EFFECTIVE DATE.**

Sections 1 and 2 are effective on July 1, 2005.

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Volunteer Firefighter Relief Association Working Group

FROM: Lawrence A. Martin, Executive Director

RE: Document LCPR04-292; Adding MFIRS Reporting to Minimum Fire Department Requirements for Fire State Aid Qualification

DATE: November 16, 2004

Summary of Document LCPR04-292

Document LCPR04-292 amends Minnesota Statutes, Section 69.011, Subdivisions 4 and 5, the minimum fire department requirements for qualifying for fire state aid and the State Fire Marshal fire department inspection provisions, by adding regular reporting to the State Fire Marshal through the Minnesota Fire Incident Reporting System (MFIRS) as a minimum fire department requirement for fire state aid qualification and by updating the language usage and style of the State Fire Marshal's inspection provision.

Background Information on the Development of the Fire State Aid Program

The fire state aid program was initially established in 1885 (Laws 1885, Chapter 187) and was significantly modified in 1903, 1943, 1945, 1969, 1971, 1988, 1991, 1995, and 1996.

In 1903 (Laws 1903, Chapter 20), the fire insurance premium tax was raised to the two percent premium tax level and specified uses for the money modified, with the funds to be used to provide retirement and disability benefits to fire department members and their survivors, and to help maintain the fire department, including covering purchase and maintenance costs of fire equipment. In 1943 (Laws 1943, Chapter 323, Section 2), the authority to use the fire state aid to purchase fire equipment and to cover other costs of operating the fire service was deleted. In 1945 (Laws 1945, Chapter 225), the use of fire state aid for firefighting equipment purposes was permitted only if no firefighter relief association is associated with the fire department. In 1969 (Laws 1969, Chapter 399), the fire state aid allocation method was modified, shifting it from the location of insured property for each premium tax payment to a distribution half in proportion to the population according to the last federal census and half in proportion to property market values, excluding mineral values but including tax-exempt property. The 1969 law also established minimum fire department requirements for fire state aid qualification and required fire relief association financial reporting. In 1971 (Laws 1971, Chapter 695), minimum volunteer firefighter relief association funding and financing requirements were added and compliance with the 1971 Volunteer Firefighter Relief Association Financing Guidelines Act was made a condition for fire state aid. In 1988 (Laws 1988, Chapter 719, Article 2, Sections 1 to 5), the fire and related insurance premium tax rates were reduced for certain mutual insurance companies. In 1991 (Laws 1991, Chapter 291, Article 13), the fire state aid program appropriation was reduced to the amount of fire insurance premium taxes raised. In 1995 (Laws 1995, Chapter 264, Article 9, Section 3), insurance premium tax rates were increased to two percent of all life insurance premiums, one percent of all other insurance premiums for all town and farmers' mutual insurance companies and for the smaller mutual property and casualty companies (assets of no more than $5 million) and 1.26 percent of all other insurance premiums for the larger mutual property and casualty companies (assets over $5 million and no greater than $1.6 billion) and increased the insurance premium tax revenue dedicated to the fire state aid program to the greater of either 107 percent of the fire, lightning, sprinkler leakage, and extended coverage insurance premium taxes collected or an amount equal to one percent of the fire, lightning, sprinkler leakage, and extended coverage premiums written by town and farmers' mutual insurance companies and by mutual property and casualty companies with assets not exceeding $5 million and to two percent of the fire, lightning, sprinkler leakage, and extended coverage premiums written by all other fire risk insurers. In 1996 (Laws 1996, Chapter 390, Sections 29 and 30), a minimum fire state aid floor amount for volunteer firefighter relief associations was implemented that would otherwise receive a disproportionately small amount of fire state aid on a per-active-member basis, funded from a portion of excess police state aid.

Background Information on the Minimum Fire Department Requirements for Fire State Aid

The minimum fire department requirements for qualifications for fire state aid set forth in Minnesota Statutes, Section 69.011, Subdivision 4, are:

1. Fire Department Establishment. The municipal fire department must be established for at least one year by the municipal governing body or the independent nonprofit firefighting corporation must be operated exclusively for firefighting purposes and must provide retirement benefits to volunteer firefighters directly or through a separate subsidiary incorporated firefighters relief association.
2. Minimum Number of Firefighters. The fire department must have ten paid or volunteer firefighters including a fire chief and assistant fire chief.
3. Minimum Meetings and Drills. The fire department must have regular scheduled meetings and frequent drills, including instructions in firefighting tactics and in the use, care, and operation of all fire apparatus and equipment.
4. Minimum Fire Department Equipment. The fire department must have a motorized fire truck equipped with a motorized pump, 250 gallon or larger water tank, 300 feet of one inch or larger fire hose in two lines with combination spray and straight stream nozzles, five-gallon hand pumps—tank extinguisher or equivalent, dry chemical extinguisher or equivalent, extension ladders, pike poles, crow bars, axes, lanterns, fire coats, helmets, and boots.
5. Minimum Fire Station Requirements. The fire department must have a reliable and adequate method of receiving fire alarms by telephone or with electric siren and suitable means of sounding an alarm.
6. Minimum Fire Alarm System Requirements. The fire department must have a reliable and adequate method of receiving fire alarms by telephone or with electric siren and suitable means of sounding an alarm.
7. Minimum Second Response Requirements. If a response is to be provided outside the corporate limits of the municipality where in the fire department is located, the municipality must have another piece of motorized apparatus to make the response.
8. Other Requirements. The fire department must meet any other requirements the Commissioner of Revenue establishes by rule.

Under Minnesota Statutes, Section 69.011, Subdivision 5, the State Fire Marshal has the duty to inspect municipal fire departments and independent nonprofit firefighting corporations and may enter those facilities at any reasonable hour. If the inspection discloses that the fire department does not meet the minimum fire department requirements, the State Fire Marshal must report that fact and the Commissioner of Revenue is required to disqualify the municipality or independent nonprofit firefighting corporation from future fire state aid.

Background Information on the Minnesota Fire Incident Reporting System

The Minnesota Fire Incident Reporting System (MFIRS) is a tool operated by the Minnesota State Fire Marshal for fire departments to report and maintain records of fires and other fire department incidents in a uniform manner. The MFIRS process is part of a National Fire Incident Reporting System (NFIRS).

MFIRS is intended to assist the fire service, policymakers, and the public in order to justify budget requests and provide a basis for resource allocation; generate statistical reports; assess department activity on a national scale, including emergency medical services, department apparatus, wild land fires, and personnel activities; summarize annual activities; answer questions about the nature and causes of injuries, deaths, and property loss resulting from fires; predict fire-related problems within the State; and measure the success of fire prevention and safety programs.

The reporting consists of information on the timing of fire department incidents, the location of fire department incidents, the incident type, the extent of aid provided or received, the actions taken in response to the incident, the fire department resources committed to the incident, the estimated dollar loss involved in the incident, the casualties caused by the incident, the extent of fire detection in the incident, the extent of any hazardous material released, the use of the property involved in the incident, the details of the property involved, the cause and extent of ignition, the human factors and equipment involved in ignition, the structure type, status, height, and area of any building involved, the fire origin and extent of spread, and any insurance coverage involved.

