Minnesota Volunteer Fire Relief Association
Working Group Meeting

State Auditor's Office
Monday, October 4, 2004
11 a.m. to 1 p.m.

I. Welcome and Introductions

II. Description of Working Group

Rotating Chair Curt Roberts to present.

Purpose
Exhibit A.

Membership
Exhibit B to be distributed/updated at meeting for privacy reasons.

Process
Exhibit C.

Location/Dates/Rotating Chairs/Agenda Topics
Exhibit D.

III. Overview of Volunteer Fire Relief Association Plans

Larry Martin to present.
Exhibit E.

IV. General Provision Issues

V. Reference Items

Updated Selected Relevant Statutes Summary
Exhibit F.
Selected Relevant Statutes Booklet

Exhibit A

Working Group Purpose Statement

To bring together the major volunteer fire relief association stakeholders to develop relationships, open communication, discuss relief association issues and make the Pension Process easier and more effective by:

- clarifying applicable state laws,
- simplifying reporting forms,
- discussing training opportunities,
- and addressing any other relevant issues.

Exhibit C

Working Group Process

- Discuss and make recommendations to clarify state laws, simplify reporting forms, and address training and other issues,

- Implement recommendations that do not require law changes, and

- Forward suggested statutory changes upon consensus to the Legislative Commission on Pensions and Retirement.

Exhibit D

Location/Dates/Chairs/Agenda Topics

Location: Conference Room
State Auditor's Office
525 Park Street
St. Paul, MN 55103

Time: 11 a.m. to 1 p.m. on Mondays

Dates	Rotating Chair	Agenda Topic
Oct. 4, 2004	Curt Roberts	General Provisions
Oct. 18, 2004	Dave Ganfield	Deferred Interest/Ancillary Benefits
Nov. 8, 2004	Anne Finn	Financial Reporting
Nov. 22, 2004	Nyle Zikmund	Investments
Dec. 6, 2004	Jim Hansen	Training/Equipment

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).
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. Flexible Service Pension Maximums.

   i. Service Pension Maximums Before 1979. 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. Calculation of the Minimum Municipal Obligation. 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. Fiduciary Obligations. 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. Fiduciary Status. 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. Fiduciary Activities. The activities of volunteer firefighter plan fiduciaries include, but are not limited to:

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

    ii. Determining Funding Requirements and Contributions. Funding requirements must be properly determined;

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

    iv. Plan Administrative Expenses. Administrative expenses must be reasonable and necessary; and

    v. Investment of Plan Assets. 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
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.

Number of Plans

Year:	1974	1977	1980	1982	1984	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Lump Sum																						
Under $50/yr	134	110	72	28	23	11	12	8	10	10	9	13	12	10	10	8	7	--	--	--	--	--
$50-$100/yr	122	116	79	68	60	39	33	28	25	23	19	17	16	16	13	13	10	13	13	10	6	7
$100-$200/yr	122	118	131	133	132	99	88	85	62	50	55	60	59	55	49	39	45	36	26	20	19	16
$200-$300/yr	5	45	81	83	88	115	123	108	114	108	99	84	79	78	74	67	61	51	42	35	30	24
$300+/yr	7	57	124	18	237	277	293	331	355	379	396	419	429	439	453	445	470	492	512	530	539	549
Total Lump Sum	390	446	487	330	540	541	549	560	566	570	578	593	595	598	599	572	593	592	593	595	594	596
Monthly Benefit																						
Under $2/mo/yr	41	16	3	0	6	8	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Over $1.99/mo/yr	10	32	26	24	23	22	33	30	28	27	26	29	27	12	10	7	8	7	5	5	5	5
Total Monthly	51	48	29	24	29	30	33	30	28	27	26	29	27	12	10	7	8	7	5	5	5	5
Mo/Lump Sum Comb.																						
Total Combined	--	--	--	--	--	--	--	--	--	--	--	--	2	15	15	16	16	16	23	18	18	18
Defined Contribution																						
Total Def. Contrib.	52	54	45	56	68	66	66	72	68	67	66	72	73	74	76	76	80	84	85	87	88	89
No Benefits																						
Total No Benefits	42	27	33	8	5	7	2	1	2	--	--	--	--	--	--	--	--	--	--	--	--	--
Total	535	575	594	580	642	641	650	663	664	664	671	694	697	699	700	671	697	699	706	705	705	708

