

Minnesota Volunteer Fire Relief Association
Working Group Meeting

Office of the State Auditor
Wednesday, January 31, 2018
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 January 17, 2018 Meeting Minutes
- III. Discussion of Existing Proposal to Raise Maximum Allowable Lump-Sum Benefit Level to \$15,000**
Exhibits B and C.
 - Topic Overview (B)
 - Historical Memo on the Creation of the Flexible Service Pension Maximums (C)
- IV. Discussion of Municipal Ratification of Benefit Levels**
Exhibits D and E.
 - Topic Overview (D)
 - Municipal Contribution Data (E)
- V. Other Business**
- VI. Next Meeting**
- VIII. Adjournment**

Volunteer Fire Relief Association Working Group

Office of the State Auditor
Wednesday, January 17, 2018
11 a.m. to 1 p.m.

Members Present

Steve Donney, City of Harmony Mayor
Bruce Hemstad, Bemidji Fire Relief Association Secretary (defined benefit lump sum plans)
Dave Jaeger, Mahnomon Fire Relief Association Vice President (defined benefit lump sum plans)
Ron Johnson, Minnesota State Fire Department Association Representative (defined contribution plans)
Aaron Johnston, Coon Rapids Fire Relief Association Treasurer (defined contribution plans)
Philip Jones, Eden Prairie Fire Relief Association Trustee (defined benefit monthly/lump sum plans)
Michael Kruse, Falcon Heights Fire Relief Association Treasurer (defined contribution plans)
Susan Lenczewski, Legislative Commission on Pension and Retirement Executive Director
Rebecca Otto, State Auditor
Kevin Wall, Lower Saint Croix Valley Fire Relief Association President (defined benefit lump sum plans)
Nyle Zikmund, City of Mounds View

Members Excused

Nealon Thompson, Minnesota State Fire Chiefs Association Representative (defined benefit monthly/lump sum plans)

Others Present

Ramona Advani, Deputy State Auditor and General Counsel
Rachel Barth, Legislative Commission on Pension and Retirement Deputy Director
Harry Blanek, Edina Firefighters' Relief Association Representative
Bill Braun, Public
Dave Callister, City of Plymouth City Manager
Melinda Coleman, City of Maplewood City Manager
Rodger Coppa, City of Plymouth Fire Chief
Aaron Dahl, BerganKDV Representative
Anne Finn, League of Minnesota Cities Representative
Mike Funk, City of Maplewood Assistant City Manager/Director of Human Resources
Stuart Glaser, City of Stillwater Fire Chief
Lynn Gorski, City of Owatonna Human Resources Director
Colleen Hartmon Bollom, Harmon & Hartmon Financial Group
Eric Hayes, Eden Prairie Firefighter Relief Association Vice President
Rose Hennessy Allen, Office of the State Auditor Pension Director
Tracy Imm, Maplewood Fire Fighters' Relief Association President
Steve Lukin, City of Maplewood Fire Chief
Mike Luger, Eden Prairie Firefighter Relief Association President
Mike Mondor, City of Maplewood Chief of EMS
Sherry Munyon, Capital Access Representative
Sharyn North, Public Employees Retirement Association Representative
Ellen Paulseth, City of Maplewood Finance Director
Mark Schulte, Van Iwaarden Associates Representative

Jill Schurtz, St. Paul Teachers' Retirement Fund Association Executive Director
Mike Stroeing, Public
Maddison Zikmund, Spring Lake Park, Blaine, Mounds View Fire Department Representative

The following motion was duly made, seconded and approved:

RESOLVED to approve the January 17, 2017, Working Group Meeting Minutes.

I. Call to Order

Auditor Otto called the meeting to order.

II. Introductions

The Working Group members and others in attendance introduced themselves and identified the community or organization they are representing.

III. Review and Approval of Working Group Meeting Minutes

The members reviewed the January 17, 2017, meeting minutes that had been provided in advance. Hemstad made a motion to adopt the minutes. Johnson seconded the motion that was then adopted unanimously. Kruse, Wall, and Zikmund abstained as they were not in attendance at the January 17, 2017, meeting.