Participation in the MFIRS has varied over the period 1990 to 2003, with a general increase over time, as follows:

Year	Number of Fire Departments Participating in MFIRS Reporting	Year	Number of Fire Departments Participating in MFIRS Reporting
1990	559	1997	695
1991	524	1998	672
1992	647	1999	674
1993	620	2000	700
1994	679	2001	705
1995	694	2002	728
1996	690	2003	715

The following are the Calendar Year 2003 non-reporting fire departments and the 2003 fire state aid amounts involved:

Non-Reporting Fire Departments – 2003

	Fire Department	Fire State Aid
	Ada (Norman County)	$11,383
**	Altura (Winona County)	$6,704
	Audubon (Becker County)	$11,719
**	Beaver Bay (Lake County)	$4,469
**	Bethel (Anoka County)	$3,511
*	Bigelow (Nobles County)	$6,065
**	Bigfork (Itasca County)	$15,440
	Blackduck (Beltrami County)	$12,606
**	Bluffton (Otter Tail County)	$5,107
**	Braham (Isanti County)	$20,509
**	Butterfield (Watonwan County)	$7,661
*	Cambridge (Isanti County)	$58,433
**	Campbell (Wilkin County)	$8,300
	Central Lakes Vol. (St. Louis County)	
**	Chisago City (Chisago County)	$26,536
**	Crosslake (Crow Wing County)	$25,290
	Delavan (Faribault County)	$6,065
**	Dexter Vol. (Mower County)	$5,107
	Dodge Center (Dodge County)	$13,090
**	Eagle Bend (Todd County)	$7,980
**	East Hubbard Co. (Hubbard County)	$6,925
	Elgin (Wabasha County)	$14,071
**	Ellendale (Steele County)	$8,723
**	Erskine (Polk County)	$6,065
**	Federal Dam (Cass County)	$2,890
**	Fifty Lakes (Crow Wing County)	$4,150
	Finlayson (Pine County)	$9,576
	Garvin (Lyon County)	$4,788
**	Geneva (Freeborn County)	$6,065
**	Grand Marais (Cook County)	$12,104
**	Grand Meadow (Mower County)	$13,213
**	Hangaard Twp. (Clearwater County)	
**	Hanska (Brown County)	$7,980
**	Hayward (Freeborn County)	$7,023
*	Herman Vol. (Grant County)	$7,980
**	Hidden Valley (Winona County)	
**	Howard Lake (Wright County)	$16,226
**	Iona (Murray County)	$2,873
	Itasca Twp. (Clearwater County)	
**	Kent-Abercrombie (Wilkin County)	
**	Kilkenny (LeSueur County)	$7,025
**	Lake George (Huber County)	$5,427
**	London (Freeborn County)	$4,469
**	Lonsdale (Rice County)	$27,665
	Magnolia (Rock County)	$3,831
**	Middle River (Marshall County)	$6,065
*	Minnesota Lake (Faribault County)	$7,980
	Northland (St. Louis County)	$3,192
**	Northwest Angle (Lake of the Woods County)	
**	Oklee (Red Lake County)	$5,746
*	Onamia (Mille Lacs County)	$14,673
**	Ormsby (Watonwan County)	$4,788
*	Osseo (Hennepin County)	$12,309
*	Pequaywan Lake (St. Louis County)	$4,469
*	Perley-Lee Twp. (Norman County)	$1,608
**	Plummer (Red Lake County)	$7,661
**	Red Lake Falls (Red Lake County)	$9,672
	Revere (Redwood County)	$6,384
**	Rochester Rural (Olmsted County)	
**	Round Lake (Nobles County)	$6,344
	Scandia Valley (Morrison County)	$8,195
*	Schroeder (Cook County)	$3,511
	Sedan (Pope County)	$4,469
**	Stewartville (Olmsted County)	$36,499
*	Twin Lakes (Freeborn County)	$6,065
*	Tyler (Lincoln County)	$8,151
	Villard Vol. (Pope County)	$7,661
**	Vining (Otter Tail County)	$4,788
**	Walker (Cass County)	$27,503
*	White Earth Vol. (Becker County)	
	Woodstock (Pipestone County)	$4,788
*	Wykoff (Fillmore County)	$6,384
	Total	$643,949

* Non-reporting one prior year during the period 1999-2002

** Non-reporting two or more prior years during the period 1999-2002

Potential Policy Analysis and Discussion

Document LCPR04-292 adds an eighth requirement to the current seven requirements on a fire department for the applicable municipality or independent firefighting corporation to qualify for fire state aid, with that new requirement being complete reporting of fire department activity to the State Fire Marshal under the Minnesota Fire Incident Reporting System (MFIRS) procedure during the preceding calendar year.

The proposed change, if forwarded by the working group to the Legislature for consideration during the 2005 Legislative Session, will likely raise the following pension and related public policy issues for consideration by the Legislative Commission on Pensions and Retirement, as identified by the Commission staff:

1. Appropriateness of Conditioning Fire State on a Non-Pension Reporting Requirement. The policy issue is the appropriateness of conditioning fire state aid on the participation of the applicable fire department with the Minnesota Fire Incident Reporting System (MFIRS), which relates to the functioning of the fire department and the fire service statewide, but has no direct pension application. The minimum fire department requirements for qualifying for fire state aid were added in 1969, in order to use the fire state aid program to encourage a betterment in the provision of firefighting service throughout the state. If MFIRS actually would work to improve the provision of fire services in the state, then adding MFIRS participation would be an extension of the 1969 legislative policy of leveraging fire state aid to gain improved fire departments statewide. The MFIRS reporting, however, focuses on firefighting activities and, if applicable, emergency medical activities, but does not appear to focus on fire prevention activities. Testimony may be appropriate about the role of fire prevention compared to fire suppression and firefighting activities in measuring the value of the fire service locally and statewide.

2. Appropriateness of Requiring MFIRS Participation if Reporting is Difficult or Onerous. The policy issue is the appropriateness of adding MFIRS participation as an additional fire state aid qualifying requirement if that reporting responsibility is difficult or onerous for the non-participating fire departments. Of the 72 fire departments that do not participate in the MFIRS program, several are serving small population locales (18.06 percent are under 200 in population and 15.28 percent are without available population numbers), but a large number are larger population locales (37.49 percent are between 200 and 500 in population and 29.17 percent are in excess of 500 in population). MFIRS participation may be as much a question of motivation as of capability, at least as capability is measured by the firetown population, since several very small municipalities have good or perfect MFIRS participation records, as follows:

Municipality	**County**	**Population**	**MFIRS Participation**
Arco	Lincoln	99	4/5
Beltrami	Polk	98	5/5
Borup	Norman	90	5/5
Correll	Big Stone	45	5/5
Dovray	Murray	67	5/5
Goodridge	Pennington	97	5/5
Kenneth	Rock	58	3/5
Kerrick	Pine	71	3/5
LaSalle	Watonwan	89	5/5
Lake Henry	Stearns	91	4/5

3. Precedent. The policy issue is the question of whether or not there is a past precedent for the additional fire state aid requirement and whether or not the proposed additional requirement would become a precedent for further fire state aid requirement additions. Within the fire state aid program, there is no direct precedent for a fire department reporting requirement, but pension fund reporting requirements (financial and investment) as a fire state aid qualification do exist. Within the fire service, there is a precedent in a number of grants to fire departments with the requirement that they report their incidents, including fire grants from the United States Fire Administration (USFA) and Department of Natural Resources (DNR) grants. With the exception of potentially adding the reporting of fire prevention activities, it is unclear what future additional fire department reporting requirements could be added based on this proposal.

