

Minnesota Volunteer Fire Relief Association
Working Group Meeting

Office of the State Auditor
Tuesday, September 22, 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 August 20, 2009 Meeting Minutes
- III. Return to Service Changes**
Exhibits B through D.
- Clarification of Vesting Requirements (B)
 - Continuation of Monthly Pension Payments (C)
 - Authorize Leaves of Absence (D)
- IV. Contribution Calculations/Payment Requirements**
Exhibits E through H. Provided by Larry Martin.
- Background Information on Financing (E)
 - Deficit Amortization Period (F)
 - Contribution Installment Payments (G)
 - Averaging of Investment Returns (H)
- V. Other Business**
Exhibit I. Draft Legislation Provided by LMC
- Timing of Wage Payments
- VI. Next Meeting**
Tuesday, October 6, 2009
11 a.m. to 1 p.m.
Office of the State Auditor
- VII. 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

Thursday, August 20, 2009

11 a.m. to 1 p.m.

Members Present

Wayne Anderson, Coon Rapids Fire Department Inspector (defined contribution plans)

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, Mahnomon Fire Relief Association Treasurer (defined benefit lump sum plans)

Larry Martin, Legislative Commission on Pensions and Retirement Director

Rebecca Otto, State Auditor

Bruce Roed, Mentor Fire Relief Association Trustee (defined contribution plans)

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

Others Present

Colleen Bollom, Minnesota Firefighter Pension Consultants Representative

Aaron Dahl, Pension Analyst

Anne Finn, League of Minnesota Cities Representative

Celeste Grant, Deputy State Auditor/General Counsel

Rose Hennessy Allen, Pension Director

Lucas Hinz, Pension Analyst

Michael Johnson, Pension Analyst

Jeff Legge, Fergus Falls Fire Department Representative

Mike Miller, Integra Shield Financial Group Representative

Laura Sayles, DFL House Caucus Research Consultant

The following motions were duly made, seconded and approved:

RESOLVED to approve the January 27, 2009, Working Group Meeting Minutes.

RESOLVED to adopt the revised Working Group Purpose Statement.

RESOLVED to require unanimous approval of Working Group proposals but to allow proposals with only one dissenting vote to be revisited.

RESOLVED to allow staff from the Legislative Commission on Pensions and Retirement and the Office of the State Auditor to draft legislation for the topics identified as “technical” and to report back to the Working Group.

RESOLVED to adopt the revised topic list as the slate of topics for consideration by this Working Group.

I. Call to Order

Chair Auditor Otto called the meeting to order.

II. Introductions

Each member of the Working Group and the other representatives in attendance introduced themselves. Auditor Otto explained the format for the Working Group meetings.

III. Review and Approval of Working Group Meeting Minutes

The members reviewed the January 27, 2009, meeting minutes that had been provided in advance. Ganfield made a motion to adopt the meeting minutes. Wallner seconded the motion, which was adopted unanimously. Duncan abstained from voting as he was not a member of the Group at that time.

IV. Working Group Process Discussion

- Working Group Meeting Schedule

The members reviewed the proposed meeting schedule. Anderson and Martin stated that they will be unavailable for the September 22 meeting, and Jaeger and Roed will be unavailable for the November 10 meeting. Ganfield reminded the Group that comments can be shared in advance if members are unable to attend a meeting, and that each proposal is discussed at several meetings.

- Working Group Purpose Statement

The members reviewed the Purpose Statement that had been agreed upon by the Working Group last year. Ganfield suggested adding language to the Statement that reflects the Working Group's purpose of helping make volunteer fire relief association plans successful. The Group adopted the revised Purpose Statement unanimously.

- Working Group Process Statement

The members reviewed the Process Statement that had been agreed upon by the Working Group last year. Auditor Otto said that last year the Group agreed that if a proposal had only one dissenting vote it could be revisited at a future meeting. She asked the Group if it wanted to continue with this understanding. In the few instances when a proposal had a dissenting vote and was revisited, the Group agreed unanimously on it when it was reconsidered. The members agreed that it carries weight with the Legislature if the proposals have unanimous approval. Jaeger made a motion to require unanimous approval but to allow proposals with only one dissenting vote to be revisited. The motion was adopted unanimously.

