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Volunteer Fire Relief Association Working Group Crafts Bill *~ 8 proposals head to the Capitol this year ~*

By Rebecca Otto, State Auditor

The Office of the State Auditor's (OSA) Pension Division reviews investment, financial, and actuarial reporting for over 700 volunteer fire relief association pension plans. In a broader sense, our goal is to make sure association trustees have the tools and resources necessary to be successful stewards of pension funds.

This past fall, the OSA reconvened the Volunteer Fire Relief Association Working Group. The purpose of the Working Group is to bring together volunteer fire relief association stakeholders from across Minnesota to develop relationships, facilitate communication, and work on relief association issues, with the goal of making the pension process easier and more effective.

Over the course of three months, the members crafted a Working Group bill which contains legislation for eight proposals to be considered at the Capitol this upcoming session. We want to share the complete Working Group proposal, which is posted below.

Please note that the changes adopted by the Working Group are merely proposals for the Legislature to consider. They do not become law unless and until they are passed by the Legislature, and signed by the governor. The OSA will keep stakeholders updated on the progress of the Working Group bill through our monthly Pension Newsletters. We also are providing free training sessions this spring that will include discussions of the Working Group proposals. We will provide sample bylaw language once the session is over.

After crafting the Working Group bill, the group also began a discussion on "return to service" issues. Under current law, there are severe penalties for volunteer firefighters who retire, and who subsequently resume active service as a volunteer firefighter with the same fire department. Firefighters have expressed concern that the penalties could hinder their ability to adjust to changing workforce needs and increase the difficulties some communities face in recruiting and retaining volunteers. We will continue this discussion at our upcoming trainings and next year with the Working Group

To receive the Pension Newsletter which will announce the details of the trainings and keep you informed of other Pension issues, please sign up at pension@auditor.state.mn.us.

If you have questions regarding the Working Group, please see our Web site's "Working Group" page at <http://www.auditor.state.mn.us/default.aspx?page=reliefworkinggroup> or contact Pension Director Rose Hennessy Allen at (651) 296-5985 or Rose.Hennessy-Allen@state.mn.us.

Working Group Recommendations

1. *Deferred Interest Options (Minn. Stat. § 424A.02, subd. 7)*

- ❑ Allow deferred interest to be allocated on a daily, monthly, or annual basis for deferred members. Current law requires monthly allocation for members separating under the "Board Set" and "OSA Return" options.
- ❑ Remove authority for interest to be allocated under the rate actually earned, up to five percent, as calculated by the Office of the State Auditor ("OSA Return") option.

This recommendation provides relief associations with greater flexibility when calculating and allocating interest to deferred members. The recommendation also moves up the expiration date for the "OSA Return" option, from December 31, 2008 to the date following final enactment of the bill.

2. *Limitation on Ancillary Benefits (Minn. Stat. § 424A.02, subd. 9)*

- ❑ Require relief associations to calculate ancillary benefits (disability and survivor benefits) at an amount equal to the member's total earned service pension.
- ❑ Define the total earned service pension as the member's years of service multiplied by the benefit level at the time of death or disability. (Without regard to the vesting percentages.)
- ❑ Allow flexibility to pay a lesser amount for members that are deferred.

This recommendation clarifies the calculation method for active member ancillary benefits, while continuing to allow flexibility in the calculations for deferred members.

3. *Funeral Benefit Authority (Minn. Stat. § 424A.05, subd. 3)*

- ❑ Eliminate authority for relief associations to pay a funeral benefit from the Special Fund.

This recommendation attempts to ensure compliance with statutory requirements that ancillary benefits not exceed a member's total earned service pension. Relief associations would continue to have authority to pay a funeral benefit from the General Fund.

4. *Ancillary Benefit Definition (to be codified as Minn. Stat. § 424A.001, subd. 1a)*

- ❑ Define the term "ancillary benefit" as a benefit other than a service pension that is permitted by law and that is provided for in the relief association bylaws.

The recommendation provides a uniform definition of the term “ancillary benefit” for use by relief associations.

5. *Surviving Spouse Definition (Minn. Stat. § 424A.001, subd. 6)*

- Change the definition of the term “surviving spouse” to be the spouse of a deceased member who was legally married to the member either at the time of separation from active service with the fire department or at death, as specified by the bylaws, or, if not specified in the bylaws, at the time of death.
- Allow additional spouses to qualify as surviving spouses using an easier to understand definition.

This recommendation provides options for relief associations to define surviving spouse requirements while containing a default that would apply for relief associations that do not make a bylaw selection.

6. *“Other Investments” Limitation (Minn. Stat. § 356A.06, subd. 7)*

- Clarify the 20 percent limitation on “other investments” so that only allocated portions of mutual funds count toward the statutory limit.

This recommendation makes a common sense change so that only the portions of mutual funds that invest in “other investments” count toward the 20 percent statutory limit.

7. *Requirement to Report Evidence of Misconduct (Minn. Stat. § 6.67)*

- Expand the requirement for public accountants to report evidence of nonfeasance, misfeasance, or malfeasance to the State Auditor and the County Attorney.

This recommendation requires public accountants that discover evidence pointing to nonfeasance, misfeasance, or malfeasance in the course of auditing the books and affairs of the relief association to report the discovery.

8. *Title to Assets (Minn. Stat. § 356A.06, subds. 1 and 8b)*

- Allow a security broker with insurance from the nonprofit corporation created by the Securities Investor Protection Act (SIPC), or the broker’s agent, to hold relief association assets.
- Require relief associations that use the services of a broker to complete the uniform Broker Certification Form provided by the Office of the State Auditor.

This recommendation allows relief associations to invest directly with a broker and have the broker hold the association’s assets, rather than requiring that a custodial bank hold the assets. The recommendation provides protection for relief association assets by requiring that the broker have SIPC insurance. Compliance with the insurance requirement will be certified by the broker on the uniform Broker Certification form provided by the Office of the State Auditor.