IV. Update on 2017 Legislative Proposals

Auditor Otto provided an update regarding the 2017 Working Group proposals that were part of the 2017 Omnibus Retirement Bill. The Bill was passed by the House and Senate but was vetoed by Governor Dayton. Lenczewski shared that everything from the 2017 Bill, with updated effective dates, will be used as the starting point for the 2018 Omnibus Retirement Bill that will be before the Legislative Commission on Pensions and Retirement (LCPR) for consideration this session.

V. Discussion of Proposal to Raise Maximum Allowable Lump-Sum Benefit Level to \$15,000

Auditor Otto explained that one of the provisions in the Bill that will be before the LCPR members would increase the maximum allowable lump-sum benefit level to \$15,000 per year of active service. This was not a Working Group proposal, but the Group has been asked to consider weighing in on it. Jones reminded members that during a 2017 Working Group meeting the proposal was discussed. The provision started as special legislation for the Eden Prairie Firefighter Relief Association during the 2016 Legislative Session. When the proposal was heard by the LCPR it was modified by an LCPR member from an Eden Prairie-only provision to a general provision that would be applicable to all defined-benefit relief associations. While the change would increase the maximum allowable lump-sum benefit level for all relief associations, very few relief associations would meet the current restrictions to offer a benefit level at the higher maximum.

Representatives from the Cities of Plymouth and Maplewood shared their preference that the provision be an Eden Prairie-only provision and their concerns with it being changed to a general provision that would be applicable statewide. The representatives also said that they felt there was a lack of communication about the proposal when it was introduced and acted upon in 2016. Firefighters in attendance reminded the Working Group that volunteer and paid-on-call firefighters receive little or no compensation other than their relief association service pension, which is an important tool for recruitment and retention.

Lenczewski said the LCPR would be interested to know if the Working Group has a position on this proposal. If the Working Group takes no position, the 2018 Bill will be heard by the LCPR in its current form. Interested parties then would have the opportunity to testify before the LCPR. The Working Group members wanted to extend the discussion to the next Working Group meeting.

VI. Discussion of Municipal Ratification of Benefit Levels

Representatives from the Cities of Plymouth and Maplewood expressed their belief that the current authority relief associations have to increase benefit levels without municipal ratification, if certain conditions are met, is not good public policy. Hemstad shared the experience of his relief association, which is overfunded but unable to obtain municipal ratification for a benefit level increase due to fears among the council members following the last downturn in the investment markets. Zikmund questioned whether it is good public policy to have relief associations with large surpluses that are unable to increase their benefit levels. Zikmund also shared that there is a natural tension between the relief association's board of trustees, which has a fiduciary duty to its members, and the affiliated city council, which determines the number of firefighters on the department and whether contributions are made to the relief association.

The Working Group members discussed numerous approaches for changes to the current law. Jaeger expressed a desire for additional education for municipal officials on relief association finances and benefits. The Working Group members agreed to continue the discussion on these municipal ratification topics at its next meeting.

VII. Other Business

There was no other business.

VIII. Next Meeting

Wednesday, January 31, 2018
11 a.m. to 1 p.m.
Office of the State Auditor

IX. Adjournment

The meeting was adjourned shortly after 1:00 p.m.

Exhibit B

Lump-Sum Benefit Levels

Topic:

The Eden Prairie Fire Relief Association sought special legislation during the 2016 Legislative Session that would have allowed its maximum lump-sum service pension amount to increase from the current \$10,000 to \$15,000 per year of active service. The legislative proposal was supported by the Eden Prairie Fire Relief Association and by the City of Eden Prairie.

When the proposal was heard by the Legislative Commission on Pensions and Retirement (LCPR), it was modified by a member of the LCPR from an Eden Prairie-only provision to a general provision that would be applicable to all defined-benefit relief associations. While the change would increase the maximum allowable lump-sum benefit level for all relief associations, very few relief associations would be able to offer a benefit level at the higher maximum. Each relief association would still be subject to the flexible service pension maximum based on the relief association’s average available financing per active firefighter.