- Working Group Membership List

Auditor Otto asked each member to review the contact information on the membership list for accuracy. She reminded the Group that the list will be posted on the Office of the State Auditor (OSA)'s website so the information will be available to the public. A few corrections to the contact information were made. Martin clarified that he is listed as a

member of the Working Group but he doesn't vote on proposals and his presence does not indicate endorsement by the Legislative Commission on Pensions and Retirement (LCPR) of the proposals. He serves as a resource to the Working Group, assists with drafting legislation, and provides a historical perspective.

V. Discussion of Working Group Topic Suggestions

The members reviewed the list of Working Group topic suggestions that had been provided in advance. The topic suggestions were received from relief association trustees, municipal representatives, consultants, and OSA staff. The Working Group members had ranked the topics that they felt were the most pressing.

Topics 32 through 39 from the original topic list were designated as "technical" topics that would correct statutory references and consistency errors. Simon asked if topic 3, allowing for assets mistakenly deposited into the special fund to be disbursed to the correct fund, should be considered a "technical" topic. Martin said that draft legislation for this topic could be written in such a way that only errors in deposits could be corrected, which could be considered a technical change. It was agreed that topic 3 would be added to the list of "technical" topics. Zikmund made a motion to allow the LCPR and OSA staff to draft legislation to correct the technical changes and report back to the Working Group. Anderson seconded the motion, which was adopted unanimously.

Auditor Otto asked the Group if there were any questions regarding the suggested topics on the list or if any needed clarification. The Working Group discussed the topics to allow special fund salary payments to vice presidents, require greater disclosure of investment management fees, prohibit investment in short and ultra-short investments, provide greater flexibility in board of trustees composition requirements, and the return to service from the list. The members also sought clarification on the topic to create a Record Retention Schedule for relief associations, for approval by the Records Disposition Panel. Grant and Hennessy Allen explained that there currently isn't authority for relief associations to destroy records. It was thought that having a list of the types of records that must be retained, specifying how long the records must be retained, and allowing records to be destroyed after the required retention period would be helpful for relief association trustees.

The Working Group discussed a topic that had been forwarded for consideration by the League of Minnesota Cities (LMC). The topic, number 16, would allow wages for volunteer firefighters to be paid less frequently than at least once every 31 days, as current law requires. The members agreed that this is an issue that would benefit municipalities, but that it was not within the purview of the relief association Working Group. The members agreed to review and discuss the legislation that the LMC drafted and to provide feedback. The Working Group agreed not to include the legislation in its pension bill.

After the topic rankings were compiled the Working Group members reviewed the final topic list. Auditor Otto asked if two defined contribution plan topics could be added to the “technical” topic list. Zikmund made a motion to add the defined contribution plan topics to the technical topic list, and the motion was adopted unanimously. Jaeger made a motion to adopt the revised topic list as the slate of topics for consideration by this Working Group. Ganfield seconded the motion, which was adopted unanimously.

VI. Other Business

There was no other business for discussion.

VII. Next Meeting

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

VIII. Adjournment

The meeting was adjourned shortly before 1:00.

Exhibit B

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.

Example:

A member retires and is paid a service pension. The member resumes active service with the fire department and active membership in the relief association after a 60-day break. Ten years of active service are required for vesting purposes, and the minimum period of resumption of service is set at three years.

1. Should the member be required to meet both the ten-year vesting requirement and the three-year resumption of service required to be eligible for a second service pension?
2. If the member only needs to meet the three-year minimum period of resumption of service requirement, how would the member’s pension be calculated?

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 minimum period of resumption service specified in the relief association bylaws and meets the minimum service requirements of section 424A.02, subdivision 2.

(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.

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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.

Exhibit C

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 (and vesting requirement?). The monthly payments that ceased while the member was active during the resumption period are "lost." Should a legislative change be suggested that would allow the member to continue receiving monthly pension payments during the member's period of resumption service?