4. Appropriateness of the Current Fire Department Minimum Fire State Aid Requirements. The policy issue is the appropriateness of the current fire state aid minimum fire department qualifications. The

current qualifications were set in 1969, when they were first added, but the qualifications have not been revised since. As such, the requirements may not reflect the current best practices with respect to minimum requirements for a fire department. Additional work by the State Fire Marshal or additional testimony from representatives of the state's fire services may be needed to gauge the adequacy of the minimum fire department qualifications set forth in Minnesota Statutes, Section 69.011, Subdivision 4.

5. Appropriateness of the Current Process for Determining Whether or Not the Minimum Fire Department Requirements Are Met. The policy issue is the appropriateness of the current manner in which the Department of Revenue and the State Fire Marshal determine whether or not the State's 700+ fire departments meet the minimum fire department requirements of Minnesota Statutes, Section 69.011, subdivision 4. The current process appears to involve an in-person inspection by the State Fire Marshal of new fire departments first applying for fire state aid and the checking of an attestation box on an annual Department of Revenue form indicating minimum requirement compliance by all other fire departments. The process potentially gives a pass to existing fire departments, which allows circumstances to continue to occur such as fire departments with less than ten active members to receive fire state aid.

A bill for an act

relating to retirement; volunteer firefighter relief associations; modifying the minimum fire department requirements to qualify for fire state aid; amending Minnesota Statutes 2004, section 69.011, subdivisions 4 and 5.

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

Section 1. Minnesota Statutes 2004, section 69.011, subdivision 4, is amended to read:

Subd. 4. **QUALIFICATION FOR STATE AID.** ~~Any~~ A municipality in this state having for more than one year an organized fire department ~~and~~ that was officially established by the governing body of the municipality or an independent nonprofit fire fighting corporation created under the nonprofit corporation act of this state and operating for more than one year exclusively for fire fighting purposes and providing retirement and relief benefits to its members or having a separate subsidiary incorporated firefighter's relief and pension association providing retirement and relief benefits may qualify to receive fire state aid if it meets the following minimum requirements or their equivalent as determined by the State Fire Marshal ~~by July 1, 1972~~:

~~(a)~~ (1) has at least ten paid or volunteer firefighters, including a fire chief and an assistant fire chief~~, and~~;

~~(b)~~ (2) has regular scheduled meetings and frequent drills, including instructions in fire fighting tactics and in the use, care, and operation of all fire apparatus and equipment~~, and~~;

~~(c)~~ (3) has a motorized fire truck that is equipped with a motorized pump, 250 gallon or larger water tank, 300 feet of one inch or larger fire hose in two lines with combination spray and straight stream nozzles, five-gallon hand pumps--tank extinguisher or equivalent, a dry chemical extinguisher or equivalent, ladders, extension ladders, pike poles, crow bars, axes, lanterns, fire coats, helmets, and boots~~, and~~;

~~(d)~~ (4) has its apparatus suitably housed in a building of good construction with facilities for care of hose and equipment~~, and~~;

~~(e)~~ (5) has a reliable and adequate method of sending and receiving fire alarms electronically, by telephone, or with electric siren and has suitable means of sounding an alarm~~, and~~;

~~(f)~~ (6) if response is to be provided outside the corporate limits of the municipality wherein the fire department is located, the ~~municipality~~ fire department has another piece of motorized apparatus to make the response~~, and~~;

(7) has filed a complete 12-month set of Minnesota fire incident reporting system reports with the State Fire Marshal Division of the Department of Public Safety for the preceding calendar year; and

~~(g)~~ (8) meets any other requirements that the commissioner establishes by rule.

Sec. 2. Minnesota Statutes 2004, section 69.011, subdivision 5, is amended to read:

Subd. 5. **FIRE DEPARTMENTS TO BE INSPECTED BY STATE FIRE MARSHAL.** ~~It shall be the duty of~~ The State Fire Marshal ~~or an appointed deputy or designated assistants to~~ shall inspect, or cause to be inspected, at the time other public buildings are inspected, the fire department of any municipality or nonprofit fire fighting corporations in this state~~; and,~~. For that purpose, the State Fire Marshal ~~or any of the fire marshal's deputies or designated assistants shall have~~ has the right to enter or have access ~~thereto~~ to fire department buildings at any reasonable hour. ~~When~~ If, upon inspection, it is found that the fire department inspected does not conform to the requirements of subdivision 4, the State Fire Marshal shall ~~make a~~ report ~~of~~ the fact to the commissioner and the commissioner shall disqualify the municipality or nonprofit firefighting corporation from ~~participation in~~ the future fire state aid apportionment ~~provided for in this chapter and chapter 424~~.

Sec. 3. **EFFECTIVE DATE.**

Sections 1 and 2 are effective on July 1, 2005.

TO: Volunteer Firefighter Relief Association Working Group

FROM: Lawrence A. Martin, Executive Director

RE: Document LCPR04-293; Limiting Monthly Benefit Volunteer Firefighter Relief Association Disability Benefits to Age 50

DATE: November 16, 2004

Summary of Document LCPR04-293

Document LCPR04-293 amends Minnesota Statutes, Section 424A.02, Subdivision 9, the volunteer firefighter relief association ancillary benefit limitations, by allowing monthly benefit and combination volunteer firefighter relief associations to prohibit the payment of disability benefits from the volunteer firefighter relief association before age 50.

Potential Policy Issues

Document LCPR04-293 would limit the earliest payment of a monthly benefit volunteer firefighter relief association disability benefit to age 50 or later if the bylaws of the volunteer firefighter relief association so provide.

If the working group favors the change contained in Document LCPR04-293 as part of its eventual recommendations, the Commission staff would likely raise for the Legislative Commission on Pensions and Retirement the following pension and related public policy issues for discussion and consideration:

1. Appropriateness of an Age 50 Minimum Age For Monthly Benefit Volunteer Firefighter Relief Associations. The policy issue is the appropriateness of permitting a monthly benefit volunteer firefighter relief association or combination volunteer firefighter relief association to limit disability benefits to the post-age-50 period. The current ancillary benefit limits of Minnesota Statutes, Section 424A.02, Subdivision 9, were recommended by the Legislative Commission on Pensions and Retirement and enacted by the Legislature in 1979 largely to protect the actuarial underpinnings of the volunteer firefighter relief associations. The prohibitions on the payment of a monthly benefit volunteer firefighter relief association disability benefit before age 50 similarly would protect the small number of remaining monthly benefit volunteer firefighter relief associations and combination (i.e., lump sum and monthly benefit) volunteer firefighter relief associations from unexpected actuarial losses from disability benefits payable at an age earlier than the normal retirement age, usually age 50. The delay in the payment of disability benefits to age 50, when the service pension would normally be paid, may work a hardship on a relatively young disabled firefighter who may have limited resources and modest amounts of other insurance coverage. The hardship may be made more difficult if the disability suffered by the volunteer firefighter is related to or caused by the firefighter's fire department duties.

2. Appropriateness of Providing Disability Coverage to Deferred Members. The related policy issue is the appropriateness of volunteer firefighter relief associations to provide disability coverage to deferred members. Minnesota Statutes, Section 424A.02, Subdivision 9, does not specifically address the issue, leaving the element of potential benefit coverage to the volunteer firefighter relief association bylaws. Some volunteer firefighter relief associations apparently allow for the payment of disability benefits to deferred members. In the statewide and major local Minnesota public pension plans, deferred members are not accorded disability coverage in the general employee plans, but sometimes are accorded disability coverage in some public safety employee plans. Providing any disability coverage to individuals who are no longer active employees of the enterprise involved is a high actuarial liability practice that does not have a clear pension or employment policy basis. Potential Amendment LCPR04-294 would add a limitation prohibiting disability coverage by any volunteer firefighter relief association for deferred members.

