Minnesota Volunteer Fire Relief Association
Working Group Meeting

Office of the State Auditor
Tuesday, October 6, 2009
11 a.m. to 1 p.m.

I. Call to Order
Chair Auditor Otto.

II. Review and Approval of Working Group Meeting Minutes
Exhibit A. Draft September 22, 2009 Meeting Minutes.

III. Board of Trustees - Combining of Officer Positions
Exhibit B.

IV. Contribution Calculations/Payment Requirements
Exhibits C through F. Provided by Larry Martin.

- Background Information on Financing (C)
- Deficit Amortization Period (D)
- Contribution Installment Payments (E)
- Averaging of Investment Returns (F)

V. Return to Service Changes
Exhibits G through I.

- Clarification of Vesting Requirements (G)
- Authorized Leaves of Absence (H)
- Continuation of Monthly Pension Payments (I)

VI. Other Business

- Surviving Spouse Definition Review

VII. Next Meeting
Tuesday, October 20, 2009
11 a.m. to 1 p.m.
Office of the State Auditor

VIII. Adjournment

Individuals with disabilities who need a reasonable accommodation to participate in this event, please contact Rose Hennessy Allen at (651) 296-5985 or (800) 627-3529 (TTY) by September 21, 2009.

Volunteer Fire Relief Association Working Group

Office of the State Auditor
Tuesday, September 22, 2009
11 a.m. to 1 p.m.

Members Present

Bruce Duncan, Excelsior Fire Relief Association President (defined benefit lump sum plans)
Dave Ganfield, Apple Valley Fire Relief Association Administrator (defined benefit monthly/lump sum combination plans)
Jim Hansen, Minnesota Area Relief Association Coalition Representative
Dave Jaeger, Mahnomen Fire Relief Association Treasurer (defined benefit lump sum plans)
Rebecca Otto, State Auditor
Tim Simon, Elk River City Finance Director
Steven Wallner, Watertown City Finance Director
Nyle Zikmund, Minnesota State Fire Chiefs Association Representative (defined benefit monthly plans)

Members Excused

Wayne Anderson, Coon Rapids Fire Department Inspector (defined contribution plans)
Larry Martin, Legislative Commission on Pensions and Retirement Director
Bruce Roed, Mentor Fire Relief Association Trustee (defined contribution plans)

Others Present

Angela Bohmann, Leonard, Street and Deinard
Colleen Bollom, Minnesota Firefighter Pension Consultants Representative
Aaron Dahl, Pension Analyst
Anne Finn, League of Minnesota Cities Representative
Rose Hennessy Allen, Pension Director
Lucas Hinz, Pension Analyst
Michael Johnson, Pension Analyst
Mark Kerr, Assistant Legal Counsel
Laura Sayles, DFL House Caucus Research Consultant

The following motions were duly made, seconded and approved:

RESOLVED to approve the August 20, 2009, Working Group Meeting Minutes.

RESOLVED to require members that return to active service and membership after retirement to meet the relief association's minimum vesting requirements to be eligible for a second service pension, but not be subject to any separate minimum period of resumption service.

RESOLVED to allow monthly retirees to continue receiving their monthly service pensions during a resumption of active service and, if the members meet the minimum vesting requirements upon a subsequent period of service, to receive a second monthly pension for the second period of service.

RESOLVED to draft language that would exempt members with a leave of absence of up to one year from the return to service requirements.

RESOLVED to table the discussion on required contribution calculations and payment requirements until the October 6 meeting.

I. Call to Order

Chair Auditor Otto called the meeting to order.

II. Review and Approval of Working Group Meeting Minutes

The members reviewed the August 20, 2009, meeting minutes that had been provided in advance. Ganfield made a motion to adopt the meeting minutes. Jaeger seconded the motion, which was adopted unanimously.

III. Return to Service Changes

Auditor Otto explained that a few clarifications are needed to the return-to-service statute that the Working Group drafted last year. It was expected that once relief associations started implementing return-to-service provisions in their bylaws that questions would arise and that some clean-up would be needed.

- Clarification of Vesting Requirements (B)

It is not clear in the new law whether members that return to active service and membership after retirement and a 60-day break in service must re-vest and meet the minimum period of resumption service. The Group agreed that members who return to active service and membership after retirement and receipt of a service pension must meet the relief association’s minimum vesting requirements to be eligible for a second service pension. The Group also agreed that eliminating the requirement that members repay any previously received service pension upon a return to active service was the most important component of the return-to-service legislation. For many firefighters in this situation retirement was in response to a financial need and not because they wanted to end their firefighting duties. Allowing these members to return to active service and membership is advantageous to the employer because the members are already trained and experienced, and add no additional cost than hiring a new firefighter. Zikmund made a motion to require members that return to active service and membership after retirement to meet the relief association’s minimum vesting requirements to be eligible for a second service pension, but not be subject to any separate minimum period of resumption service requirement. Wallner seconded the motion that was adopted unanimously.

- Continuation of Monthly Pension Payments (C)

Members that are receiving monthly service pensions are allowed to resume active service under the new return-to-service law, but their monthly pension payments must stop during their resumption period of service. There is a desire among relief associations that offer monthly pensions that members be allowed to continue receiving their monthly pension payments during a resumption period of service. Ganfield made a motion to allow monthly retirees to continue receiving their monthly service pensions upon a resumption of active service and, if the members meet the minimum vesting requirements upon a subsequent period of service, to receive a second monthly pension for the second period of service. Sayles mentioned that there may be tax implications if members are receiving pension payments while still an active member. Auditor Otto said that the proposal would be researched and revisited if needed. Zikmund seconded the motion which was adopted unanimously.

- Authorize Leaves of Absence (D)

Auditor Otto explained that the new return-to-service law applies to any member who has a break in service of at least 60 days, and all breaks in service are treated the same. This means that members who are granted an approved leave of absence for one year must meet the minimum period of resumption service required under the new law upon their return to active service and membership. The Group agreed that an exemption should be made for members who are granted an approved leave of absence of up to one year. These members should be allowed to resume active service and membership without being subject to the return-to-service requirements. The Group discussed different potential classifications of members and which classifications should be subject to a minimum period of resumption service. The Group also discussed the fact that the fire department, and not the relief association, is involved in the hiring and termination of firefighters. Relief associations usually only receive notice of a member's status from the fire department and aren't involved with the determination of the member's status. Zikmund made a motion to draft language that would exempt members with a leave of absence of up to one year from the return to service requirements. Hansen seconded the motion that was adopted unanimously.