Membership

Year:	1974	1977	1980	1982	1984	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Members																						
Actives																						
Lump Sum	9,052	10,915	10,834	12,523	12,980	12,859	13,179	13,406	13,720	14,112	14,049	13,583	14,051	14,187	14,189	13,655	14,022	13,854	12,612	13,244	13,691	13,767
Monthly	1,549	1,592	745	812	1,092	1,125	1,305	1,252	1,178	1,174	1,200	1,210	1,218	525	464	307	313	324	208	208	206	159
Combination	--	--	--	--	--	--	--	--	--	--	--	--	100	735	726	807	775	746	879	840	790	847
Defined Contribution	1,042	1,256	401	1,207	1,449	1,345	1,411	1,520	1,460	1,434	1,407	1,594	1,565	1,647	1,721	1,727	1,972	2,033	2,039	2,106	2,182	2,222
No Benefits	820	558	278	114	63	83	35	20	37	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Actives	12,463	14,321	12,258	14,656	15,584	15,412	15,930	16,198	16,395	16,720	16,656	16,387	16,934	17,094	17,100	16,496	17,082	16,957	15,738	16,398	16,869	16,995
Deferreds																						
Lump Sum		139	170	296	381	451	609	520	558	639	718	841	945	1,074	1,222	1,333	1,538	1,640	1,660	1,801	1,948	2,042
Monthly		117	68	32	39	50	61	67	76	92	78	88	100	62	57	45	44	56	34	29	31	19
Combination		--	--	--	--	--	--	--	--	--	--	--	1	64	80	89	79	90	114	157	196	216
Defined Contribution		12	3	9	18	29	26	29	36	68	39	122	150	171	188	166	508	266	528	666	722	738
No Benefits		--	8	0	0	0	0	0	0	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Deferreds		268	249	337	438	530	696	616	670	799	835	1,051	1,196	1,371	1,547	1,633	2,169	2,052	2,336	2,653	2,897	3,015
Retirees																						
Lump Sum		--	527	363	410	177	124	177	173	165	214	148	173	187	184	90	76	56	36	316	538	507
Monthly		400	249	302	413	444	547	493	483	472	494	527	566	312	261	198	207	206	153	164	178	149
Combination		--	--	--	--	--	--	--	--	--	--	--	26	271	267	312	349	344	424	413	400	392
Defined Contribution		--	38	3	20	1	1	18	19	23	23	14	8	6	7	5	5	11	17	62	58	64
No Benefits		--	67	0	0	0	0	0	0	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Retirees		400	881	668	843	622	672	688	675	660	731	689	773	776	719	605	637	617	630	955	1,174	1,112
Total Members																						
Lump Sum		11,054	11,531	13,182	13,771	13,487	13,912	14,103	16,395	14,916	14,981	14,572	15,169	15,448	15,595	15,078	15,636	15,550	14,308	15,361	16,177	16,316
Monthly		2,109	1,062	1,146	1,544	1,619	1,913	1,812	1,737	1,738	1,772	1,825	1,884	899	782	550	564	586	395	401	415	327
Combination		--	--	--	--	--	--	--	--	--	--	--	127	1,070	1,073	1,208	1,203	1,180	1,417	1,410	1,386	1,455
Defined Contribution		1,268	442	1,219	1,487	1,375	1,438	1,567	1,515	1,525	1,469	1,730	1,723	1,824	1,916	1,898	2,485	2,310	2,584	2,834	2,962	3,024
No Benefits		558	353	114	63	83	0	20	37	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Members		14,989	13,388	15,661	16,865	16,564	17,263	17,502	19,684	18,179	18,222	18,127	18,903	19,241	19,366	18,734	19,888	19,626	18,704	20,006	20,940	21,122