The general legislative change to increase the maximum allowable benefit level to \$15,000 per year of service was included in the 2016 Omnibus Retirement Bill and in the 2017 Omnibus Retirement Bill, both of which were passed by the Legislature but vetoed by the Governor. The legislation will be before the LCPR membership for reconsideration this session.

A list is provided below of relief associations that offered lump-sum benefit levels during 2016 at or above \$7,000 per year of service. If available in reports currently on file with the Office of the State Auditor, the 2017 benefit levels are provided, too.

Relief Association Name	2016 Lump-Sum Benefit Level	2017 Lump-Sum Benefit Level
Eden Prairie Fire Relief Association	\$10,000	\$10,000
Maplewood Fire Relief Association	10,000	10,000
Plymouth Fire Relief Association	9,500	
Brainerd Fire Relief Association	8,750	9,500
Northfield Fire Relief Association	8,500	8,500
Inver Grove Heights Fire Relief Association	7,900	7,900
Robbinsdale Fire Relief Association	7,800	
Shakopee Fire Relief Association	7,800	8,025
Golden Valley Fire Relief Association	7,750	8,000
Alexandria Fire Relief Association	7,725	
Brooklyn Center Fire Relief Association	7,600	
Prior Lake Fire Relief Association	7,100	7,200
Rosemount Fire Relief Association	7,100	
Excelsior Fire Relief Association	7,050	7,250

TO: Senator Collin Peterson
 Representative Leo Reding

FROM: Lawrence A. Martin, Exec. Sec.

RE: Volunteer Firefighters' Service Pension Limits

DATE: January 11, 1979

Following your request, the Commission staff has met with Mr. Gus Welter, representing the Minnesota State Fire Departments Association, and Mr. Stan Peskar, representing the League of Minnesota Cities, to discuss the possibility of modifying the current general statutory provisions governing volunteer firefighters' service pensions in order to eliminate a substantial portion of the special legislation authorizing an increase in volunteer firefighters' service pensions. The Commission staff has proposed a potential solution, which has, to date, only been presented in general terms. This memo attempts to develop the proposal in some detail in order for you to decide whether it is worth pursuing further.

Problem

The problem, which has been described and discussed in numerous Commission staff memoranda over the past six years, is that the general statute governing the maximum amount of volunteer firefighters' service pensions sets a limit which is beyond the financial capacity of probably eighty percent of the relief associations and municipalities and which requires a substantial portion of the remaining twenty percent to seek special benefit increase legislation periodically. This sizeable and growing demand for special legislation is a source of frustration for the Legislature because of the amount of Commission staff, Commission, Subcommittee, Committee and floor time it consumes. A total of 121 special laws relating to volunteer firefighters relief associations have been enacted since 1959, with sixty-five percent of the special legislation authorizing a relief association to exceed the service pension limits contained in Minnesota Statutes, Sections 69.06 and 69.691.

Minnesota Statutes, Sections 69.06 and 69.691, provide for the following limits on service pensions paid from a municipal relief association or an independent non profit firefighting corporation. The statutory limits are as follows:

<u>Lump Sum Service Pension</u> per year	<u>Municipal Relief Assn.</u> \$600/year	<u>Indep. Nonprofit Firefighting Corp.</u> \$400/year
with 10 years of service	\$4,500	--
with 15 years of service	9,000	--
with 20 years of service	12,000	\$8,000
<u>Monthly Service Pension</u> per month per year of serv.	\$ 4.00/mo per yr	4.00/mo per yr
with 10 years of service	30.00/month	--
with 15 years of service	60.00/month	--
with 20 years of service	80.00/month	\$80.00/month

The minimum service requirements for vesting set forth in statute for municipal volunteer firefighters relief associations are 15 years of service with the municipal volunteer fire department and 10 years of membership in the municipal volunteer firefighters relief association. The minimum service requirements for vesting set forth in statute for independent nonprofit firefighting corporations are 20 years of service with the nonprofit firefighting corporation and 10 years of membership in the corporation's retirement plan or relief association. The earliest age at which a municipal volunteer firefighters relief association or

an independent nonprofit firefighting corporation may pay a service pension to a qualified applicant is age 50. Municipal volunteer firefighters relief associations and independent nonprofit firefighting corporations have authority to establish more restrictive age, service and membership requirements than the statutory minimums.