IV. Contribution Calculations/Payment Requirements

- Background Information on Financing

The Working Group reviewed background information on relief association financing requirements that was prepared by Martin.

- Deficit Amortization Period

Auditor Otto explained that the Working Group first received a request to consider extending the deficit amortization period for lump sum plans last year. The topic request was broadened to also extend the deficit amortization period for monthly and monthly/lump sum combination plans, as well. Currently, deficits for lump sum plans are amortized over a 10-year period, while deficits for relief associations paying monthly benefits are amortized over 10 or 20 years, depending upon whether the deficit was attributable to experience losses, or changes in actuarial assumptions or bylaw changes.

- Contribution Installment Payments

Another suggestion that was presented to the Group for consideration was to allow required contributions to be paid in installments. Currently, the entire required contribution amount must be paid to the relief association during the calendar year in which it is due. If the relief association doesn't receive the entire required contribution amount the relief association officers are to certify the unpaid amount to the county auditor, who must spread a levy in the amount over the taxable property of the municipality.

- Averaging of Investment Returns

The final suggestion the Working Group received on this topic was to use an averaging of investment returns when calculating the required contribution amount. The intent was to smooth the effect of large investment losses, or gains, over a several-year period.

The Working Group members discussed the three topics concurrently as part of a larger policy discussion on whether any change to the current municipal contribution calculation should be made. The Group discussed the points raised by Martin in his memos (Exhibits F through H). Members of the Group were concerned about making a reactionary policy change to a very rare economic event. Members were also concerned that extending the period by which relief associations need to be fully funded or extending the period by which municipalities must make the required contributions would be digging a funding hole that could become even more difficult to overcome. Some members shared their concern that municipalities are cutting fire department budgets to offset required contributions to the affiliated relief association. The Group struggled with the desire to allow municipalities to “buy some time” so that they don’t need to cut services in order to pay the required contribution to the relief association, while also balancing the need to fully fund relief association benefits and to receive contributions timely so that associations can invest when prices are low. Having an underfunded relief association impacts the municipality, so it’s in the best interest of both parties for any change to be fiscally responsible. Wallner made a motion to table the discussion until the October 6 meeting so that other members of the Group have a chance to share their comments and for the Group to solicit feedback from their constituents. Jaeger seconded the motion that was adopted unanimously. It was acknowledged that if the Working Group decides not to pursue a change it is likely that some relief associations or municipalities may decide to pursue a legislative change on their own.

V. Other Business

- Timing of Wage Payments

Auditor Otto explained that the League of Minnesota Cities is considering a bill that would modify how often fire and ambulance service employees are paid their on-call wages. Currently, employers must pay all wages earned at least once every 31 days. The Working Group decided not to take any formal action on the proposal as it’s outside the Group’s scope, but Finn encouraged members of the Group to contact her if they have any questions or concerns. The Minnesota State Fire Chiefs Association has added the proposal to its legislative initiative list.

VI. Next Meeting

Tuesday, October 6, 2009
11 a.m. to 1 p.m.
Office of the State Auditor

VII. Adjournment

The meeting was adjourned shortly before 1:00.

Exhibit B

Topic:
The relief association board of trustees is required to consist of nine trustees. Six trustees are elected from among the relief association membership, and three trustees are drawn from the officials of the municipalities served by the affiliated fire department. The board of trustees must have at least three officers, a president, secretary, and treasurer, who are elected from among the six elected trustees. A trustee cannot hold more than one officer position at the same time. A suggestion has been made to allow the treasurer and secretary positions to be combined for relief associations that are audited.

Considerations:
1. Could create a deficiency in the segregation of duties and make it more difficult to have proper internal controls.
2. Places additional duties on the trustee elected to the combined secretary/treasurer position. The trustee would be responsible for keeping meeting minutes, completing paperwork and reporting forms, updating bylaws, in addition to all of the financial duties.
3. May make some administrative functions more difficult. For example, relief association checks should be signed by at least two officers, which would mean that the only authorized signatories would be the relief association president and the secretary/treasurer. The relief association would need to plan ahead to accommodate vacations or times when one of the two authorized signatories would be unavailable.
4. Cities and towns can have combined clerk and treasurer positions. If the positions are combined the city or town is required to have an audit, the frequency of which is based on the municipality's total revenues.

Current Law:
424A.04 VOLUNTEER RELIEF ASSOCIATIONS; BOARD OF TRUSTEES.

Subdivision 1.**Membership.**

(a) A relief association that is directly associated with a municipal fire department must be managed by a board of trustees consisting of nine members. Six trustees must be elected from the membership of the relief association and three trustees must be drawn from the officials of the municipalities served by the fire department to which the relief association is directly associated. The bylaws of a relief association which provides a monthly benefit service pension may provide that one of the six trustees elected from the relief association membership may be a retired member receiving a monthly pension who is elected by the membership of the relief association. The three municipal trustees must be one elected municipal official and one elected or appointed municipal official who are designated as municipal representatives by the municipal governing board annually and the chief of the municipal fire department.

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

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

(2) if two or more municipalities contract with the independent nonprofit corporation, the municipal trustees must be one official from each of the two largest municipalities in population who are designated annually by the governing bodies of the applicable municipalities.

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

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

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

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

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

Background Information on the
1971 Volunteer Fire Relief Association Financing Guidelines Act

a. In General. The Volunteer Firefighter Relief Association Financing Guidelines Act of 1971 (Laws 1971, Chapter 261) was the result of an interim study by the Legislative Commission on Pensions and Retirement during the 1969-1971 Interim. The 1971 Guidelines Act was adapted from the Local Police and Paid Firefighter Relief Association Guidelines Act of 1969 (Laws 1969, Chapter 223).

   Minnesota Statutes, Sections 69.771 through 69.776, 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.

b. Determination of Volunteer Fire Relief Association Asset Values For Funding Purposes. Under Minnesota Statutes, Section 69.772, Subdivision 3, Paragraph (b), Clause (2), for lump sum volunteer fire relief associations, the determination of the relief association's funded condition and financial requirements is based on the total present assets of the special fund projected to December 31 of the current year, including receipts by and disbursements from the special fund anticipated through the upcoming December 31. The asset value is to be based on the current market value of assets to the extent possible for assets for which a market value is readily ascertainable. For assets for which no market value is readily ascertainable, the cost or book value of the assets must be used. Under Minnesota Statutes, Section 69.773, Subdivision 4, Paragraph (c), for monthly benefit volunteer fire relief associations, the determination of the relief association's funded condition and financial requirements is based on the current market value of assets for which there is a readily ascertainable market value and on the cost or book value, whichever is applicable, of assets for which there is no readily ascertainable market value.