Liabilities, Assets, Fire State Aid, and Municipal Contributions

Year:	1974	1977	1980	1982	1984	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Accrued Liabilities																						
Lump Sum		14,278,898	29,501,934	40,937,006	52,985,939	59,057,471	60,643,988	68,071,179	78,070,344	86,588,461	92,771,460	94,145,127	102,546,702	107,486,014	113,855,616	119,936,745	130,642,738	145,966,781	150,761,568	171,611,378	186,795,976	192,569,597
Monthly		9,041,863	7,547,661	10,621,672	46,490,469	25,044,975	34,347,349	35,320,800	37,432,078	39,749,215	44,543,835	47,327,072	52,161,236	28,830,599	24,678,407	14,839,392	17,085,291	20,340,226	14,338,052	15,008,219	16,915,086	12,923,387
Combination		--	--	--	--	--	--	--	--	--	--	--	2,454,593	27,615,459	28,819,704	38,743,123	39,644,188	42,204,240	54,526,028	54,173,717	57,952,711	62,876,598
Defined Contribution		1,444,286	1,219,645	2,094,808	4,417,375	5,927,094	6,449,852	8,704,595	9,581,000	10,434,995	11,349,299	16,586,370	18,095,687	17,590,749	25,919,681	28,832,841	38,390,049	44,757,368	50,606,325	47,427,772	47,259,294	43,432,178
Total Accr. Liab.		24,765,047	38,269,240	53,653,486	103,893,783	90,029,540	101,441,189	112,096,574	125,083,422	136,772,671	148,664,594	158,058,569	175,258,218	181,522,821	193,273,408	202,352,101	225,762,266	253,268,615	270,231,973	288,221,086	308,923,067	311,801,760
Assets																						
Lump Sum		15,054,337	29,791,110	40,565,620	51,654,774	61,032,069	62,395,065	69,774,320	80,004,613	86,825,688	95,265,007	95,375,295	105,920,681	105,073,259	122,226,938	133,172,234	153,037,774	172,113,829	179,343,843	183,279,497	179,424,046	165,317,015
Monthly		8,211,852	7,250,784	9,900,259	31,055,648	23,220,944	31,624,291	32,759,213	34,603,998	36,463,717	40,225,667	46,002,578	47,765,817	27,362,519	22,953,953	13,813,247	16,602,144	20,504,773	14,132,149	13,960,203	13,385,232	9,532,988
Combination		--	--	--	--	--	--	--	--	--	--	--	2,196,505	21,609,884	25,008,817	37,619,149	40,851,421	43,579,741	59,072,419	55,443,773	51,172,825	47,442,209
Defined Contribution		1,444,286	1,219,645	2,094,808	4,417,375	5,927,094	6,449,852	8,704,595	9,581,000	10,434,995	11,349,299	16,586,370	18,095,687	17,590,749	25,919,681	28,832,841	38,390,049	44,757,368	50,606,325	47,427,772	47,259,294	43,432,178
Total Assets		24,710,475	38,261,539	52,560,687	87,127,797	90,180,107	100,469,208	111,238,128	124,189,611	133,724,400	146,839,973	157,964,243	173,978,690	171,636,411	196,109,389	213,437,471	248,881,388	280,955,711	303,154,736	300,111,245	291,241,397	265,724,390
Normal Cost																						
Lump Sum		1,470,015	498,536	3,926,658	5,212,341	5,058,195	5,273,113	4,994,302	5,964,120	8,224,582	9,004,068	8,965,833	9,921,518	10,211,254	10,869,651	11,214,171	12,219,929	13,311,487	13,514,162	15,189,092	16,483,865	16,892,504
Monthly		463,651	337,988	515,211	1,503,450	934,147	957,484	859,673	755,699	1,355,894	1,575,915	1,600,109	1,625,173	875,806	686,563	346,433	358,792	470,770	284,860	312,019	340,067	261,434
Combination		--	--	--	--	--	--	--	--	--	--	--	120,725	939,552	981,755	1,322,315	1,269,951	1,307,322	1,515,019	1,662,901	1,674,601	1,844,560
Defined Contribution		151,019	500	8,769	32,776	504,008	539,181	632,067	616,205	611,359	603,678	919,866	855,696	928,280	1,411,551	2,098,195	2,684,271	2,553,138	2,640,890	2,753,206	3,004,038	3,288,331
Total Normal Cost		2,084,685	837,024	4,450,638	6,748,567	6,496,350	6,769,778	6,486,042	7,336,024	10,191,835	11,183,661	11,485,808	12,523,112	12,954,892	13,949,520	14,981,114	16,532,943	17,642,717	17,954,931	19,917,218	21,502,571	22,286,829
Fire State Aid																						
Lump Sum		1,419,035	2,912,095	3,690,695	4,047,173	4,512,805	4,552,052	4,733,327	4,881,199	4,805,462	4,929,212	4,739,140	4,242,494	4,950,397	5,211,582	8,060,595	7,140,394	7,731,336	7,391,107	7,937,916	8,644,841	9,378,276
Monthly		602,368	581,600	693,007	1,276,954	1,320,346	1,700,437	1,684,158	1,609,808	1,620,559	1,667,813	1,801,399	1,548,161	858,681	689,483	512,496	554,859	643,057	379,802	395,685	426,640	418,469
Combination		--	--	--	--	--	--	--	--	--	--	--	154,328	934,346	995,205	1,486,949	1,434,117	1,386,971	1,765,592	1,753,859	1,789,869	2,148,174
Defined Contribution		143,460	166,375	205,638	334,357	430,992	436,382	550,993	533,395	517,789	504,419	774,684	707,024	782,147	1,172,687	1,536,620	1,855,313	2,038,308	2,091,608	2,212,814	2,385,099	2,639,147
Total Fire State Aid		2,164,863	3,660,070	4,589,340	5,658,484	6,264,143	6,688,871	6,968,478	7,024,402	6,943,810	7,101,444	7,315,223	6,652,007	7,525,571	8,068,957	11,596,660	10,984,683	11,799,672	11,628,109	12,300,274	13,246,449	14,584,066
Municipal Contribution																						
Lump Sum		357,973	664,700	834,832	1,197,277	1,299,731	1,176,333	1,246,509	1,557,416	1,842,447	1,858,245	2,281,421	2,613,573	2,691,177	2,803,095	3,276,302	2,680,940	2,442,795	2,360,961	2,375,285	2,732,044	4,202,331
Monthly		277,370	164,259	284,988	2,434,045	441,115	751,488	620,926	633,533	739,970	849,286	1,085,807	1,223,934	613,418	724,911	341,465	305,466	353,220	273,287	279,476	309,149	176,255
Combination		--	--	--	--	--	--	--	--	--	--	--	37,957	680,895	870,130	1,029,153	1,010,042	1,029,535	1,113,773	1,069,335	1,106,226	1,351,792
Defined Contribution		21,569	11,296	26,879	36,797	73,016	102,799	81,074	82,810	93,570	99,259	145,182	148,672	146,133	238,864	561,575	828,958	514,830	549,282	540,392	618,939	649,184
Total Mun. Contr.		656,912	840,255	1,146,699	3,668,119	1,813,862	2,030,620	1,948,509	2,273,759	2,675,987	2,806,790	3,512,410	4,024,136	4,131,623	4,637,000	5,208,495	4,825,406	4,340,380	4,297,303	4,264,488	4,766,358	6,379,562

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 Information
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. <u>Nonprofit Firefighting Corporation Volunteer Firefighter Relief Associations</u>

<u>Minnesota Statutes, Chapter 69</u>:	
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
<u>Minnesota Statutes, Chapter 317A</u>:	Nonprofit Corporations
<u>Minnesota Statutes, Chapter 356</u>:	
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
<u>Minnesota Statutes, Chapter 356A</u>:	Public Pension Fiduciary Responsibility
<u>Minnesota Statutes, Chapter 424A</u>:	
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. 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
<u>Minnesota Statutes, Chapter 424B</u>:	Volunteer Firefighter Relief Associations, Dissolutions, and Consolidations

Exhibit F

Summary of Selected Relevant Statutes

I. Background

Minnesota has 711 volunteer fire relief associations. A volunteer fire relief association is a governmental entity that receives and manages public money to offer retirement benefits for individuals providing the governmental service of firefighting and emergency first response. Minn. Stat. § 424A.001, subd. 4.