Proposal

For the past several years, the Commission staff has suggested that a solution to the problem of statutory service pension limits would be to eliminate the unwieldy and largely inapplicable single figure service pension limit and replace it with a system of flexible service pension maximums which would apply across the board to all relief associations and nonprofit firefighting corporations and which would shift the decision making on benefit increases for all relief associations and nonprofit firefighting corporations entirely to the local level.

In the proposed solution, the Commission staff is attempting to accomplish the same results which the present limits were undoubtedly designed to or became intended to accomplish. In the view of the staff, these are as follows:

- (1) limit the opportunity for a relief association and a municipality to unwittingly or intentionally promise benefits far in excess of the municipality's ability to finance because the cost impact of these promises are frequently deferred to future years and taxpayers; and
- (2) provide a means for legislative oversight or supervision of the volunteer firefighters' service pension system by considering special authority to exceed the statewide statutory limits when available municipal financing was present.

The Commission staff agrees with the representatives of the volunteer firefighters and the League of Minnesota Cities that the present statutory limits do not adequately accomplish these results.

The proposed solution would involve a set of flexible maximum service pensions which vary according to the ability to support the benefit package available to the municipality and the relief association. Specifically, the ability to support the benefit package would be measured by the amount of fire state aid and municipal support received by the relief association during the preceding year per member of the relief association. In the event that a relief association has assets in excess of its total current accrued liabilities (a funding surplus), the ability to support the benefit package would include a partial year by year realization of the association's funding surplus per member of the relief association, with the total amount of the funding surplus realized over a period of ten years (in effect, a ten year reverse amortization of the funding surplus). In setting the benefit maximum for each level, the ability to support the benefit package per member of the relief association will be compared to the financing required to support the given service pension level per member of the relief association as set forth in the applicable section of the Volunteer Firefighters Relief Associations Guidelines Act of 1971. The staff is suggesting setting the relationship between the ability to support the benefit maximum and the benefit maximum at a minimum of eighty percent of the financing required by the Guidelines Act to support the annual accruing liability or normal cost. The applicable service pension maximum would be determined year to year to take into account any changes in the ability of the relief association and the municipality to support the benefit package. In the initial year, the flexible service pension maximum would be the greater of the maximum determined by use of the appropriate table set forth in statute based on the ability to support the benefit package for the

preceding year or the current service pension set forth in the bylaws of the relief association. In subsequent years, the flexible service pension maximum would be the greater of the maximum determined by use of the appropriate table set forth in statute based on the ability to support the benefit package for the preceding year or the maximum applicable for the preceding year. In this way, the addition of one or more firefighters or a short term reduction in municipal support or fire state aid would not cause a reduction in the flexible maximum from the maximum applicable for the preceding year. It also allows a volunteer firefighters relief association which desires to increase the size of the service pension to do so by securing increases in the municipal contribution in the year or a short period of years immediately prior to the year for the proposed increase in the service pension.

The following table sets forth the suggested flexible service pension maximums for lump sum and monthly benefit service pensions as developed by the staff.

Lump Sum Service Pensions

<u>Fire State Aid & Municipal Contribution per Firefighter</u>	<u>Suggested Flexible Service Pension Maximum</u>	<u>Required Guidelines Act Financing (20 yr. table)</u>
\$ _____	\$10	\$ 6
10	20	12
14	30	18
20	40	24
24	50	30
28	60	36
38	80	48
48	100	60
58	120	72
68	140	84
76	160	96
86	180	108
96	200	120
116	240	144
134	280	168
154	320	192
172	360	216
192	400	240
212	440	264
230	480	288
250	520	312
268	560	336
288	600	360
308	640	384
326	680	408
346	720	432
364	760	456
384	800	480
432	900	540
480	1000	600
528	1100	660
576	1200	720
624	1300	780
672	1400	840
720	1500	900
768	1600	960
816	1700	1020
864	1800	1080
912	1900	1140
960	2000	1200