   The value of assets for funding purposes for lump sum and monthly benefit volunteer fire relief associations differs from the value of assets for funding purposes for other Minnesota public pension plans. For all statewide retirement plans and for the Duluth Teachers Retirement Fund Association (DTRFA), the St. Paul Teachers Retirement Fund Association (SPTRFA), the Minneapolis Employees Retirement Fund (MERF), the Fairmont Police Relief Association, the Virginia Fire Department Relief Association, and the Bloomington Firefighters Relief Association, the pension plan assets are valued based on a five-year moving average of expected and market values where, at the end of each plan year, an average asset value is calculated as the average of the market asset value at the beginning and end of the fiscal year net of investment income for the fiscal year, the investment gain or loss is taken as the excess of actual investment income over the expected investment income based on the average asset value as calculated, and is recognized over five years at 20 percent per year, and the total asset value is the sum of the expected asset value plus the scheduled recognition of investment gains or losses during the current and the preceding four plan years.

   The value of assets for funding purposes for the Minneapolis Firefighters Retirement Association and the Minneapolis Police Retirement Association is the value of all assets at cost, including not realized capital gains or losses, and the average net value of total unrealized capital gains or losses for the three-year period ending at the end of the preceding plan year.

c. 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.

   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 five items:

1. The normal cost; plus
2. the prior year's administrative expense, multiplied by a factor of 1.035; plus
3. the amount needed to amortize the relief association unfunded actuarial accrued liability on a level-dollar basis by the December 31 occurring ten years later if there is an unfunded actuarial accrued liability and there has been no benefit increase, actuarial assumption change, or actuarial method change since the last actuarial valuation; plus
4. the amount needed to amortize the unfunded actuarial accrued liability from a recent benefit increase, actuarial assumption change, or actuarial method change over 20 years for each change and aggregated into a single figure, if there is an unfunded actuarial accrued liability; and less
5. one-tenth of the amount of relief association assets in excess of relief association actuarial accrued liability if there is no unfunded 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 Commission and its consulting actuary developed the table and related provisions in Minnesota Statutes, Section 69.772, Subdivision 2, 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	Cumulative Year	Accrued Liability
1	$60	12	$962
2	$124	13	$1,070
3	$190	14	$1,184
4	$260	15	$1,304
5	$334	16	$1,428
6	$410	17	$1,560
7	$492	18	$1,698
8	$576	19	$1,844
9	$666	20	$2,000
10	$760	21 and thereafter	$100 add'l per year
11	$858		

The financial requirement of the lump sum relief association is the combination of the following items:

1. The annual accruing liability (difference between the current accrued liability and the accrued liability determined assuming an additional year of service for each member); plus
2. the prior year's administrative expenses, multiplied by a factor of 1.035; plus
3. one-tenth of the original amount of the unfunded liability resulting from the last benefit increase if there is an unfunded liability; plus
4. one-tenth of the unfunded liability resulting from a net accrued investment loss occurring since the most recent benefit increase if there is an unfunded liability (added by First Special Session Laws 2005, Chapter 8, Article 9, Section6); and less
5. one-fifth of the amount by which relief association assets exceed relief association liabilities if there is no unfunded liability.

d. 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. 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.

e. 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.

f. Municipal Ratification of Plan Amendments. Minnesota Statutes, Section 772, Subdivision 6, for lump sum volunteer firefighter relief associations, and Minnesota Statutes, Section 69.773, Subdivision 6, for monthly benefit volunteer firefighter relief associations, generally require municipal ratification of benefit plan amendments made by volunteer firefighter relief associations. This municipal ratification requirement applies unless the volunteer firefighter relief association has assets in excess of its actuarial accrued liability and hence does not require municipal support, when the relief association can approve benefit plan amendments and improve benefit increases with an estimate of the actuarial impact of the change if the actuarial impact does not exceed 90 percent of the asset surplus and does not require the annual financial requirements to exceed the anticipated fire state aid of the municipality. After a benefit change that is subject to relief association approval only is implemented, if the financial requirements of the relief association exceed the fire state aid, the benefit change is no longer effective without subsequent municipal ratification.

g. Application to Relief Associations Subsidiary to Independent Nonprofit Firefighting Corporations. Volunteer firefighter relief associations that are subsidiaries of independent nonprofit firefighting corporations are also covered by the 1971 Guidelines Act. Subsidiary volunteer firefighter relief associations that provide lump sum service pensions are governed through Minnesota Statutes, Section 69.774, Subdivision 2, Clause (a), by the applicable provisions of the lump sum volunteer firefighter relief association accrued liability and financial requirements determination statute. Subsidiary volunteer firefighter relief associations that provide monthly benefit service pensions are governed through Minnesota Statutes, Section 69.774, Subdivision 2, Clause (b), by the applicable provisions of the monthly benefit volunteer firefighter relief association accrued liability and financial requirements determination statute. Under Minnesota Statutes, Section 69.724, Subdivision 2, Clauses (c) and (d), the independent nonprofit firefighting corporation has the same obligation that a municipality would have under Minnesota Statutes, Section 69.772 or 69.773.

h. Investments. Volunteer firefighter relief associations are required to invest special fund assets under the short list of authorized investments or the long list of authorized investments set forth in public pension plan fiduciary obligation law, whichever applies. An exception is provided for sizeable (maximum of 75 percent) mutual fund investments if the mutual fund conforms with the authorized investment list in its holdings. Volunteer firefighter relief associations are also permitted to invest through the State Board of Investment in the Minnesota Supplemental Investment Fund.

Volunteer Fire Working Group Topic: Contribution Calculations/Payment Requirements

Considerations in Modifying Volunteer Fire Relief Association Amortization Periods

In considering the Working Group topic, which includes a potential lengthening of volunteer fire relief association amortization periods, several points merit evaluation and analysis, as follows:

1. Apparent Popular Misconceptions that Current Law Requires Immediate Amortization of Volunteer Fire Relief Association Experience Loss. The current volunteer fire relief association funding laws, Minnesota Statutes, Section 69.772 or 69.773, the Volunteer Fire Relief Association Financing Guidelines Act of 1971, does not require the immediate elimination of investment losses, contrary to misconceptions by some volunteer firefighters and some municipal officials. Investment losses in any year are required to be amortized over a ten-year period.