Considerations:

1. May be a disincentive for members to serve past age 50, and instead result in members retiring as soon as they are eligible and then seeking to be re-hired after a 60-day break.
2. The relief association would lose the actuarial gain of members actively serving past age 50.
3. If the Group would like to allow members to continue receiving their monthly pension payments, the Group could consider having the payments be held in a separate relief association account during the member's resumption period of service so that the payments are not "lost." There may be tax implications for doing so.
4. Others?

Current Law:

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(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.

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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 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.

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(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.]

Exhibit D

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. Bylaws for many relief associations allow the association 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. Should a legislative change be suggested that would permit relief associations to grant an approved leave of absence and allow a member to resume active service without being subject to the return-to-service requirements? If so, should the length of the allowable leave of absence be specified?

Current Law:

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(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.

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Optional Change:

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(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. The relief association may grant, upon a member's request, an approved leave of absence not to exceed one year and allow the member to resume active membership in the relief association without being subject to a minimum period of resumption service.

(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.

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.

1.1 A bill for an act
1.2 relating to labor and employment; modifying how often fire and ambulance
1.3 service employers must pay wages to certain employees; amending Minnesota
1.4 Statutes 2008, section 181.101.

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

1.6 Section 1. Minnesota Statutes 2008, section 181.101, is amended to read:

1.7 **181.101 WAGES; HOW OFTEN PAID.**

1.8 Subdivision 1. General. Except as provided in subdivision 2, every employer must
1.9 pay all wages earned by an employee at least once every 31 days on a regular pay day
1.10 designated in advance by the employer regardless of whether the employee requests
1.11 payment at longer intervals. Unless paid earlier, the wages earned during the first half of
1.12 the first 31-day pay period become due on the first regular payday following the first day
1.13 of work.

1.14 Subd. 2. Fire or ambulance service employer; paid on-call employee. Absent
1.15 an agreement providing otherwise, a fire or ambulance service employer must pay all
1.16 wages earned by a paid on-call employee or volunteer at least once each quarter. Upon an
1.17 agreement between the employer and employee, a fire or ambulance service employer
1.18 may pay a paid on-call employee or volunteer on a schedule that exceeds the quarterly
1.19 requirement, provided that payment occurs at least once every 12 months and before
1.20 the end of the calendar year in which the wages are earned, except that wages earned
1.21 during the final 15 days of a calendar year may be paid on the next payday following the
1.22 beginning of a new calendar year. No employer shall require an agreement described by
1.23 this subdivision as a condition of employment or continuing employment. A party to an

2.1 agreement described by this subdivision may not revoke the agreement until the beginning
2.2 of a new calendar year and must provide at least 30 days' notice of revocation.

2.3 Subd. 3. Compliance; exception. If wages earned are not paid as required by
2.4 subdivision 1 or 2, the commissioner of labor and industry or the commissioner's
2.5 representative may demand payment on behalf of an employee. If payment is not made
2.6 within ten days of demand, the commissioner may charge and collect the wages earned
2.7 and a penalty in the amount of the employee's average daily earnings at the rate agreed
2.8 upon in the contract of employment, not exceeding 15 days in all, for each day beyond the
2.9 ten-day limit following the demand. Money collected by the commissioner must be paid
2.10 to the employee concerned. This section does not prevent an employee from prosecuting a
2.11 claim for wages. This section does not prevent a school district, other public school
2.12 entity, or other school, as defined under section 120A.22, from paying any wages earned
2.13 by its employees during a school year on regular pay days in the manner provided by an
2.14 applicable contract or collective bargaining agreement, or a personnel policy adopted by
2.15 the governing board. For purposes of this section, "employee" includes a person who
2.16 performs agricultural labor as defined in section 181.85, subdivision 2.

2.17 Subd. 4. Wages; when earned. For purposes of this section, wages are earned
2.18 on the day an employee works.

2.19 Sec. 2. EFFECTIVE DATE.

2.20 Section 1 is effective the day following final enactment.