M .... moves to amend S.F. No. ....; H.F. No. .... (Document LCPR04-293), as follows:

Page 2, line 23, delete "and"

Page 2, line 30, after "50" insert "; and

(4) with respect to any relief association, no ancillary benefit on account of a disability is payable"

A bill for an act

relating to retirement; monthly benefit volunteer firefighter relief associations; limiting the payment of disability benefits to age 50; amending Minnesota Statutes 2004, section 424A.02, subdivision 9.

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

Section 1. Minnesota Statutes 2004, section 424A.02, subdivision 9, is amended to read:

Subd. 9. **LIMITATION ON ANCILLARY BENEFITS.** Any relief association, including any volunteer firefighters relief association governed by section 69.77 or any volunteer firefighters division of a relief association governed by chapter 424, may only pay ancillary benefits which would constitute an authorized disbursement as specified in section 424A.05 subject to the following requirements or limitations:

(1) with respect to a relief association ~~in~~ <u>for</u> which <u>the</u> governing bylaws provide <u>solely</u> for a lump sum service pension to a retiring member <u>or provide for a lump sum service pension option and the retiring member selects the lump sum service</u> pension option, no ancillary benefit may be paid to any former

(2) with respect to any relief association, no ancillary benefit paid or payable to any member, to any former member, or to any person on behalf of any member or former member, may exceed in amount the total earned service pension of the member or former member. The total earned service pension must be calculated using the service pension amount specified in the bylaws of the relief association and the years of service credited to the member or former member. The years of service must be determined as of (i) the date the member or former member became entitled to the ancillary benefit; or (ii) the date the member or former member died entitling a survivor or the estate of the member or former member to an ancillary benefit. The ancillary benefit must be calculated (i) without regard to whether the member or former member had attained the minimum amount of service and membership credit specified in the governing bylaws; and (ii) without regard to the percentage amounts specified in subdivision 2; except that the bylaws of any relief association may provide for the payment of a survivor benefit in an amount not to exceed five times the yearly service pension amount specified in the bylaws on behalf of any member who dies before having performed five years of active service in the fire department with which the relief association is affiliated; and

(3) with respect to a relief association for which the governing bylaws provide solely for a monthly benefit service pension to a retiring member or provide for a monthly benefit service pension or benefit option and the member selects the monthly benefit option, the relief association may provide in its bylaws that no ancillary benefit on account of a disability is payable before the member attains age 50.

Sec. 2. **EFFECTIVE DATE.**

TO: Volunteer Firefighter Relief Association Working Group

FROM: Lawrence A. Martin, Executive Director

RE: Document LCPR04-296; Deferred Service Pension Investment Return Crediting for Defined Contribution Volunteer Firefighter Relief Associations

DATE: November 16, 2004

Summary of Document LCPR04-296

Document LCPR04-296 amends Minnesota Statutes, Section 424A.02, Subdivision 4, the specific regulation of defined contribution volunteer firefighter relief associations, and Subdivision 7, the entitlement to a deferred service pension and the regulation of interest on deferred service pensions, to permit defined contribution volunteer firefighter relief associations to credit proportional amounts of investment gains or losses along with active members as of the most recent post date for determining and crediting investment return investment and to restrict the current deferred service pension interest provision to lump sum defined benefit volunteer firefighter relief associations.

Potential Policy Issues

Document LCPR04-296 excludes defined contribution volunteer firefighter relief associations from the current regulation of deferred service pension interest rates and permits defined contribution volunteer firefighter relief associations to credit investment performance to deferred member accounts in the same manner as it credits investment performance to active members.

If the working group favors the changes contained in Document LCPR04-296 as part of its eventual recommendations, the potential policy issues that the Commission staff would likely raise for the Legislative Commission on Pensions and Retirement would be the following:

1. Appropriateness of Special Defined Contribution Volunteer Firefighter Relief Association Deferred Service Pension Interest Rule. The policy issue is the appropriateness of augmenting the general volunteer firefighter relief association deferred service pension interest rules for defined contribution volunteer firefighter relief associations. The current general deferred service pension rules include options that are entirely workable for defined contribution volunteer firefighter relief associations, either no interest, interest at the rate equal to the time-weighted total rate of investment return as reported by the State Auditor's office, or the investment performance earned by a separate investment account or by a separate investment vehicle, and one option that is not workable fore defined contribution volunteer firefighter relief associations, interest set at a five percent rate. The philosophy of the volunteer firefighter community appears to have changed over the 25 years since the passage of Minnesota Statutes, Chapter 424A, the volunteer firefighter relief association law recodification, from minimal or nominal interest in providing any reward to deferred members in 1979 to considerable interest in rewarding deferred members in 2004. The policy goal of the Legislature in the 1979 recodification was to permit interest on deferred service pensions where a volunteer firefighter relief association is interested in doing so, but also to protect the actuarial health of the relief association. In the 2000 amendments to Minnesota Statutes, Section 424A.02, Subdivision 7, the Minnesota Area Relief Association Coalition (MARAC) sought to allow deferred service pensioners to share in investment returns greater than the five percent interest assumption that underlies volunteer firefighter relief association actuarial work. The resulting 2000 legislation recommended by the Commission provided the separate account/separate investment vehicle as a means to provide greater investment return consistent with actuarial concerns and limitations. The proposed change, allowing defined contribution volunteer firefighter relief associations to include deferred members in the allocation of investment returns with active members as an additional deferred service pension option, minimizes the administrative complexity of the interest crediting practice for defined contribution volunteer firefighter relief associations while avoiding any threat to the actuarial condition of the relief association or the allocation of benefits within the relief association.

2. Need for a Clarification of the Timing of Interest Return Crediting. The policy issue is the need for a clarification in the manner in which a defined contribution volunteer firefighter relief association recognizes and credits investment performance to active member accounts and deferred service

pension accounts. The 1979 volunteer firefighter relief association recodification specifically authorized the existing "split-the-pie" volunteer firefighter relief associations and future defined contribution volunteer firefighter relief associations, but the defined contribution volunteer firefighter relief association provision, Minnesota Statutes, Section 424A.02, Subdivision 7, did not regulate the totality of defined contribution retirement plan operations and practices. Defined contribution volunteer firefighter relief associations existed before 1979, with an active membership range of a low of 14 active members (Milroy) and a high of 42 active members (Hopkins) and an average number of active members of 25, an average asset size of $28,886, an average annual fire state aid amount of $2,848, a frequency of municipal contributions of 40 percent, and an average annual municipal contribution of $431. In 2002, defined contribution volunteer firefighter relief associations have grown in number, to 88, with an active membership range of a low of 10 active members (Crane Lake and Ellsburg) and a high of 98 active members (Eagan) and an average number of active members of 25, an average asset size of $493,547, an average annual fire state aid amount of $29,990, a frequency of municipal contributions of 52.3 percent, and an average annual municipal contribution of $7,377. Some growth in defined contribution volunteer firefighter relief associations has been from new relief associations, such as the Gunflint Trail Volunteer Firefighter Relief Association and the Vermilion Lake Volunteer Firefighter Relief Association, but the growth in defined contribution volunteer firefighter relief associations also has come from relief associations that did so in order to exceed the uppermost limit of the service pension maximums, such as the Anoka-Champlin Volunteer Firefighter Relief Association and the Eagan Volunteer Firefighter Relief Association. With the growth of defined contribution volunteer firefighter relief associations, their funding and assets, and their active membership, the operation of these plans has become more complicated in investing and in crediting investment returns. The proposed change would allow defined contribution volunteer firefighter relief associations to establish specific dates for and procedures for crediting investment performance and would require deferred retirees to recognize those dates. Thus, if a defined contribution volunteer firefighter relief association only credits investment performance as of the first of each month, a retiring deferred service pensioner would sacrifice a portion of a month's investment performance if the person desires to receive the service pension payment on their birthday mid-month.