2. The Current Investment Situation/Volunteer Fire Relief Association Funding is a Historically Rare Event. The period 2007-2008 and the investment losses triggered by a housing bubble and the widespread indiscriminate investment in derivatives based on securitized mortgages is a very rare event historically, perhaps comparable only to the Great Depression of the 1930s and Panic of 1873. The investment losses occurred at the same time as fire state aid receipts are down, in whole or in part because of an overstatement by the Revenue Department of past fire state aid and a phase in of its corrections. While the investment losses were severe, it is unwise to base long-term pension policy on events that can be expected, based on history, to occur once every 60 or 70 years.

3. Any Significant Amortization Requirement Delay Will Not Change the Retirement Dates of the Current Volunteer Firefighter Work Force. The current amortization dates applicable to volunteer firefighters are set based on an expectation as to the upcoming retirements of volunteer firefighters when they reach age 50, which in defined benefit plans is unlikely to be similarly lengthened if the current amortization requirements are delayed in response to the current financial situation. Retirement plans are not operated to suffer future benefit payment defaults or to narrowly avoid future benefit payment defaults. Any lengthening of an amortization period in the face of a significant investment decline and market value loss in relief association assets will make benefit payment defaults more likely.

4. No 2010 Amortization Period Change Legislation Will Affect 2009 Volunteer Fire Relief Association Levies by Municipalities. Any potential legislation recommended by the Working Group and processed by the Legislative Commission on Pensions and Retirement will not likely be enacted, at the earliest, until March 2010, roughly six months after municipalities are required by state law to certify their volunteer fire relief association funding levies to the respective county auditors. If any retroactive amortization change recommendation is processed by the Legislative Commission on Pensions and Retirement as part of the 2010 Omnibus Retirement Bill, that legislation could be delayed until late May or early June 2010, if past even-numbered year legislative session patterns continue.

5. Municipal Inaction on Volunteer Fire Relief Association Levies in Hopes of Special Legislative Amortization Period Change Threatens Fire State Aid. Under Minnesota Statutes, Section 69.771, Subdivision 3, Paragraph (c), Clause (5), the failure of a municipality to certify a volunteer fire relief association required funding levy or the failure of a municipality to provide required municipal funding to a volunteer fire relief association disqualifies the municipality and the volunteer fire relief association from future fire state aid. If a municipality delays in levying a required volunteer fire relief association funding requirement or defers making an additional municipal contribution to the volunteer fire relief association in hopes of special legislative relief, it could have serious financial and benefits payment ramifications for the city, the volunteer fire relief association, and its volunteer firefighters. The fire state aid disqualification would be made by the Officer of the State Auditor based on audited volunteer fire relief association financial reporting.

6. Any Municipal Inaction on Volunteer Fire Relief Association Funding Levy Triggers Mandatory Relief Association Levy Certification. Minnesota Statutes, Sections 69.772, Subdivision 4, and 69.773, Subdivision 5, require the officers of a volunteer fire relief association to certify the minimum municipal obligation toward the volunteer fire relief association to the applicable county auditor if the municipality fails to include the obligation in its budget and tax levy. This means that volunteer fire relief association officers cannot be complicit in any attempt by a municipality this Fall to delay or defer its volunteer fire relief association funding obligation without violating their fiduciary obligation.

7. The Current Market Value of Investment Securities Makes Them a Bargain Best Realized by Regular Pension Fund Funding. Even if state law did not require regular volunteer fire relief association funding following this financial downturn, the availability of various investment securities at essentially bargain prices makes this the opportune time for pension fund funding. Investments can be obtained at "sale" prices and those "sale" prices will be lost if required contributions are delayed or deferred until the financial downturn reserves and municipal revenues are more easily obtained.

8. 2005 Legislation Providing Ten-Year Amortization of Investment Losses Already Moderates Municipal Contributions in the Short Run and Long Run. In 2005 (First Special Session Laws 2005, Chapter 8, Article 9, Section 3), enacted following the experience of the more limited investment downturn of the dot-com bubble collapse, a new ten-year amortization period was created for any investment loss, moderating municipal contributions in the event of an experience loss in the initial year following the investment loss, and triggered by each experience loss to systematize the funding of the relief association unfunded actuarial accrued liability upon investment losses. If the 2005 legislation had not occurred, the ultimate amortization process likely would have been less systematic and have a more problematic impact on municipal budgets at this time.

9. Current Ten-Year Investment Loss Amortization Period Already is a Relatively Long Period and Would Not Appropriately Be Lengthened. Given the short vesting period for a service pension of many volunteer fire relief associations (five or ten years) and given the relatively early age at which a volunteer fire relief association service pension is payable (age 50), utilizing ten-year amortization periods for the unfunded liabilities attributable to service pension increases and to experience losses already is a relatively long period. For many volunteer fire relief associations, unless relief associations routinely experience young entry ages into the fire service and regularly have firefighters engage in firefighting service beyond 20 years, extending that amortization period will result in municipalities and volunteer fire relief associations funding liabilities for retired/retiring firefighters for years after the termination of active service.

10. Need for Immediate Implementation of Scheduled Amortization Payments Inherent in Single Employer Volunteer Fire Relief Association System. The need for the immediate commencement of a set of municipal amortization payments in the event of investment experience losses by a volunteer fire relief association is an inherent consequence of Minnesota's system of single employer retirement plan volunteer fire relief associations. The liabilities of a single employer retirement plan are underwritten by a single employing unit and are shaped by the employment practices of that single employer. When there are significant experience losses, such as investment losses, bolstering the funding of the retirement plan to offset the loss in short order is needed to avoid a potential benefit default and to protect the employer from more significant pension plan outlays in the future. In a well-funded retirement plan, two-thirds or more of the assets ultimately used to pay retirement benefits are generated by investment returns. In contrast to a multiple employer liability pooling retirement plan, where a larger risk pool typically produces reduced actuarial cost and demographic experience is moderated by multiple personnel systems, volunteer fire relief associations in Minnesota cover small membership populations, can experience significant demographic (entry, service duration, and retirement) savings, and have no broadened financial base on which to spread the retirement funding risk. If immediate corrective efforts do not follow adverse investment experience, the applicable municipality will have a shorter period over which to cover future benefit expenditures, will cover those benefit expenditures with less investment earnings, and may eventually have to choose between a huge short duration demand on municipal resources, a future benefit default, or a future municipal bankruptcy.