In addition to the volunteer fire relief associations, there is a handful of salaried police and fire relief associations. This is because the majority of firefighters in Minnesota are volunteers and many salaried relief associations have consolidated with the Public Employees Police and Fire Fund. Service pensions are the primary source of compensation for these volunteer firefighters.

The police and fire relief associations are governed by state statutes in general and their articles of incorporation and bylaws in particular. Please carefully review the applicable statutes and any special laws since this document summarizes selected relevant statutes for volunteer fire relief associations. The police and fire relief association statutes include:

Minn. Stat. Chapter 69	Fire and Police Department Aid; Relief Associations
Minn. Stat. Chapter 317A	Nonprofit Corporations
Minn. Stat. Chapter 356	Retirement Systems, Generally
Minn. Stat. Chapter 356A	Public Pension Fiduciary Responsibility
Minn. Stat. Chapter 422A	Retirement Allowances, Minneapolis
Minn. Stat. Chapter 423	Retirement; Police Officer, Firefighter
Minn. Stat. Chapter 423A	Police and Salaried Firefighters' Relief Association
Minn. Stat. Chapter 423B	Minneapolis Police Pensions
Minn. Stat. Chapter 423C	Minneapolis Firefighters Relief Association
Minn. Stat. Chapter 424A	Volunteer Firefighters' Retirement
Minn. Stat. Chapter 424B	Volunteer Firefighter Relief Associations, Dissolutions, and Consolidations

Pension plan type
The volunteer fire relief associations include 596 defined benefit pension plans that pay lump sum service pensions. Five volunteer fire relief associations provide defined benefit plans that pay monthly retirement amounts while 21 offer a lump sum and/or monthly payment. There are 89 volunteer fire relief associations that have defined contribution plans that pay lump sum service pensions based on a retiring firefighter's individual account balance.

Volunteer fire relief association membership
The membership of a volunteer fire relief association excludes minors, substitute volunteer firefighters and may exclude persons constituting an unwarranted health risk. Minn. Stat. § 424A.01.

Volunteer fire relief association boards
A board affiliated with a municipal fire department consists of nine members: six trustees from the membership, and three ex officio trustees including the mayor, clerk-treasurer or finance director, and the chief of the municipal fire department. One of the six members may be a retiree who is receiving a monthly pension. Minn. Stat. § 424A.04, subd. 1.

The board of a volunteer fire relief association affiliated with an independent firefighting corporation consists of ten members: six trustees from the membership, three ex officio trustees who are elected officials, and the fire chief. State statute outlines the manner in which the elected officials may serve. Minn. Stat. § 424A.04, subd. 1.

II. Governmental Plan Status

There are 637 volunteer fire relief associations affiliated with a municipal fire department. These volunteer fire relief associations appear to be "governmental plans" for federal purposes. 26 U.S.C. § 414(d) and Rev-Rul 87-126. As such, they would not be subject to the Employee Retirement Income Security Act of 1974, as amended.

Seventy other volunteer fire relief associations are affiliated with a nonprofit independent firefighting corporation that contracts with one or more municipalities to provide fire services. The independent board is responsible for managing and funding the pension plan, however the municipality may obtain some rights under the contract. The status of these volunteer fire relief associations is unclear at this time.

III. Summary Plan Description

Certain covered public pension plans, including the volunteer fire relief associations, must provide an understandable benefit provisions summary to all plan participants. Minn. Stat. § 356A.07, subd. 1. Applicable state statutes, articles of incorporation and bylaws are generally provided by volunteer fire relief associations as their benefit provisions summary.

IV. Fiduciary Responsibility

Relief association trustees and chief administrative officers are fiduciaries subject to the Public Pension Fiduciary Responsibility Act under Minn. Stat. Chapter 356A. Minn. Stat. § 424A.001, subd. 7. Their activities include, but are not limited to, determining plan benefits and funding requirements/contributions, administrative record maintenance, expenditures and investing pension plan assets. Minn. Stat. § 356A.02.

Prudent person standard
The trustees of a relief association board must meet the prudent person standard by acting in good faith and exercising the degree of judgment and care that persons of prudence, discretion and intelligence would exercise in the management of that person's own affairs. Minn. Stat. § 356A.04, subd. 2.

Fiduciary duties
The duties of a fiduciary are to disburse authorized benefits to plan participants and beneficiaries, to pay plan administrative expenses, and to manage the relief association in accordance with the bylaws. Minn. Stat. § 356A.05.

Fiduciaries must avoid conflicts of interest and cannot personally profit, directly or indirectly, from the investment of plan assets. Minn. Stat. § 356A.06, subd. 3. Fiduciaries must make a reasonable effort to obtain knowledge and skills sufficient to perform their fiduciary activities. At a minimum, they must comply with the continuing education program that must be developed and periodically revised by their board. Minn. Stat. § 356A.13.

Review procedure
A review procedure must be provided for purposes of eligibility, benefits or other rights under the plan. Minn. Stat. § 356A.07, subd. 4. Volunteer fire relief associations usually adopt a review procedure and set out the notice and hearing requirements in their bylaws.

V. Benefit Coverage Provisions

Service pension eligibility
To be eligible for a service pension, a member must separate from active service as a firefighter with the fire department. Minn. Stat. § 424A.02, subd. 1. Separation from active service means to permanently cease to perform fire suppression duties with a particular volunteer fire department, to permanently cease to perform fire prevention duties, and to permanently cease to supervise fire suppression and fire prevention activities. Minn. Stat. § 424A.001, subd. 9.