A bill for an act

relating to retirement; defined contribution volunteer firefighter relief associations; clarifying the crediting of investment return for deferred service pensions; amending Minnesota Statutes 2004, section 424A.02, subdivisions 4 and 7.

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

Section 1. Minnesota Statutes 2004, section 424A.02, subdivision 4, is amended to read:

Subd. 4. **DEFINED CONTRIBUTION LUMP SUM SERVICE PENSIONS.** (a) If the bylaws governing the relief association so provide exclusively, the relief association may pay a defined contribution lump sum service pension in lieu of any defined benefit service pension governed by subdivision 2.

(b) An individual account for each firefighter who is a member of the relief association ~~shall~~ must be established. To each individual active member account ~~shall~~ must be credited ~~a right to~~ an equal share of: ~~(a)~~ (1) any amounts of fire state aid received by the relief association; ~~(b)~~ (2) any amounts of municipal contributions to the relief association raised from levies on real estate or from other available revenue sources exclusive of fire state aid; and ~~(c)~~ (3) any amounts equal to the share of the assets of the special fund to the credit of: ~~(1)~~ (i) any former member who terminated active service with the fire department to which the relief association is associated ~~prior to~~ before meeting the minimum service requirement provided for in subdivision 1 and has not returned to active service with the fire department for a period no shorter than five years; or ~~(2)~~ (ii) any retired member who retired ~~prior to~~ before obtaining a full nonforfeitable interest in the amounts credited to the individual member account ~~pursuant to~~ under subdivision 2 and any applicable provision of the bylaws of the relief association. In addition, any ~~interest or~~ investment ~~income earned~~ return on the assets of the special fund ~~shall~~ must be credited in proportion to the share of the assets of the special fund to the credit of each individual active member account through the date on which the investment return is recognized by and credit to the special fund.

(c) At the time of retirement ~~pursuant to~~ under subdivision 1 and any applicable provision of the bylaws of the relief association, a retiring member ~~shall be~~ is entitled to that portion of the assets of the special fund to the credit of the member in the individual member account which is nonforfeitable ~~pursuant to~~ under subdivision 2 and any applicable provision of the bylaws of the relief association based on the number of years of service to the credit of the retiring member.

Sec. 2. Minnesota Statutes 2004, section 424A.02, subdivision 7, is amended to read:

Subd. 7. **DEFERRED SERVICE PENSIONS.** (a) A member of a relief association ~~to which this section applies~~ is entitled to a deferred service pension if the member:

(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;

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

(3) separates from active service and membership before reaching age 50 or the minimum age for retirement and commencement of a service pension specified in the bylaws governing the relief association if that age is greater than age

50.

(b) The deferred service pension starts when the former member reaches age 50 or 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 relief association that provides a lump sum service pension under 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 or if the deferred benefit amount is invested in a separate investment vehicle held by the relief association;

(2) at the interest rate of five percent, compounded annually; or

(3) at a rate equal to the actual time weighted total rate of return investment performance of the special fund as reported by the Office of the State Auditor under section 356.219, up to five percent, compounded annually, and applied consistently for all deferred service pensioners.

(d) A relief association that provides a defined contribution service pension 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 in one of the manners specified in paragraph (c) or alternatively may credit any 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 date on which the investment return is recognized by and credited to the special fund.

(e) A relief association may not use the method provided for in paragraph (c), clause (3), until it has modified its bylaws to be consistent with that clause.

~~(e)~~ (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.

~~(f)~~ (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.

Sec. 3. **EFFECTIVE DATE.**

Sections 1 and 2 are effective on July 1, 2005.

Volunteer Fire Relief Association Working Group

State Auditor's Office
Monday, November 22, 2004
11 a.m. to 1 p.m.

Members Present
League of Minnesota Cities Representative Anne Finn, Legislative Commission on Pensions and Retirement Director Larry Martin, Mahnomen Fire Relief Association Treasurer Dave Jaeger (defined benefit lump sum plans), Maple Grove Fire Relief Association President Curt Roberts (defined contribution plans), Minnesota State Fire Chief Association Representative Nyle Zikmund (defined benefit monthly plans), Minnesota Area Relief Association Coalition Representative Jim Hansen, Northfield Fire Relief Association Secretary Tom Nelson, State Auditor Patricia Anderson and White Bear Lake Finance Manager Don Rambow.

Members Excused
Delano City Administrator Phil Kern, Maplewood Fire Relief Association Treasurer Ed Dietz (defined benefit lump sum plans) and Minnesota State Fire Department Association Representative Dave Ganfield (defined benefit monthly/lump sum combination plans).

Others Present
Delano City Finance Director Brian Bloch, Legislative Commission on Pensions and Retirement Deputy Director Ed Burek, Minnesota State Fire Department Association President Tom Pressler, Deputy State Auditor/General Counsel Carla Heyl, Pension Director Judith Strobel and Pension Analysts Rose Hennessy Allen, Eric Bulygo, Jami Crummy and Brian Martenson.

Welcome and Introductions
Rotating Chair Anne Finn welcomed Tom Pressler and Brian Bloch to the Working Group. After mentioning a few housekeeping items, she referred the members to the agenda.

November 8, 2004 Minutes
Finn asked if the members needed additional time to read and review the draft minutes in Exhibit B. Tom Nelson move to approve the minutes with a second from Don Rambow. The motion passed unanimously.

Funding For Fire Relief Associations

Rambow outlined Exhibit C that shows recent state fire aid funding for the White Bear Lake Fire Relief Association. Rambow said White Bear has seen a dramatic change in this funding source that isn't seen by the taxpayers. He questioned how much is enough funding to recruit and retain firefighters. He said he sees pressure to increase benefits when state fire aid went up 30 percent in 2004.

Jim Hansen said he is not concerned about continued increases and thinks things will level off because homeowners are starting to settle back. He doesn't anticipate large jumps in the future saying that hailstorms drove fire premiums to their present level.

Rambow said when citizens do not have money coming out of their pockets as with the two percent insurance premium money it becomes a hidden tax that they do not see.

Martin said state fire aid is derived from a tax. It is taxpayer money in that sense, he said, because insurance companies pay the tax on premiums in lieu of paying corporate taxes.

Jaeger said the state fire aid increases have been very welcome and needed in greater Minnesota. He said the money has helped out a lot because hardly any contributions from the city itself are enough to recruit and retain firefighters.

Nelson said it is similarly difficult to retain firefighters in Northfield. He said we do not have people who come and work at feed mill for 20 years anymore so the relief association is trying to push its pension to the max to keep firefighters for 20 to 30 years.