Volunteer Fire Working Group Topic:
Contribution Collections/Payment Requirements

Considerations in Allowing Extended Time Installment Municipal Amortization Contributions to Volunteer Fire Relief Associations

In considering allowing the use of installment payments by municipalities, in addition to most or all of the considerations relating to modifying volunteer fire relief association amortization periods (Issue Summary A), there are the following specific issues that merit evaluation:

1. Suggested Delayed Installment Municipal Contribution Authority Lacks Necessary Detail. The suggestion of allowing required municipal contributions to be paid to a volunteer fire relief association in installment payments that extend beyond the calendar year in which they are due suffers from a lack of specificity. The additional details needed in any proposed legislation would be the specification of the minimum size of the installment payments and the maximum duration of the installment payments. If the installment payments are allowed to be very small and their duration allowed to be very long, the practice would place the volunteer fire relief association at great potential risk of never becoming fully funded, would place municipalities at risk of more significant future municipal contribution obligations to volunteer fire relief associations to offset lost investment income, and would place volunteer firefighters at risk of potential benefit defaults.

2. Delayed Municipal Contribution Installment Payments Could Snowball with Lengthy Recession or Depression. The proposal to allow delayed municipal volunteer fire relief association contributions in the form of extended installment payments has the potential of causing a snowballing of future municipal contribution obligations in the event of a lengthy economic downturn. If the municipal contribution obligation for one year is extended beyond the end of the calendar year in the following calendar year or the two following calendar years, if the economic downturn continues or becomes more substantial, and if the municipality extends the second year contribution obligation into the third or fourth year, the aggregate burden of the delayed municipal contribution obligation could become larger than the municipality can eventually handle, thus threatening the entire volunteer firefighter retirement program.

3. Delayed Installment Payment Arrangement Unlikely Will Better Match Future Municipal Revenue Streams Than Current Municipal Revenue Stream. Most municipal revenue is in the form of state local government aid and local property taxes. Local government aid from the state is determined based on a statutory formula and is paid in two parts, on July 20 and December 26 annually. Local property taxes are levied in one calendar year and paid to municipalities in May and October during the following calendar year. Future local government aid is unlikely to increase absent a considerable economic recovery and any future increase in local government aid would initially be reinstatements of prior aid reductions, funding municipal needs that were delayed or deferred during the period of aid reductions before they become available to fund deferred pension funding obligations. Property tax levy increases will not be any more palatable in a subsequent year to defray delayed installment payment of prior municipal obligations. If there is little prospect for future municipal revenue streams to cover the delayed installment obligations, the installment effort threatens to become a permanent deferral of an obligation that ought to be paid concurrent with the volunteer firefighter membership that gave rise to the obligation.

4. Delayed Installment Payment Arrangement Potentially Would be Unauditable. The proposed authority for a municipality to defer some or all of one year's municipal obligation to a volunteer fire relief association until a future year and to pay the delayed contribution in installments is potentially unauditable without prior reporting to the Office of the State Auditor on the implementation details of the authority and without the establishment of a predetermined fixed schedule of payments. Absent notification to the Office of the State Auditor and absent a determinable payment schedule, it would be impossible for the Office of the State Auditor to determine future eligibility of municipalities and nonprofit firefighting corporations for fire state aid, which is the principal enforcement tool for ensuring compliance with the 1971 Volunteer Firefighter Relief Association Financing Guidelines Act.

Volunteer Fire Working Group Topic: Contribution Calculations/Payment Requirements

Considerations in Utilizing Three Year Averaging in Volunteer Fire Relief Association Special Fund Asset Valuation

In considering changing the manner in which volunteer fire relief association special fund assets will be valued to a three-year averaging process, several points merit evaluation and analysis, as follows:

1. Asset Valuation Method Change is Prompted by Unusual Investment Circumstance that Historically Would be Unexpected to be Repeated Very Often. The asset valuation method change is a reaction to the recent general declines in the investment markets and is an attempt to moderate the recognition of those recent investment losses. The recent investment losses were of a magnitude that occurs only very infrequently historically, perhaps once every 60 or 70 years. In more regular investment circumstances, investment gains and losses generally alternate, are of a smaller magnitude, and tend to be restricted to a single sector of the investment universe. It is unlikely to be good policy to change to an asset valuation method based on a rare cataclysmic investment occurrence and then continue that asset valuation method during investment times that reflect historically more predictable volatility. A better policy approach would be to attempt to quantify the amount of asset value volatility that volunteer fire relief associations and their associated municipalities can accommodate in normal times as a whole or on average and then design an asset valuation method that will likely moderate investment market volatility within those accommodation limits.

2. A 2010 Asset Valuation Method Change Will Not Reduce 2009 Municipal Volunteer Fire Relief Association Contributions Levies. Any potential legislation recommended by the Working Group and processed by the Legislative Commission on Pensions and Retirement will not likely be enacted, at the earliest, until March 2010, six months after municipalities are required by state law to certify their volunteer fire relief association funding levies to the respective county auditors. If any asset valuation change recommendation is processed by the Legislative Commission on Pensions and Retirement as part of the 2010 Omnibus Retirement Bill, that legislation could be delayed until late May or early June 2010, if past even year legislative session patterns continue. Even if asset valuation change legislation were made retroactive to 2009 by the 2010 Legislature, municipalities that failed to include larger municipal contribution obligations to their volunteer fire relief associations in their budgets and property tax levies in Fall 2009 would trigger the mandatory certification by the relief association officers of the tax levy to the county auditor under the 1971 Guidelines Act and would be a disqualifying event for future fire state aid.