Volunteer Service Pension Limits

Monthly Service Pensions

Fire State Aid & Municipal Contribution per Firefighter	Suggested Flexible Service Pension Maximum per Month per year of Service	Required Guidelines Act Financing for Equivalent Lump Sum Service Pension (20 year table)
\$ 38	\$ 0.25	\$23
74	0.50	47
112	1.00	93
149	1.50	140
186	2.00	186
223	2.50	233
261	3.00	279
298	3.50	326
335	4.00	372
372	4.50	419
410	5.00	465
447	6.00	512
484	7.00	558
521	8.00	605
558	9.00	651
595	10.00	698
633	11.00	744
670	12.00	791
707	13.00	837
744	14.00	884
	15.00	930

To demonstrate how the proposed flexible maximum would work, the situation of the Dover Volunteer Firefighters Relief Association will be used, chosen at random, and providing a fairly representative example. The relief association provides a lump sum service pension of \$50 per year of service, payable at age 55 with at least 20 years of service with the volunteer fire department and 10 years of membership in the relief association. The relief association also provides a death benefit and a funeral benefit. The financial situation of the relief association as of December 31, 1976, as reported in the 1976 financial report to the Commissioner of Insurance is as follows:

Accrued Liability	\$10,917.00
Assets	<u>7,026.49</u>
Unfunded Accrued Liability	\$ 3,890.51
Funding Ratio	64.4%
Annual Accruing Liability	\$ 647.00
Amortization Contribution	<u>389.05</u>
Total Required Contribution	\$ 1,036.05
Fire State Aid	\$ 1,035.36
Municipal Contribution	911.23
Other Income	<u>24.00</u>
Total Non Investment Income	\$ 1,970.59
Active Members	23
Deferred Members	1

The total amount of fire state aid and municipal contributions for the relief association for 1976 is \$1,946.59, which would be \$84.63 per firefighter. Using the lump sum service pension portion of the suggested flexible maximum table, the Dover Volunteer Firefighters Relief Association with its present financing could not exceed a lump sum service pension level of \$160 per year of service. If the relief association decided to switch to a monthly benefit service pension program, it could not, with its present financing, exceed a monthly benefit service pension level of \$1.00 per month per year of service (\$20.00 per month for life after 20 years of service).