Rambow asked if this amount of money is necessary to retain people and said his fear is what happens in the future when relief associations may be faced with deficits.

In response to Rambow's question, Roberts said there could never be enough state fire aid if a relief association is struggling to keep qualified firefighters. He said he is not a salesman for defined contribution plans but cities with that type of pension plan are not on the hook for deficits as they would be under certain conditions with defined benefit lump sum plans.

Roberts said the firefighters in his defined contribution plan take the good and the bad with their investment performance and the city is not liable for bad times. It is difficult in his city of 55,000 people to recruit firefighters but the city and firefighters need to work out ways to successfully recruit and retain firefighters. What may work for a big city may not be good for a small city, he added.

Financial Requirements for Relief Associations
Relief associations must comply with various state laws to be eligible to be certified for receipt of state fire aid. The requirements include completing the Broker Certification form, only investing in authorized investments, and only disbursing special fund assets for purposes expressly allowed.

The Guidelines Act requires the determination of the minimum municipal obligation on forms that must be submitted to the State Auditor's Office. The intent of the Guidelines Act is to permit municipalities to prepare budgets locally with full knowledge of the relief association's financial needs. Reasonable estimates are to be determined with care and provided by August 1 to the city at the outset of the levy process. Relief associations should not wait to give the city this information or fail to certify the necessary amount before the levy.

Martin clarified that the levy process looks forward whereas the review of the relief association's legal compliance by the State Auditor's Office looks backward to ensure that the pension plan was properly funded.

Page 9 of Exhibit D lists the funding requirements for the state's volunteer firefighter pension plans. At present, actuarial valuations are done by consultant actuaries for about 25 to 30 plans with more than 500 lump sum plans completing the Schedule. Tab G is comprised of the Schedule and Schedule instructions.

Martin explained that monthly plans require actuarial work because they are subject to significant mortality risk from paying benefits to members for life. The bulk of the relief associations provide lump sum benefits that do not contain the same mortality risk because benefits are usually paid in one check. In general, members must reach age 50 and have 20 years of service to draw a full pension.

The Schedule is the cookbook version of actuarial science for the lump sum plans per Martin. The only real issue is to make sure enough money available when they conclude their service, he said. The original table is based on a three percent interest rate that is conservative because it overstates rather than understates a pension plan's liabilities. The accrued liability table for the lump sum plans is premised on members starting at about age 30 and qualifying for a retirement at age 50.

Discussion
$200,000 Asset or Liability Threshold
There has not been a change in the $200,000 asset or liability amount that triggers the requirement for a relief association to obtain a full audit rather than a financial attestation since enactment It was observed that some relief associations would prefer to index or increase the amount to avoid the time and costs involved in obtaining a full audit.

Zikmund said his experience indicates that it may be best for all relief associations to obtain an audit regardless of the amount of their assets or liabilities. Martin said the $200,000 language was put in state law to ensure the quality of financial reviews for larger relief associations. Previously, the only signature needed was from someone familiar with math – but not with an accounting background.

Martin said the amount could be tied to some consumer price index or determined by finding the amount now held by the same number of relief associations that were above $200,000 when the law passed. He said, however, he would side with Zikmund's recommendation.

Nelson asked whether there would be more problems with an audit. Audits would be valuable for all relief associations because of the professional help from accountants but some may object to the fees particularly if they have few transactions.

In response to a question from Jaeger, both large and small relief associations had difficulty meeting their submission deadlines this year causing a delay in preparation of the Compilation Report. Even the two-week extension to the deadline for the first round of state fire aid payments from the Department of Revenue primarily helps those that have filed sufficiently on time to have their issues identified.

Zikmund recommended maintaining the current $200,000 threshold and requiring those that cross it to continue to stay in the audit category even if their assets or liabilities later drop below $200,000. Rambow said he agrees with Zikmund's threshold recommendation. State Auditor Anderson recommended that an audit be submitted with the following reporting year's forms after the reporting year the threshold was crossed. She said this practice would provide sufficient notice to relief associations that may need to obtain a new accountant and incur an additional expense.

Electronic Fund Transfers

When municipalities receive electronic fund transfers (EFTs) for state fire aid payments or supplemental benefit reimbursements there appears to be some uncertainty among city clerks and relief associations regarding the appropriate allocation of the underlying amounts. It was suggested that the Department of Revenue and/or the Department of Finance detail the contents of EFTs for municipalities. Municipalities can unknowingly retain relief association funds that are to be transferred within 30 days of receipt under state law.

Tom Pressler said an email from the state could detail the amount of state fire aid payments. Zikmund said the Department of Revenue maintains a breakdown of population and market value statistics that make up state fire aid. He asked if that information also could be provided.

Martin said the Department of Revenue does have this information. If it cannot be provided directly to the municipalities and relief associations, it could be placed on the web sites of the Pension Commission or State Auditor's Office. Finn said the League of Minnesota Cities would also be interested in receiving notice of this information.

Ancillary Benefit Amount Cap

Chapter 424A sets a limit on the amount of benefits that can be paid by a relief association. To protect the pension fund's financial stability, the total benefit paid to a member cannot exceed the member's total earned service pension. Ancillary benefits (disability, survivor and funeral benefits) may be paid but are not mandated under state law.

If a funeral benefit is paid with a survivor benefit, the total of both benefits cannot go over the earned service pension amount. It is difficult for relief associations to contact survivors who have been overpaid. Zikmund suggested putting a cap on funeral benefits in state law.

Jaeger asked whether funeral benefits are being paid by small plans or primarily large plans. The 2003 reporting year information indicates that funeral benefits are primarily offered by larger plans. Roberts asked if the provision of ancillary benefits must be included in a relief association's bylaws. The answer was yes with some relief associations capping those benefits if the members so desire and the language complies with state law.

Levy Process Responsibilities

Relief associations have a requirement to certify any required contribution to the municipality for levy purposes to comply with the Guidelines Act. Documentation of the certification process by the relief association and city may be required to be submitted to the State Auditor's Office if the relief association does not subsequently receive the entire required contribution amount.

Martin addressed the relief associations' responsibilities to provide their minimum financial requirements to cities to put in their budgets. He said the levy process is set up for a different purpose than the State Auditor's Office that checks to make sure the financial statements are done right. The guidelines look forward whereas the review is after the fact.

Relief associations are required to certify the required relief association funding requirements amount by August 1. They are not supposed to wait to see what their state fire aid will be. If relief associations do not receive the amount that was certified to the city, they are required to go to the County Auditor who can levy for the omitted municipal contribution amount.

Jaeger said a lot of city administrators do not think they must budget for any shown amount on the Schedule form. He said training could be provided by the League of Minnesota Cities to inform administrators that they must go through this budgeting process.

Monthly plans have some deference as to what amount must be received from the city based on their annual actuarial valuations. Monthly plans must receive funding between state fire aid and municipal contributions to at least meet the minimum financial requirement for the year. While the plan would certify a municipal contribution amount for levy purposes, the actual amount to be contributed by the municipality could change depending upon the actual state fire aid received.

Martin mentioned that some relief associations have had issues with unauthorized administrative expenses and investment practices that jeopardized their state fire aid. Finn said some of these issues are on the radar screen with the League of Minnesota Cities and can be better addressed through training that may not always require statutory changes.

State Fire Aid Qualification
Martin then explained that state fire aid is dedicated to relief association pension funds and must only be used for fire department equipment if no relief association exists. To be eligible for state fire aid, he said fire departments must meet certain qualifications that include having at least ten firefighters and minimum firefighting equipment. In addition, relief associations must report certain financial and investment information under state law.