If allowed in the bylaws, a volunteer firefighter who becomes a full-time employee of the same fire department may keep or continue receiving a volunteer service pension if deemed by the governing body of the municipality or of the corporation that the person's experience would be difficult to replace. The remaining eligibility criteria require that a volunteer firefighter must attain age 50, have credit for at least five years of fire department service and five years of active membership in the volunteer fire relief association, and meet any additional age, service or membership conditions established in the bylaws. Minn. Stat. § 424A.02, subd. 1.

Nonforfeitable portion of service pension
A volunteer fire relief association's bylaws may permit payment of a reduced service pension to those firefighters who retire with less than 20 years of service. The reduced service pension may be paid when the retiring member meets minimum age and service requirements. The amount of the reduced service pension may not exceed the amount calculated by multiplying the service pension appropriate for the completed years of service as specified in the bylaws times the applicable nonforfeitable percentage of pension.

For a volunteer fire relief association that pays a lump sum service pension, a monthly benefit service pension, or a lump sum service pension or a monthly benefit service pension as alternative benefit forms, the bylaws can provide for a reduced service pension after five years of service, with 20 years of service required for full vesting. For a volunteer fire relief association that pays a defined contribution service pension, the bylaws can provide for a reduced service pension after five years of service, with 10 years of service required for full vesting. Minn. Stat. § 424A.02, subd. 2.

Flexible service pension maximum
Service pensions are subject to a sliding scale of benefit maximums based on the level of funding per active covered firefighter (amount of fire state aid received, the amount of any municipal funding provided, and 1/10th of the amount of any funding surplus [assets in excess of actuarial accrued liability]) for the previous three-year period. If a service pension is paid above the applicable statutory maximum, the state auditor is authorized to 1) disqualify a municipality or volunteer fire relief association from receiving the next apportionment of state fire aid and 2) recover the amount of the overpayment from the firefighter recipient. Minn. Stat. § 424A.02, subds. 3 and 3a.

Defined contribution lump sum service pensions
A volunteer fire relief association may offer a defined contribution service pension rather than a monthly or lump sum service pension. This requires separate accounting for each firefighter's portion where investment income is based on the individual's balance as well as an equal share of fire state aid, municipal contributions, the accounts forfeited by those who terminate before becoming vested, and the forfeitable portion of partially vested members. Minn. Stat. § 424A.02, subd. 4.

Benefit uniformity
The method of calculating service pensions must be uniformly applied for all years of active service and credit must be given for all years of active service. A service pension must not be paid to an active member of a fire department, and a retired firefighter must not receive any other benefits from the special fund in addition to the firefighter's service pension. Minn. Stat. § 424A.02, subd. 6.

Nonassignability
An ancillary benefit or service pension is not subject to garnishment, judgment, execution, or other legal process, except as provided in Minn. Stat. §§ 518.58 (Division of Marital Property), 518.581 (Surviving Spouse Benefit), or 518.6111 (Income Withholding). An ancillary benefit or service pension cannot be assigned and the volunteer fire relief association is not authorized to recognize any assignment or pay any assigned sum. Minn. Stat. § 424A.02, subd. 6.

Deferred service pensions
A deferred service pension may be paid if the member has: (1) completed the lesser amount of the minimum active fire department service as specified in the bylaws or 20 years, (2) completed at least five years of volunteer fire relief association membership, and (3) separates from active service and membership before reaching age 50 or the minimum age in the bylaws if greater than 50.

If provided in the bylaws, a volunteer fire relief association that pays a lump sum service pension may pay interest during the period of deferral: (1) at the investment performance rate actually earned on that portion of the assets if invested in a separate account established and maintained by the volunteer fire relief association or if the deferred benefit amount is invested in a separate investment vehicle held by the volunteer fire relief association, (2) at the interest rate of five percent, (3) at a rate equal to the actual time weighted total rate of return investment performance of the special fund as reported by the State Auditor's Office under section 356.219, up to five percent, compounded annually, and applied consistently for all deferred service pensioners.

For a deferred service pension that is transferred to a separate account or vehicle, the deferred member bears the full investment risk during the period of deferral. The accrued liability of the volunteer fire relief association that pays a lump sum service pension is equal to the separate account balance or the fair market value of the separate investment vehicle.

The deferred service pension is governed by and must be calculated under the general statute, special law, volunteer fire relief association articles of incorporation, and volunteer fire 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 volunteer fire relief association. Minn. Stat. § 424A.02, subd. 7.

Lump sum installment payments
A volunteer fire relief association that provides a lump sum service pension may, at the retiring firefighter's option, pay the service pension in installments. Based on five percent interest assumption, the installments must equal the present value of the lump sum service pension. No restriction is placed on the number of installment payments. Minn. Stat. § 424A.02, subd. 8.

Purchase of annuity contracts
If in the bylaws, a volunteer fire relief association that provides a lump sum service pension may purchase an annuity contract on behalf of a retiring member in an amount equal to the service pension in place of a direct payment to the person. Minn. Stat. § 424A.02, subd. 8a.

Transfer to individual retirement account
A volunteer fire relief association that is a qualified pension plan under 26 U.S.C. § 401(a) and that provides a lump sum service pension may directly transfer the eligible member's lump sum pension to the member's individual retirement account under 26 U.S.C. § 408(a). Minn. Stat. § 424A.02, subd. 8b.

Limitations on ancillary benefits
Limited ancillary (disability, death or survivor) benefits are available to volunteer firefighters. If the bylaws provide for payment of a lump sum service pension, no ancillary benefit may be paid once the member or former member terminates active service and membership and commences receipt of a service pension. The ancillary benefit amount must not exceed the total earned service pension. The ancillary benefit must be calculated without regard to whether the member or former member had achieved the minimum amount of service credit specified in the bylaws and without regard to the partially vested percentages. Minn. Stat. § 424A.02, subd. 9.