3. Market Value of Volunteer Fire Relief Association Special Fund Assets is More Appropriate for Many or Most Lump Sum Volunteer Fire Relief Associations Than an Actuarial Value. Using an actuarial value of special fund assets for lump sum volunteer fire relief associations may not be optimal for many or most relief associations. An actuarial value of assets, such as a three-year averaging process, is an attempt to take some of the extreme volatility in investment market values out of the funded status determination. Because the most recent erosion in asset values was a decline of historic proportions and was not regular investment volatility, which arguably reverses itself over the short run, it is unclear that delaying the recognition of a substantial portion of that investment loss is a value correction and may actually turn out to be value deception. Since retiring volunteer firefighters in a lump sum volunteer fire relief association take a single payment service pension, if a large number of firefighters retire before the current investment market collapse reverses itself, the actuarial value of assets change proposed and its effect on reducing municipal contributions from what they otherwise would be may leave the volunteer fire relief association without sufficient assets to make those service pension payments in fact, and may force the volunteer fire relief association to sell the remaining assets at a huge loss rather than having the buffer of additional assets from full municipal contributions.

4. Asset Value Averaging Method Delays the Recognition of Both Losses and Gains. The suggestion of using a three-year average of asset values in order to value volunteer fire relief association special fund assets is clearly motivated to delay the recognition of the most recent set of investment losses. Any delay in the recognition of the most recent market value losses will also work to delay the recognition of the next set of market value gains whenever the investment markets recover. If the markets recover rapidly, as could happen, volunteer fire relief associations and municipalities can be expected to complain about "excessive" municipal contribution amounts during the period when, in a recovery, asset values increase.

5. The Mathematical Method for the Proposed Three-Year Average Asset Value Change is Unclear. As a suggestion and not as proposed legislation, the proposal has the problems of not being specific and of lacking clarity. Broadly, the averaging asset value change could generally replicate the method used by the Minneapolis Police Retirement Association (MPRA) and the Minneapolis Firefighters Retirement Association (MFRA) (see Part b. of the Background on the 1971 Volunteer Fire Relief Association Financing Guidelines Act document) or it could be a simple mathematical average of three year end asset values. Those two approaches would result in very different asset values for the same volunteer fire relief association for any date and examples derived from actual volunteer fire relief association financial results in modest down markets, modest up markets, significant down markets, and significant up markets should be reviewed before any final decision on an approach is made.

6. The Asset Averaging Process May be Problematic. At least two aspects of any averaging process may produce problems in attempting to implement an asset averaging process. The first potential problem relates to the projection of asset values. Current law allows lump sum volunteer fire relief associations to project their assets to the end of the calendar year, at least with respect to receipts and disbursements. Because of the nature of lump sum volunteer fire relief associations and the large service pension disbursements that could occur between July, when the annual financial requirements of the relief association and the minimum municipal obligations are determined, and December 31, the projection is sensible, but may not be optimal in making a three-year asset value average. If projections of future financial changes are not permitted, the averaging would need to be based on three prior year asset values, without including likely near-term service pension payments. The second potential problem relates to recordkeeping and reporting. If an averaging method akin to the Minneapolis Police and Fire method is used, each volunteer fire relief association would need to keep readily accessible records about the book or cost value of all of its investment securities if a depository bank is utilized by the volunteer fire relief association and would have to make additional reporting about book or cost values of existing securities and unrealized appreciation as part of its financial reporting. If the volunteer fire relief association follows a strong "buy and hold" investment philosophy, the book or cost value information would need to be retained over a long period of time.

7. Mandatory vs. Elective Asset Valuation Method Change. The potential asset valuation method change could be either mandatory for all volunteer fire relief associations or elective by each volunteer fire relief association. A mandatory change would be easier for oversight by the Office of the State Auditor. An elective change raises additional questions, which are whether or not the governing body of the municipality also must assent to change, whether the municipality can effect the change without also receiving the approval of the volunteer fire relief association board of trustees, and whether or not the elective asset valuation method change is revocable in a subsequent year or not. Since both the volunteer fire relief association and the municipality are affected by the asset value change, optimally both entities should approve an elective method change. Because revoking an asset valuation change is open to being done solely to misrepresent the relief association asset value in changing economic circumstances, an elective change in the asset valuation method should not be allowed to be revoked without the creation of some procedure that would weed out opportunistic asset value method changes.

Exhibit G

Topic:

The return-to-service legislation that was passed last session requires that members return to active service for at least a minimum period of time in order to accrue service credit with the relief association for the service performed after their return. Members must meet the vesting requirements to be paid a service pension, and it appears that the intent of the Working Group last year was to have members who resume active service and membership after retirement and receipt of a service pension "start over." It is unclear in the legislation that was passed whether members who resume active service and membership after retirement and receipt of a service pension must meet both the minimum period of resumption of service and the vesting requirements in order to be eligible for a second service pension, or just the minimum period of resumption of service. The Optional Change provided below is based on the Working Group's September 22 meeting discussion.

Options and Examples:

1. The current law requires members that return to active service and membership after retirement to meet the minimum period of resumption service before a second cessation of duties in order to be eligible for a second service pension. It is not clear that the member must meet the relief association's vesting requirements to be eligible for the second service pension.
2. The Optional Change provided below requires that retirees meet the relief association's minimum vesting requirements to be eligible for a second service pension, and are not subject to a separate minimum period of resumption of service.

	Vesting Requirement	Resumption Period Requirement
Current Law	Unclear	Yes
Optional Change	Yes	No

Current Law:

424A.01 MEMBERSHIP IN A VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION.

Subd. 6. **Return to active firefighting after break in service.**

(a) If a former active firefighter who has ceased to perform or supervise fire suppression and fire prevention duties for at least 60 days resumes performing active firefighting with the fire department associated with the relief association, if the bylaws of the relief association so permit, the person may again become an active member of the relief association.

(b) A firefighter who returns to active relief association membership under paragraph (a) may qualify for the receipt of a service pension from the relief association for the resumption service period if the firefighter meets a minimum period of resumption service specified in the relief association bylaws.

(c) A firefighter who returns to active lump-sum relief association membership and who qualifies for a service pension under paragraph (b) must have, upon a subsequent cessation of duties, any service pension for the resumption service period calculated as a separate benefit. If a lump-sum service pension had been paid to the firefighter upon the firefighter's previous cessation of duties, a second lump-sum service pension for the resumption service period must be calculated to apply the service pension amount in effect on the date of the firefighter's termination of the resumption service for all years of the resumption service. No firefighter may be paid a service pension twice for the same period of service. If a lump-sum service pension had not been paid to the firefighter upon the firefighter's previous cessation of duties and the firefighter meets the minimum service requirement of section 424A.02, subdivision 2, a service pension must be calculated to apply the service pension amount in effect on the date of the firefighter's termination of the resumption service for all years of service credit.