Zikmund said existing fire departments are self-regulated for these requirements. Jaeger said the reporting process for fire departments has not been extensive during recent years.

Martin said that some fire departments have just seven firefighters when state law requires that they have at least ten firefighters. Zikmund said there is not much difference between a fire department with seven members and one with ten members. He further stated that consolidation of these very small fire departments would be difficult because in some areas the closest town is about 30 miles away.

While it was stated that at least 15 firefighters are required to fight an interior structure fire, Pressler pointed out that coverage of interior structure fires is not a requirement.

The members also discussed the relationship between meeting requirements and adequately responding to a fire. Success is not measured by saving structures but by preventing the fire from damaging adjacent buildings and property, said Zikmund.

Zikmund suggested that fire departments also be required to report to the State Fire Marshal under the Minnesota Fire Incident Reporting System (MFIRS) as an additional state fire aid qualification requirement. He said it is almost impossible to operate without MFIRS reporting and there should be sufficient controls to assure the insurance agencies about proper qualification for state fire aid. At present, there may be 50 to 70 fire departments that are currently not reporting to MFIRS, according to Martin.

Required Reporting Form Compliance
In light of time constraints, the members were encouraged to look at Exhibits E and F after the meeting. The information shows the filing submission dates of the relief associations for their 2003 reporting forms. The outline illustrates the impact of late filings and the advantages of early or timely filing.

Jaeger said he understands that some relief associations can bring their information to a CPA in March but be put off until after tax time.

Working Group Process
Draft language and public policy observations on previously discussed topics will be provided to the members on an ongoing basis in the agenda packets. An additional meeting will be held on Monday, December 13, 2004 to accommodate further discussion of this material before the upcoming legislative session.

Other Business
Members were notified that parties interested in the Working Group discussions and recommendations may visit the State Auditor's website: www.auditor.state.mn.us and the Pension Commission website: www.lcpr.leg.mn.

Next Meeting
The next meeting of the Working Group will be Monday, November 22, 2004 from 11 a.m. to 1 p.m. in the State Auditor's Conference Room. Member suggestions for the agenda must be forwarded to the Pension Division by Tuesday, November 16, 2004.

Roses Notes to November 22, 2004 Working Group Meeting

Jim Hansen moves to approve minutes.

All in favor – Approved.

Nyle Zikmund introduced Brant with Access Financial also invited Jeff with Victoria Fire Relief, expecting him to come.

Larry Martin reviewed Exhibit B. Martin explained that under 424A and 356A prudent person law and other requirements like diversification, liquidity, economic interest statement … legal list of authorized investments 1 list for smaller plans with narrower authority. 2nd list for larger plans that mirrors SBI authority.

Martin said when investment in junk bonds became controversial in leg., fire plans were separated out from SBI.

Martin also said that investments have to be prudent and on legal list.

Zikmund introduced Brant to the Working Group Members. Asked Brant to discuss issues he has experienced.

Brant wanted to get a better understanding of what is allowed and clarification of how to classify investments. Brant asked do mutual funds have to be invested only in investments authorized on the long list? Exchange trades funds? Law seems limited in his perspective. International securities? Cover foreign bonds and stock? Wants clarification.

Dave Kenny explained authority authorized on long list for any mutual fund. Said may have a divergence of opinion with LCPR. Subject to 35% rule.

Brant:

Dave Ganfield said that under Minnesota Statute 69.775 allows up to 75% if invested under long list.

Carla Heyl referred/asked Larry Martin to discuss.

Martin takes the position of looking at it historically, intended to not permit junk bonds. Doesn't specifically prohibit. Became controversial when SBI wanted to invest in junk bonds. SBI has special authority allowing junk bonds. Fire plans don't have the specific authority. Asked why invest in junk bonds?

Zikmund said not specifically looking at junk bonds but wants clarification. Other reliefs have questions, too.

Brant asked if the asset class is attractive, could invest in it through a mutual fund? Catch-all category that is broad in long list.

Martin gave a reflection of the SBI statute. Prior to 195_ SBI did not allowed to invest in stocks. About a decade before SBI got in to any sizeable stocks. When fiduciary law created in 1989 looked at what authority would be appropriate. Decided to have 2 legal lists with one more restrictive for smaller plans.

SBI does have a catch-all clause that allows for venture capital that carried over to long list for relief association pressings SBI didn't know what all them wanted to pursue.

When catch-all clauses added to legs to a not so cohesive language.

Ganfield asked when was 75% language added.

Martin said added in 1971. Doesn't think the language has changed. Said wants to allow professional management for plans through mutual funds.

Ganfield said mutual funds new in 1971. Mutual funds safer than stock because risk spread out over different investments.

Ganfield asked if it would be prudent to revisit 75% limit.

Ganfield said plans hitting the 75% because of market <u>fully allows</u> (?).

Martin answering said an item that should be discussed. He said he would flag policy issues.

Judy Strobel said less than so over 75%. About 25.8% exposed to junk bonds.

Ganfield asked were those plans larger or smaller?

Strobel replied saying the State Auditor's Office would check and get back to him.

Jaeger asked Rose Hennessy Allen if the his plan was over 75%. They are an example of a small plan over the limit.

Brant asked are Exchange Traded Funds treated as mutual funds? Can't figure out how they should be classified. Securities that are common now weren't when law was created.

Zikmund said so relief association's over 75% rule is more than enough to justify looking at the issue.

Rambow said it is more important to look at what type of mutual fund (aggressive ?) than how much.

Zikmund asked about Exchange Traded Funds.

Burek said possible to read as corporate stock category.

Martin asked why a good choice for relief association?

Brant said most Exchange Traded Funds are available for various sectors of the market. Can invest in an indexed weighting of stock through one security.

Brant also said trades at party with stock believes would be categorized as corporate stock. Although made up of several stocks like a mutual fund.

Jaeger said informally discussed with Attorney General's Office authority appears to exist for Exchange Trade Funds.

Martin said if want to go under 85% then have to follow the restrictions.

Rambow said trying to find out how an investment can fit under the law. Rambow said it would be a risk for the board to have to go before the public to defend investments that were purchased under *gray* authority.

Zikmund said don't want to violate the law but the law hasn't been updated in a long time.

Martrin asked whether to look at the law from a savings angle or from an investor's angle. People will want to sell investors to the pension plan. Martin said that investors will try to sell you the Jaguar if only need a pick-up.

Zikmund said a push to professional management from legislature and State Auditor's Office.

Zikmund also said when hiring a professional manager the manager wants/recommends getting into certain investments. Relief has no idea what the investments are and don't have time to learn about the investments, etc.

Martin wants to put question into context. Martin said that the legislature has looked at plans that have inappropriately invested and have seen it occur in larger plans. Price Minnesota pays because of de-centralized pension plans.

Martin said Winona Police errors led to restrictions. Legislatures want plans to look at returns and investment performance but must first be prudent and 2nd on legal list.

Zikmund motioned breaking for lunch.

Ganfield asked where was group goin with discussions?

Zikmund said issue is how to get more clarity. First issue is 75% mutual fund limit. Second issue is if mutual funds have to be invested in authorized on list. Zikmund said could clarity that need to invest in mutual funds only that invest in authorized securities.

Martin said law already does that. Minnesota Statute 69.775 says the reliefs have to comply with investments listed on the long or short lists.