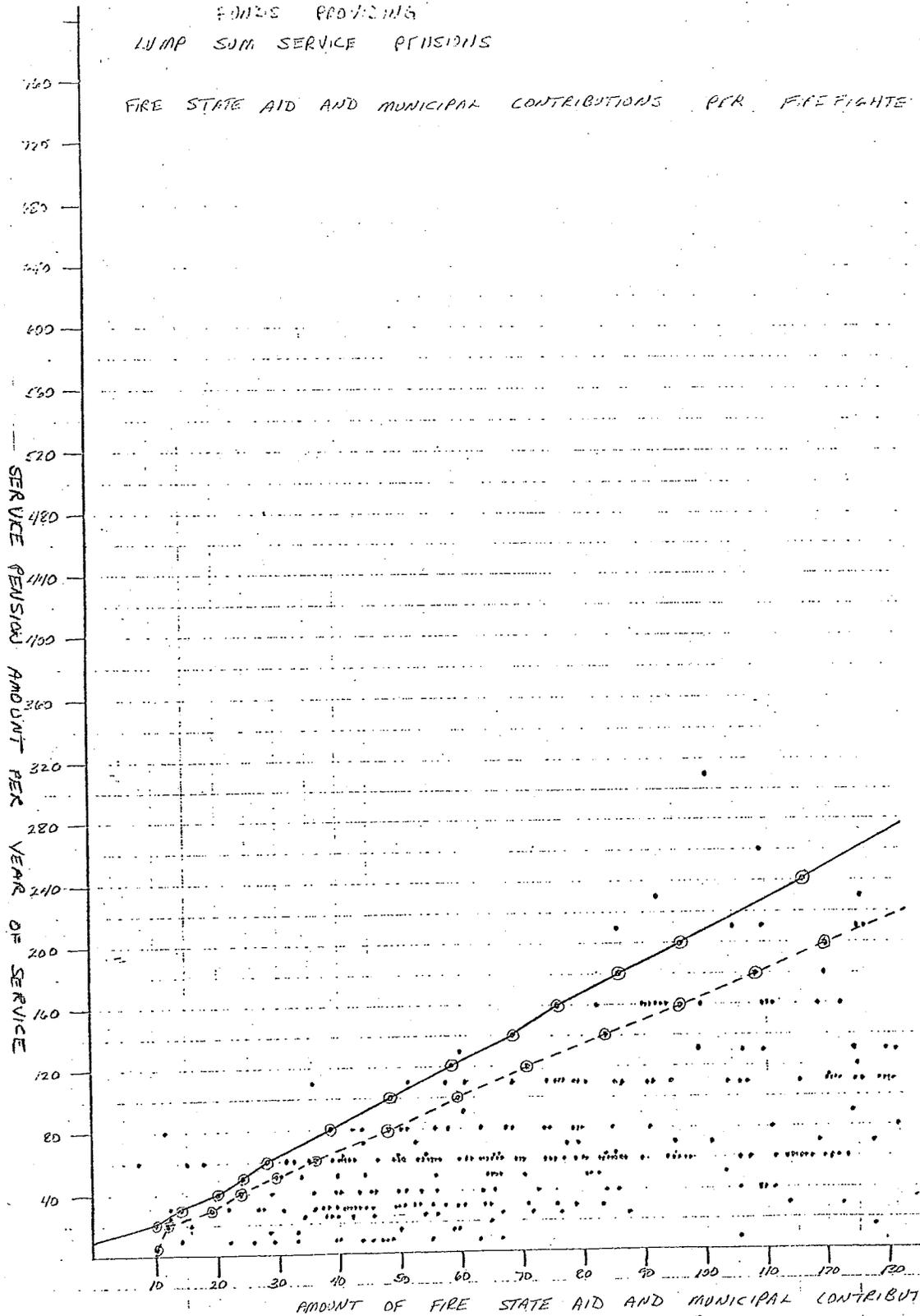
As should be readily apparent, the process of calculating the flexible maximum for the relief association merely requires in statute what any soundly managed relief association contemplating a benefit increase and projecting its cost would do anyway. The attached graphs show for both the relief association paying lump sum benefits and the relief association paying monthly benefits the distribution of the relief associations according to the service pension level and the amount of fire state aid and municipal contributions per firefighter, and chart the maximum which would be applicable if there were no grandfathering in of all existing service pension levels. The number of funds providing benefits above the suggested maximum is few. This means that there would be little affect on the status quo, but that any future changes would without question be evaluated with an eye toward available financing. While most every fund could seek a benefit improvement and increase the financial requirements of the relief association and municipal obligation towards the relief association, the potential for the relief association and the municipality to uncritically and irresponsibly raise benefits beyond all potential or available means of financing would be significantly reduced when compared to the current single figure service pension limits.

In requiring that certain steps be taken to evaluate the financing available for benefit improvements, the proposed flexible benefit maximums augment the very needed and valuable constraints which the Volunteer Firefighters Relief Association Guidelines Act of 1971 placed on the system. The only problem with the benefit increase procedure of the 1971 Guidelines Act which the Commission staff has been able to identify is the assumption of understanding of the requirements of the 1971 Guidelines Act by and the reliance on the good faith of officials of volunteer firefighters relief associations and municipal officials. The Guidelines Act attempts to use the municipality as a check on the proposals of the relief association. It indicates that adequate data on the effect of the change be disclosed to municipal officials prior to their considering and approving the change. If either party misunderstands the requirements of the Guidelines Act or if the municipality is intentionally or unintentionally misled, a promise of an increased benefit can be made without a full understanding of its ramifications. In such an instance, the Guidelines Act requires the promise to be funded and provides a heavy sanction if it is not. The Guidelines is effective but does not provide any sort of preventive remedy. It is felt by the Commission staff that the flexible service pension maximums through their requirement of an evaluation of available financing prior to proposal of a benefit increase will provide a preventive remedy even if the flexible maximums themselves allow for plenty of discretion and room to increase service pension levels.