(d) A firefighter who had not been paid a lump-sum service pension returns to active relief association membership under paragraph (a), who does not qualify for a service pension under paragraph (b), but who does meet the minimum service requirement of section 424A.02, subdivision 2, based on the firefighter's previous years of active service, must have, upon a subsequent cessation of duties, a service pension calculated for the previous years of service based on the service pension amount in effect on the date of the firefighter's termination of the resumption service, or, if the bylaws so provide, based on the service pension amount in effect on the date of the firefighter's previous cessation of duties.

(e) If a firefighter receiving a monthly benefit service pension returns to active monthly benefit relief association membership under paragraph (a), any monthly benefit service pension payable to the firefighter is suspended as of the first day of the month next following the date on which the firefighter returns to active membership. If the firefighter was receiving a monthly benefit service pension, and qualifies for a service pension under paragraph (b), the firefighter is entitled to an additional monthly benefit service pension upon a subsequent cessation of duties calculated based on the resumption service credit and the service pension accrual amount in effect on the date of the termination of the resumption service. The suspended initial service pension resumes as of the first of the month next following the termination of the resumption service. If the firefighter was not receiving a monthly benefit service pension and meets the minimum service requirement of section 424A.02, subdivision 2, a service pension must be calculated to apply the service pension amount in effect on the date of the firefighter's termination of the resumption service for all years of service credit.

(f) A firefighter who was not receiving a monthly benefit service pension returns to active relief association membership under paragraph (a), who does not qualify for a service pension under paragraph (b), but who does meet the minimum service requirement of section 424A.02, subdivision 2, based on the firefighter's previous years of active service, must have, upon a subsequent cessation of duties, a service pension calculated for the previous years of service based on the service pension amount in effect on the date of the firefighter's termination of the resumption service, or, if the bylaws so provide, based on the service pension amount in effect on the date of the firefighter's previous cessation of duties.

Optional Change:

424A.01 MEMBERSHIP IN A VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION.

Subd. 6. **Return to active firefighting after break in service.**

(a) If a former active firefighter who has ceased to perform or supervise fire suppression and fire prevention duties for at least 60 days resumes performing active firefighting with the fire department associated with the relief association, if the bylaws of the relief association so permit, the person may again become an active member of the relief association.

(b) A firefighter who returns to active relief association membership under paragraph (a) may qualify for the receipt of a service pension from the relief association for the resumption service period if the firefighter meets ~~a~~ the minimum ~~period of resumption service specified in the relief association bylaws~~ service requirements of section 424A.02, subdivision 2.

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Exhibit H

Topic:

Any member who has a break in service of at least 60 days is subject to the new return-to-service law if the member resumes active service and membership. The legislation treats all breaks in service the same. The only exceptions are for federally protected leaves, such as military or FMLA. Bylaws for many relief associations allow the association or the fire department to grant members an approved leave of absence. A leave of absence, even if approved, would be considered a break in service and members would be subject to the return-to-service requirements if the leave of absence extends at least 60 days.

Options:

1. The current law specifies that anyone who has “ceased to perform or supervise fire suppression and fire prevention duties for at least 60 days” is subject to a minimum period of resumption service if the firefighter returns to active fire department service and active relief association membership. This covers all situations (i.e., approved leaves of absence, deferred members that return, retirees that return, and any other type of break in service).
2. The Optional Change provided below would exempt members with an approved leave of absence not to exceed one year and members with a break in service of not more than one year from the resumption period of service requirement. The exemption for members with a break in service is subject to authorization by the relief association board of trustees. Pensions for these members must still be calculated in a manner consistent with the return-to-service requirements that, for example, specify which benefit level is used when determining the pension amount.

Current Law:

424A.01 MEMBERSHIP IN A VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATION.

Subd. 6. **Return to active firefighting after break in service.**

(a) If a former active firefighter who has ceased to perform or supervise fire suppression and fire prevention duties for at least 60 days resumes performing active firefighting with the fire department associated with the relief association, if the bylaws of the relief association so permit, the person may again become an active member of the relief association.

(b) A firefighter who returns to active relief association membership under paragraph (a) may qualify for the receipt of a service pension from the relief association for the resumption service period if the firefighter meets a minimum period of resumption service specified in the relief association bylaws.

(c) A firefighter who returns to active lump-sum relief association membership and who qualifies for a service pension under paragraph (b) must have, upon a subsequent cessation of duties, any service pension for the resumption service period calculated as a separate benefit. If a lump-sum service pension had been paid to the firefighter upon the firefighter's previous cessation of duties, a second lump-sum service pension for the resumption service period must be calculated to apply the service pension amount in effect on the date of the firefighter's termination of the resumption service for all years of the resumption service. No firefighter may be paid a service pension twice for the same period of service. If a lump-sum service pension had not been paid to the firefighter upon the firefighter's previous cessation of duties and the firefighter meets the minimum service requirement of section 424A.02, subdivision 2, a service pension must be calculated to apply the service pension amount in effect on the date of the firefighter's termination of the resumption service for all years of service credit.

(d) A firefighter who had not been paid a lump-sum service pension returns to active relief association membership under paragraph (a), who does not qualify for a service pension under paragraph (b), but who does meet the minimum service requirement of section 424A.02, subdivision 2, based on the firefighter's previous years of active service, must have, upon a subsequent cessation of duties, a service pension calculated for the previous years of service based on the service pension amount in effect on the date of the firefighter's termination of the resumption service, or, if the bylaws so provide, based on the service pension amount in effect on the date of the firefighter's previous cessation of duties.

(e) If a firefighter receiving a monthly benefit service pension returns to active monthly benefit relief association membership under paragraph (a), any monthly benefit service pension payable to the firefighter is suspended as of the first day of the month next following the date on which the firefighter returns to active membership. If the firefighter was receiving a monthly benefit service pension, and qualifies for a service pension under paragraph (b), the firefighter is entitled to an additional monthly benefit service pension upon a subsequent cessation of duties calculated based on the resumption service credit and the service pension accrual amount in effect on the date of the termination of the resumption service. The suspended initial service pension resumes as of the first of the month next following the termination of the resumption service. If the firefighter was not receiving a monthly benefit service pension and meets the minimum service requirement of section 424A.02, subdivision 2, a service pension must be calculated to apply the service pension amount in effect on the date of the firefighter's termination of the resumption service for all years of service credit.