Municipal ratification for plan amendments
Volunteer fire relief associations have the authority to increase their benefit level in limited instances without municipal ratification. However, these benefit changes may no longer be in effect if future conditions require a municipal contribution. Minn. Stat. § 424A.02, subd. 10.

Combined service pensions
If adopted in each volunteer fire relief association's articles of incorporation or bylaws, total service rendered for another relief association may be used toward vesting. The service pension is prorated among each participating relief association. Minn. Stat. § 424A.02, subd. 13.

Uniformity of benefits
A service pension must be based on all years of service not on compensation paid to the members for firefighting services. Violation of the uniformity limitations generally requires exclusion from the apportionment of fire state aid. Minn. Stat. § 424A.03.

Supplemental benefit
A volunteer fire relief association that provides a lump sum service pension must pay a supplemental benefit to retirees. The payment of 10 percent of the service pension excluding any interest earned not to exceed $1,000 may be paid from the special fund of the volunteer fire relief association. Upon proper application, the state of Minnesota will reimburse the volunteer fire relief association for the amount of the supplemental benefit. The reimbursement payment must be deposited in the special fund. Minn. Stat. § 424A.10.

VI. Division of a Service Pension

Some volunteer fire relief associations have adopted limited bylaw provisions regarding the division of a service pension or ancillary benefit in a marital dissolution. Others respond to court orders negotiated by the two parties to the extent the orders comply with the applicable state statutes and bylaw provisions. Many volunteer fire relief association officers consult legal counsel in this regard.

VII. Special and General Funds

Volunteer fire relief associations are authorized to establish a special fund to pay retirement benefits and may establish a general fund. Minn. Stat. §§ 424A.05, subd. 1, and 424A.06, subd. 1.

Custodian of assets
The treasurer of the volunteer fire relief association must be custodian of the assets of the special fund and the recipient on behalf of the special fund of all revenues payable to the special fund. The treasurer must maintain adequate records documenting any transaction involving the assets or the revenues of the special fund and general fund. The special fund records and the bylaws must be public and open for inspection by any member of the volunteer fire relief association, any officer or employee of the state or the municipality, or any member of the public, at reasonable times and places. The general fund records and the bylaws must be available and open for inspection by any member of the volunteer fire relief association. Minn. Stat. §§ 424A.05, subd. 2, and 424A.06, subd. 2.

Special fund investments
The assets of the special fund must be invested only in securities authorized under § 69.775. Minn. Stat. § 424A.05, subd. 4.

Special fund assets and revenues
The special fund must be credited with fire state aid moneys, taxes levied by or certain other revenues received from the municipality, moneys or property donated, given, granted or devised by any person for support of the special fund and any interest earned upon the assets of the special fund. Minn. Stat. § 424A.05, subd. 2.

Special fund disbursements
Authorized disbursements from the special fund include service pensions and temporary or permanent disability benefits, survivor benefits and funeral benefits if authorized by and paid pursuant to law and specified in amount in the bylaws. They may also pay fees, dues and assessments to the Minnesota state fire department association, the Minnesota area relief association coalition, and the state volunteer firefighters benefit association.

Volunteer fire relief associations may pay from the special fund necessary, reasonable and direct expenses of maintaining, protecting and administering the special fund, if in the bylaws and approved by the board of trustees:

(1) office expense, including, but not limited to, rent, utilities, equipment and supplies;
(2) salaries of the president, secretary, and treasurer of the association;
(3) expenses including tuition and registration fees incurred in attending educational conferences, seminars, or classes relating to the administration of the volunteer fire relief association;
(4) audit, actuarial, medical, legal, and investment and performance evaluation expenses;
(5) reimbursement to the officers and members of the board of trustees for reasonable and necessary expenses incurred in the performance of their duties as officers or members of the board; and
(6) premiums on fiduciary liability insurance and official bonds for the officers, members of the board of trustees, and employees of the volunteer fire relief association. Minn. Stat. §§ 424A.05, subd. 3, and 69.80.

Other expenses
Any other expenses of the volunteer fire relief association may be paid from the general fund of the association, if one exists. If a volunteer fire relief association has only one fund, that fund is the special fund for purposes of authorized disbursements. If a volunteer fire relief association has a special fund and a general fund, and an expense that is directly related to the purposes of both funds, payment of that expense must be apportioned between the two funds on the basis of the benefits derived by each fund. Minn. Stat. § 69.80.

General fund investments
If established, the assets of the general fund may be invested in any securities authorized by the bylaws. Minn. Stat. § 424A.06, subd. 4.

General fund assets and revenues
The general fund must be credited with all moneys received from dues, fines, initiation fees, entertainment revenues and any moneys or property donated, given, granted or devised by any person, for unspecified uses. Minn. Stat. § 424A.06, subd. 2.

General fund disbursements
Disbursements from the general fund may be made for any purpose authorized by either the articles of incorporation or bylaws. Minn. Stat. § 424A.06, subd. 3.

VIII. Investment Authority

Fiduciaries must consider the probable safety of the plan capital as well as the probable investment return to be derived from the assets. Investments should not be made for speculation. Minn. Stat. § 356A.04, subd. 2. These investment-related fiduciary requirements provide that the plan assets may be held only by the plan treasurer or the state board of investment or its depository agent. Minn. Stat. § 356A.06, subd. 1.