Auditor Anderson asked if most investors don't already invest in only authorized investments.

Brant said most managers don't box themselves in. Brant also said will be a bond fund but leave themselves room. Don't have access to portfolio to know whether only invested in authorized securities.

Brant said

Burek said (G) needed for some mutual fund invest with corporate stocks. Law says securities have to be invested only on NY Stock Exchange. SBI provision subsequently revised to say can invest in any publicly traded security. Burek also said fire law could be amended to get rid of naming two specific exchanges. Technically could argue that Wilshire doesn't comply because investments in all publicly traded investment.

Burek also said, if allow more room would generally fall under corporate stock and don't need paragraph G with 35% limit.

Zikmund likes Ed's idea.

Auditor should also put in Exchange Trade Funds.

Zikmund said what level of scrutiny subjecting mutual funds to ensure compliance with law.

Strobel said have capabilities through technology to do more. Still a very time consuming task.

Martin said reliefs are supposed to have an investment policy. Said relief should be able to substantiate where their investments fall under state law. Said he recommends asking relief to substantiate authority rather than State Auditor's Office chase down everyone. Relief should flag odd investments before it even gets to the State Auditor's Office.

Zikmund said in larger reliefs they are aware that this is going on. Not always so for the smaller plans.

Rambow said plans put their trust in their investment advisor. Don't have capability and are not experts in the field. Part of fiduciary duty. Problem is when advisors tries to make more money and investments goe boad then the city is on the hook.

Martin said city on hook for defined benefit plans.

Zikmund said if a defined contribution plan exists, the city still has a practical responsibility to the plan.

Zikmund says he sees more advisors try to get into more trading that leads to more fees.

Ganfield said reliefs need specific guidance so know where law go and want freedom. Don't want to be able to do anything.

Auditor said with one minor change, said would be on us to write a clarification that could be handed out to advisors.

Zikmund said some reluctance in answering questions.

Strobel said would welcome calls.

Zikmund said go back to 75% mutual fund issue.

Martin said do you want to go to 100% where:

Ganfield said could do a range. Put in 70% and allow up to 75% with market fractuations.

Roberts said isn't it something just for end-of-year reports? Said don't really have to look until end-of-year.

Ganfield said they have the problem of city putting money in to a money market account that counts toward 75% limit.

Zikmund asked where 75% limit came from?

Martin said some feeling 1971 that mutual funds made sense for volunteer plans. Went to a higher percent than for SBI. Volunteer plans have smaller assets, harder to get in.

Ganfield said laws change so that money market mutual funds don't cound toward mutual fund limit.

Zikmund if 100% in SBI aren't you 100% in mutual funds?

Martin would like a mutual fund but not considered technically a mutual fund. Not technically a mutual fund set-up like one, but not one.

Ganfield said legally supposed to have a certain amount of cash to pay benefits. Can't take out money market mutual funds from mutual fund cap.

Jaeger agrees that should exclude money market.

Zikmund said better to de-classify money market from 75% limit or better to up 75% limit.

Rambow thinks better to de-classify.

Ganfield asked for State Auditor's Offices position.

Strobel agreed to step in direction want to go.

Martin said would amend 69.775 to limit mutual fund to 75%, excluding money market accounts.

Zikmund said to move forward. Coon Rapids has issue of paying insurance to members with less than five years of service.

Strobel explained that vendor not an authorized vendor under statute.

Zikmund said it is more than just a death benefit. Plan will pay a pension through the insurance policy for members with less than five years.

Martin said could do out of General Fund.

Zikmund said Bloomington did it and was told by the State Auditor's Office they couldn't. Did it as a DC plan.

Martin said disbursements currently allows through VFBA.

Zikmund said VFBA for short-term disability. Six dollars/member/year. Doesn't provide for type of benefit Coon Rapids wants. A length of service award. Not looking at it as a disability bridge.

Strobel said two issues, who is able to provide it and what fund it comes from. Coon Rapids wants to use Special Fund money. Public policy to allow Special Fund Money?

Martin asked if a DC Plan?

Zikmund said yes.

Ganfield said not really a state-wide issue. Special to Coon Rapids. Could pursue individually.

Jaeger said should take out of General Fund. Doesn't feel should open up Special Fund for more purposes.

Zikmund will report back to Coon Rapids that Working Group won't pick it up.

Roberts said law requires all city money to be put in the Special Fund. Why can't reimbursements for training and put reimbursements in General Fund?

Strobel said on occasion Maple Grove is reimbursed for certain expenditures but the city would advocate that relief association think ahead to have city council approve and pay expenditure directly. With 700 plans would be problematic to trace every transaction for all plans.

Ganfield said not an authorized expenditure for Special Fund directly.

Roberts said could up dues and deposit in General Fund to pay expenditure from General Fund. City deposits reimbursements in Special Fund all works out.

Heyl said city can reimburse the individual for expenditures. Discussed fire department vs. city and relief.

Zikmund recommends keeping lines clean no city money in General Fund.

Ganfield agreed. Said an issue of training and accounting.

Finn also agreed that the League would not support changes in this area.

Rambow said if city expenditure the city should pay for it.

Roberts said if the relief association is the retailer and bought items to sell, if city buys items the reimbursement must go into the Special Fund.

Rambow said city responsibility to support fire department. Relief's responsibility to pay benefits.

Ganfield QDROs discussion not finished at prior meeting. Said experience is that attorney's don't agree. Apple Valley has been told that alternate payee is treated as a member and can pick lump sum or monthly option. Apple Valley wants to be able to pick payment option. Pay lump sum to alternate payee.

Martin discussed tab c (Marriage Dissolution). Said it represents LCPR's view in 1987. Ex-spouse only an additional recipients. Relief association cuts two checks. Federal law more general than state law. Tried to get around no garnishment language, etc. All law allows is the ability for the plan to cut two checks.

Ganfield said

Martin said both the ex-spouse and member would get the same benefit. 518.58 governing statute. Ex-spouse would not be a surviving spouse under most readings.

Check is not paid until firefighter takes their check. Discussed firefighter who divorce and become re-married. Who is eligible for survivor benefit?

Roberts discussed how would affect a DC Plan. Set-up an account for spouse.

Strobel said ex-spouses age doesn't matter. Can't pay out until when member applies for retirement. Trigger for when what negotiated is paid. What usually negotiated is the time frame of the marriage. Would carry ex-spouse on books as if a member.

Ganfield said occurres a lot to Apple Valley, starting to happen to others. Asked who should call with questions.

Strobel said she would be happy to answer questions. Member and alternate payee should speak with their attorney. Could work with Martin to draft up a document for reliefs. Not a QDRO or DRO.

Martin said someone may introduce legislation that would change the law to be similar.

Auditor will draft up something to help.

Zikmund said divorce a constant question seen in training.

Ganfield gets calls from attorney for spouse asking for sample QDRO. Can only refer to statute.

Martin said reference items includes draft language and policy considerations that would be _____ if goes to LCPR.

Auditor asked when would look at legislation?

Zikmund said some time next meeting. Last meeting set made to look at language for bill. If time, could look at determining who a member is. (Hastings and Roseville)

Martin said minimum salary threshold under PERA once hit threshold in PERA. Fire service not of one mind, issue hasn't gone anywhere at leg.

Jaeger said some plans up north aren't allowing firefighter into reliefr association once become firefighter limit relief association membership to a certain number.

Zikmund adjourned meeting.