(f) A firefighter who was not receiving a monthly benefit service pension returns to active relief association membership under paragraph (a), who does not qualify for a service pension under paragraph (b), but who does meet the minimum service requirement of section 424A.02, subdivision 2, based on the firefighter's previous years of active service, must have, upon a subsequent cessation of duties, a service pension calculated for the previous years of service based on the service pension amount in effect on the date of the firefighter's termination of the resumption service, or, if the bylaws so provide, based on the service pension amount in effect on the date of the firefighter's previous cessation of duties.

Optional Change:

424A.01 MEMBERSHIP IN A VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION.

Subd. 6. **Return to active firefighting after break in service.**

(a) If a former active firefighter who has ceased to perform or supervise fire suppression and fire prevention duties for at least 60 days resumes performing active firefighting with the fire department associated with the relief association, if the bylaws of the relief association so permit, the person may again become an active member of the relief association. Members that have been granted an approved leave of absence not to exceed one year and members, if authorized by the relief association board of trustees, that have a break in service of not more than one year are subject to the service pension calculation requirements under this section but are exempt from the minimum period of resumption service requirement of this section.

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Exhibit I

Topic:

If a member is receiving a monthly service pension and resumes active service and membership under the new return-to-service law, the member's monthly pension payments must cease during the member's period of resumption service. The member's monthly pension payments resume upon the member's subsequent cessation of firefighting duties, and the member would be eligible for an additional monthly pension if the member met the minimum period of resumption service (or minimum vesting requirement). The monthly payments that ceased while the member was active during the resumption period are "lost." The Optional Change provided below is based on the Working Group's September 22 meeting discussion.

Options and Considerations:

1. The Optional Change provided below would allow monthly retirees to continue receiving monthly service pension payments during their resumption period of active service.
2. If the Working Group wishes to pursue this change a change would also be needed to Section 424A.02, subd. 1, and possibly other sections, to authorize pension payments to members that have not permanently separated from active fire department service.

Current Law:

424A.01 MEMBERSHIP IN A VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION.

Subd. 6. **Return to active firefighting after break in service.**

(a) If a former active firefighter who has ceased to perform or supervise fire suppression and fire prevention duties for at least 60 days resumes performing active firefighting with the fire department associated with the relief association, if the bylaws of the relief association so permit, the person may again become an active member of the relief association.

(b) A firefighter who returns to active relief association membership under paragraph (a) may qualify for the receipt of a service pension from the relief association for the resumption service period if the firefighter meets a minimum period of resumption service specified in the relief association bylaws.

(c) A firefighter who returns to active lump-sum relief association membership and who qualifies for a service pension under paragraph (b) must have, upon a subsequent cessation of duties, any service pension for the resumption service period calculated as a separate benefit. If a lump-sum service pension had been paid to the firefighter upon the firefighter's previous cessation of duties, a second lump-sum service pension for the resumption service period must be calculated to apply the service pension amount in effect on the date of the firefighter's termination of the resumption service for all years of the resumption service. No firefighter may be paid a service pension twice for the same period of service. If a lump-sum service pension had not been paid to the firefighter upon the firefighter's previous cessation of duties and the firefighter meets the minimum service requirement of section 424A.02, subdivision 2, a service pension must be calculated to apply the service pension amount in effect on the date of the firefighter's termination of the resumption service for all years of service credit.

(d) A firefighter who had not been paid a lump-sum service pension returns to active relief association membership under paragraph (a), who does not qualify for a service pension under paragraph (b), but who does meet the minimum service requirement of section 424A.02, subdivision 2, based on the firefighter's previous years of active service, must have, upon a subsequent cessation of duties, a service pension calculated for the previous years of service based on the service pension amount in effect on the date of the firefighter's termination of the resumption service, or, if the bylaws so provide, based on the service pension amount in effect on the date of the firefighter's previous cessation of duties.

(e) If a firefighter receiving a monthly benefit service pension returns to active monthly benefit relief association membership under paragraph (a), any monthly benefit service pension payable to the firefighter is suspended as of the first day of the month next following the date on which the firefighter returns to active membership. If the firefighter was receiving a monthly benefit service pension, and qualifies for a service pension under paragraph (b), the firefighter is entitled to an additional monthly benefit service pension upon a subsequent cessation of duties calculated based on the resumption service credit and the service pension accrual amount in effect on the date of the termination of the resumption service. The suspended initial service pension resumes as of the first of the month next following the termination of the resumption service. If the firefighter was not receiving a monthly benefit service pension and meets the minimum service requirement of section 424A.02, subdivision 2, a service pension must be calculated to apply the service pension amount in effect on the date of the firefighter's termination of the resumption service for all years of service credit.

(f) A firefighter who was not receiving a monthly benefit service pension returns to active relief association membership under paragraph (a), who does not qualify for a service pension under paragraph (b), but who does meet the minimum service requirement of section 424A.02, subdivision 2, based on the firefighter's previous years of active service, must have, upon a subsequent cessation of duties, a service pension calculated for the previous years of service based on the service pension amount in effect on the date of the firefighter's termination of the resumption service, or, if the bylaws so provide, based on the service pension amount in effect on the date of the firefighter's previous cessation of duties.

Optional Change:

424A.01 MEMBERSHIP IN A VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION.

Subd. 6. **Return to active firefighting after break in service.**

…

(e) If a firefighter receiving a monthly benefit service pension returns to active monthly benefit relief association membership under paragraph (a), ~~any monthly benefit service pension payable to the firefighter is suspended as of the first day of the month next following the date on which the firefighter returns to active membership. If the firefighter was receiving a monthly benefit service pension,~~ and qualifies for a service pension under paragraph (b), the firefighter is entitled to an additional monthly benefit service pension upon a subsequent cessation of duties calculated based on the resumption service credit and the service pension accrual amount in effect on the date of the termination of the resumption service. ~~The suspended initial service pension resumes as of the first of the month next following the termination of the resumption service.~~ If the firefighter was not receiving a monthly benefit service pension and meets the minimum service requirement of section 424A.02, subdivision 2, a service pension must be calculated to apply the service pension amount in effect on the date of the firefighter's termination of the resumption service for all years of service credit.

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[NOTE: changes in other sections would also be required to permit a member to receive a service pension while still actively serving as a volunteer firefighter.]