Investments must be properly diversified among investment types to minimize the risk of substantial investment losses. Plans must invest sufficient assets in cash equivalent securities to meet immediate liquidity needs and to avoid losses from forced early liquidation of other securities. Minn. Stat. § 356A.06, subds. 2 and 8.

Authorized investments on a limited or expanded list are available depending whether the book value of the pension plan's assets exceeds $1 million and whether the plan invests at least 60 percent of its assets through the services of an investment advisor (as defined in statute) or the state board of investment. Minn. Stat. § 356A.06, subds. 6 and 7.

Plans bound by the limited list of authorized investments are restricted to stable, mostly fixed income investments. These include certificates of deposit, savings accounts, government obligations and highly rated corporate obligations. Minn. Stat. § 356A.06, subd. 6.

Additional investments are allowed for those plans authorized to invest under the expanded list. The expanded list includes additional fixed income securities, corporate stock, venture capital, resources, international securities, and real estate interests. Minn. Stat. § 356A.06, subd. 7.

Volunteer fire relief associations may invest in authorized investments directly or with some statutory restrictions through mutual funds. Minn. Stat. §§ 69.775 and 356A.06, subds. 6(b)(5) and 7(g)(1)(iii).

IX. Financial Reporting Requirements

Financial report and audit
Relief associations with assets or liabilities of at least $200,000 according to the most recent actuarial valuation or financial report must file a financial report covering the special and general funds on a form prescribed by the state auditor. These relief associations must also submit audited financial statements to the state auditor. Minn. Stat. § 69.051, subd. 1.

Financial statement
Volunteer fire relief associations with assets and liabilities of less than $200,000 according to the most recent financial report must prepare a detailed statement covering the special and general funds on a form prescribed by the state auditor. The detailed financial statement 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. Minn. Stat. § 69.051, subd. 1a.

Forfeiture date
Relief associations must file their reports by November 30 to qualify for state aid. If the reports are not received by November 30, the municipality or relief association must

forfeit its current year state aid, and until the state auditor receives the required information, the relief or municipality will be ineligible to receive any future state aid. Minn. Stat. § 69.051, subd. 1b.

Treasurer bond
The treasurer of a volunteer fire relief association must be bonded for at least ten percent of the relief association's assets. The amount of the bond need not exceed $500,000. Minn. Stat. § 69.051, subd. 2.

Lump sum plan accrued liability and financial requirements
The accrued liability for active members is determined by using a table set forth in state law. During the month of July, the officers of the volunteer fire relief association must determine the overall funding balance of the special fund for the current calendar year, the financial requirements of the special fund for the following calendar year and minimum obligation of the municipality with respect to the special fund for the following calendar year. The officers of the volunteer fire relief association must certify the financial requirements of the special fund and the minimum obligation of the municipality on or before August 1. Minn. Stat. § 69.722, subds. 2, 3, and 4.

Monthly plan actuarial condition and financial requirements
A volunteer fire relief association that pays or allows for the option of a monthly service pension must have an actuarial valuation completed every four years or upon a benefit change; however, volunteer fire relief associations with assets or liabilities of at least $200,000 must have an actuarial valuation performed at least every two years in accordance with generally accepted accounting principles. State law sets forth a procedure to determine the financial requirements of a volunteer fire relief association's special fund and the minimum obligation of the municipality. The volunteer fire relief association officers must certify the financial requirements of the special fund and the minimum obligation of the municipality on or before August 1. Minn. Stat. § 69.773, subds. 2 - 5.

Municipal ratification for plan amendments
Volunteer fire relief associations have the authority to increase their benefit level in limited instances without municipal ratification. However, these benefit changes may no longer be in effect if future conditions require a municipal contribution. Minn. Stat. §§ 69.772, subd. 6, and 69.773, subd. 6.

Nonprofit firefighting corporations
Volunteer fire relief associations affiliated with a nonprofit firefighting corporation are governed by the same rules that apply to volunteer fire relief associations affiliated with a municipal fire department, except that the independent firefighting corporation takes the place of the municipality for purposes of required contributions. Minn. Stat. § 69.774.

X. Contact Information

To obtain contact information for a volunteer fire relief association, please call the Pension Division of the Office of the State Auditor at (651) 282-6110 or email pension@osa.state.mn.us.

Volunteer Fire Relief Association Working Group

State Auditor's Office
Monday, October 4, 2004
11 a.m. to 1 p.m.

Members Present
State Auditor Patricia Anderson; Maplewood Fire Relief Association Treasurer Ed Dietz (defined benefit lump sum plans); League of Minnesota Cities Representative Anne Finn; Minnesota State Fire Department Association Representative Dave Ganfield (defined benefit monthly/lump sum combination plans); Minnesota Area Relief Association Coalition Representative Jim Hansen; Mahnomen Fire Relief Association Treasurer Dave Jaeger (defined benefit lump sum plans); Delano City Administrator Phil Kern; Director of the Legislative Commission on Pensions and Retirement Larry Martin; White Bear Lake Finance Manager Don Rambow; Maple Grove Fire Relief Association President Curt Roberts (defined contribution plans); and Minnesota State Fire Chief Association Representative Nyle Zikmund (defined benefit monthly plans).

Others Present
State Auditor's Office Pension Analyst Eric Bulygo, Pension Commission Deputy Director Ed Burek, Deputy State Auditor/General Counsel Carla Heyl and State Auditor's Office Pension Director Judith Strobel.

Welcome and Introductions
State Auditor Patricia Anderson welcomed the members of the Volunteer Fire Relief Association Working Group and thanked them for their attendance. She introduced Rotating Chair Curt Roberts who then asked the members to introduce themselves to each other.

