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## State Auditor Otto Releases Report on Volunteer Fire Relief Associations

*~ Report shows investment earnings increased from $18.8 million in 2005 to $40.1 million in 2006 ~*

This month, State Auditor Rebecca Otto released the Volunteer Fire Relief Association Financial and Investment Report. The report covers the benefits, finances and investment performance of over 700 volunteer fire relief association pension plans and several local salaried police and fire pension plans in Minnesota for calendar year 2006. In 2006, relief associations held over $422 million in net assets representing accrued benefits for 20,338 firefighters.

**"The successful administration of relief association pension plans is a goal we share with all relief association trustees and members,"** State Auditor Otto said. **"This report is an important reference for both relief associations and municipalities. It allows them to review their investment earnings, their funding level, and how they compare with similar types of plans. A close review of this report should help plans to identify best practices."**

A new, useful feature of the report is the rankings that include rates of return, funding levels, municipal contributions, and benefit levels.

**Current Trends**

A few highlights of the report include:

- During 2006, relief associations received nearly $23.7 million in fire state aid. Nearly all relief associations saw an increase in fire state aid during 2006, with an average increase of about six percent.

- Relief associations received over $6.6 million in municipal contributions during 2006. While the total amount contributed to relief associations remained unchanged from 2005 to 2006, the amount required to be contributed decreased.

- Investment earnings were the largest source of revenue for relief associations during 2006, providing 56 percent of the total revenues received. Investment earnings increased from $18.8 million in 2005 to $40.1 million in 2006.

- On average, relief associations held 46 percent of their assets in stock, 15 percent in bonds, 38 percent in cash and one percent in other investments. Seventy-three relief associations were invested solely in cash at the end of 2006.

- Less than 25 percent of relief associations were able to beat a benchmark rate of return available from passively investing.

**Ten-Year Trends**

The average rate of return for relief associations over the past 10 years was 5.3 percent, just exceeding the statutory interest rate assumption of five percent. In total, 309 relief associations had average annual rates of return below five percent for the ten-year period.

**Recommendations**

- Relief associations should consider investing in balanced portfolios. While investing solely in cash may seem safe, it is difficult for relief associations invested in cash to meet the statutory interest rate assumption of five percent. Not keeping up with interest rate assumptions hurts the relief association, even when rates of return are positive.

- Relief association trustees need to hold investment advisors accountable since the trustees are ultimately responsible that investments comply with state law and any restrictions under the association's investment policy. Relief association trustees do not abdicate their fiduciary duties by hiring professional consultants or investment advisors. Trustees and members should regularly compare the investment performance of their advisors with passively managed index funds and other benchmarks.

- Relief association trustees are encouraged to work cooperatively with municipal officials, and municipal officials that serve as trustees on the association board are encouraged to be thoroughly familiar with the association's financial situation and investment performance.

- Each relief association board of trustees should have a goal of achieving full funding and maintaining a healthy funding ratio. Relief associations that are not fully funded must carefully balance the desire to increase benefits with the duty to ensure that the association remains financially stable for the long term. Implementing smaller, but more frequent, benefit increases may provide more consistency to municipalities that are required to make contributions, and make benefit amounts more consistent over time.

For the complete report, which includes tables and graphs, go to **http://www.auditor.state.mn.us/Reports/pen/2006/vfra/vfra_06_report.pdf.** See the Executive Summary on page 3 for the report's highlights.