Task Force Discussion
Roberts described the proposed purpose of the Working Group which is to bring together the major volunteer fire relief association stakeholders to develop relationships, open communication, discuss relief association issues and make the reporting process easier and more effective by: 1) clarifying applicable state laws, 2) simplifying reporting forms, 3) discussing training opportunities and 4) addressing any other relevant issues.

It was noted that a relief association representative from southeastern Minnesota had been invited to join the Working Group but had yet to respond.

Roberts asked members to carefully review their contact information on Exhibit B for accuracy and privacy reasons before it officially becomes part of the overall agenda packet.

The proposed process for the Working Group was outlined by Roberts to include: 1) implement recommendations that do not require law changes, and 2) forward suggested statutory changes upon consensus to the Legislative Commission on Pensions and Retirement.

Future rotating chairs will be Dave Ganfield, deferred interest and ancillary benefit issues; Anne Finn, financial reporting matters; Nyle Zikmund, investment issues; and Jim Hansen, training initiatives.

Relief Association Overview

Larry Martin, Director of the Pension Commission, provided an overview of Minnesota's volunteer firefighter relief associations to the working group. He highlighted certain aggregate statistics that reflect changes in relief association pension plans over the past 25-plus years.

Types of Pension Plans

The primary types of pension plans include defined benefit lump sum plans, defined benefit monthly plans, defined benefit combination monthly/lump sum plans, and defined contribution plans. Most plans are affiliated with a municipal fire department but others are affiliated with independent nonprofit firefighting corporations. These independent fire departments were created for the most part by groups of townships before the advent of joint powers agreements that can be used as a way to get to the same end.

So-called split-the-pie plans were few before 1979 and had no statutory authority. They were renamed defined contribution plans under the newly enacted Guidelines Act even though federal law more narrowly construes the defined contribution plan definition.

Number of Plans

The number of lump sum plans has remained relatively constant comprising almost 75 percent of the total plans in 1977 and more than 80 percent today. The number of monthly plans has declined from 11 percent in 1977 to less than 1 percent. In 1993, combination plans emerged as monthly plans began providing lump sum benefits as an alternate payment method or as the only payment option for firefighters starting after a certain date. Defined contribution plans are now 13 percent of the total plans, up from 8 percent in 1977.

Benefit Levels

The annual benefit level amounts for lump sum plans has grown considerably over the years with most above $300.

Financial Information
As a whole, assets for the plans continued to grow until the market downturn that began in 2000. Liabilities rose significantly from 1977 to 2002. For instance, liabilities for monthly plans grew to 16 percent from just over 2 percent. Liabilities do not rise for defined contribution plans because their liabilities always equal assets based on the nature of those plans.

Fire State Aid
For lump sum plans, fire state aid made up 96 percent of normal costs in 1977 compared to 55.5 percent in 2002. The average fire state aid per active member in 2002 was about $2600 for monthly plans, $2500 for combination plans, $1200 for lump sum plans and $1187 for defined contribution plans.

Municipal Contributions
Municipal contributions have declined to 28.6 percent currently from 31 percent of normal cost in 1977. On average, cities pay $1600 per active member in combination plans, $1100 for monthly plans, $300 for lump sum and $292 for defined contribution plans.

In response to a question, Martin said state law requires municipalities that approve a benefit level amount to make up any difference not covered by fire state aid or pension fund investment earnings.

Special Laws
Martin then pointed to a listing of special laws in Exhibit E that apply to volunteer fire relief association plans. Prior to 1979, the service pension benefits and ancillary benefits of many relief associations were found in numerous special laws. After enactment of Chapter 424A, only disability, survivor and funeral benefits were allowed to stay in the form of special laws. Chapter 424A serves as the official roadmap regarding service pension benefit amounts and limits ancillary benefit amounts to service pension benefit amounts set out in state law.

Overall Observations
Martin observed that the name “relief” came from a sensibility to provide for family members of firefighters. Fire state aid existed as far back as 1905 when cities could use it to pay widows and children or purchase fire equipment.

Public pensions likely evolved from Civil War disability and survivor benefits paid on behalf of injured or deceased veterans. These benefits may have fostered the granting of superannuated benefits for disabilities based on advanced age. Age has since become one of the driving factors in the benefit structure of public pension plans.

Working Group Discussion

Roberts thanked Martin for his presentation. Brief discussion followed about how the definition of a surviving spouse has changed over the years. It was stated that surviving spouses used to be required to be dependent and living with the firefighter for at least a year before the firefighter's death to be eligible for benefits. The courts and QDRO (Qualified Domestic Relations Order) laws now govern the division of public pensions as marital property in instances of divorce.

Further discussion focused on the unique characteristics of defined contribution plans and combination plans with a request to research matters in their specific regard. The impact of state law on recruitment and retention has been found to vary from relief association to relief association and throughout the state. Other topics mentioned for future discussion were the state fire aid formula, the options and timing for deferred interest payments and investment account structures, and the role of vesting schedules and forfeiture distributions.

In response to a question, it was noted that some relief associations did not receive fire state aid based on Department of Revenue fines for late reporting of their fire department qualifications.

Other Business

A copy of the Apple Valley Fire Relief Association annual report was referenced for review at a future meeting.

Next Meeting

The next meeting of the Working Group will be Monday, October 18, 2004 from 11 a.m. to 1 p.m. Agenda suggestions must be provided to the Pension Division by Tuesday, October 12, 2004.