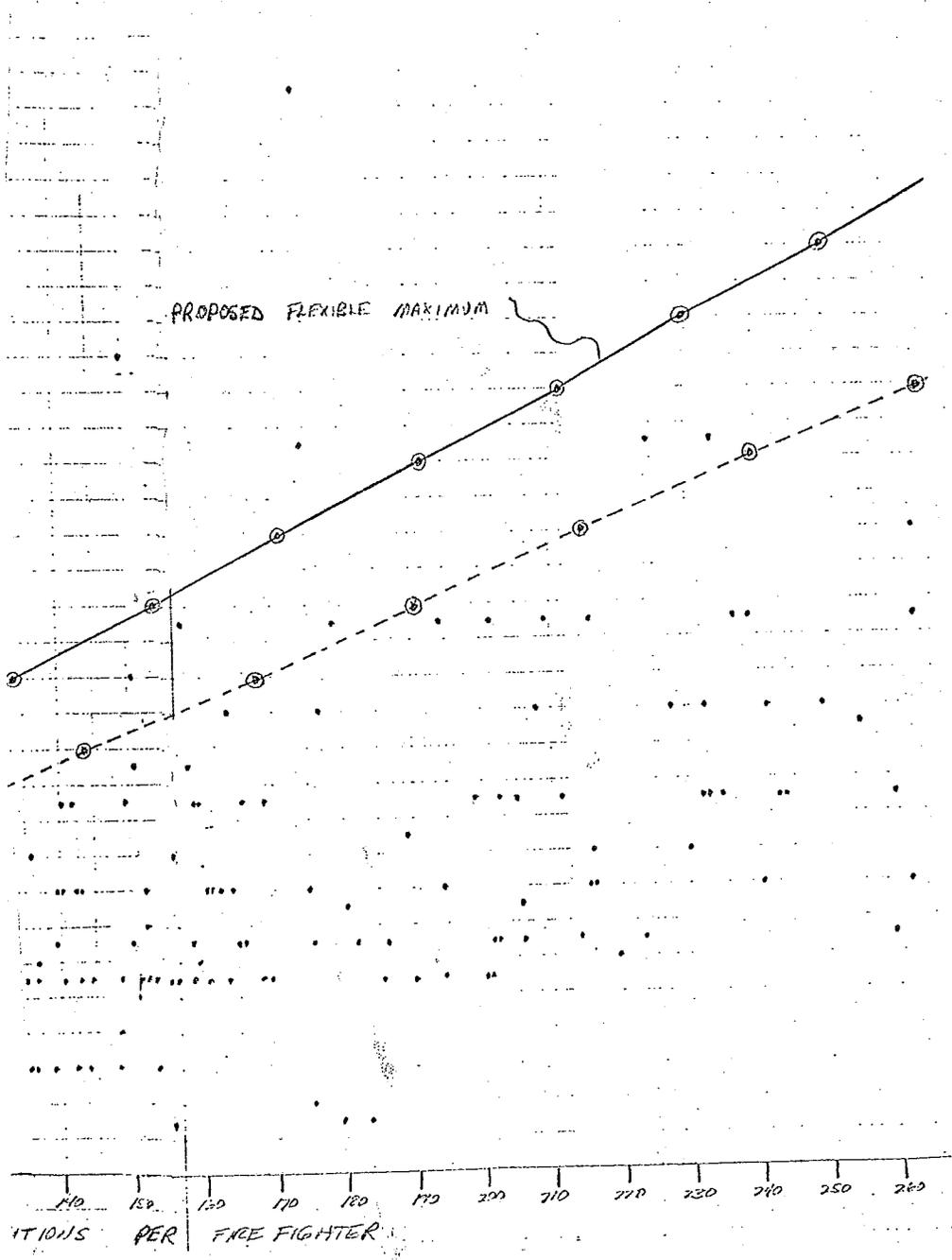
As part of the proposal, including the essential reforms suggested by the Minnesota Fire Departments Association, the Commission staff recommends that a substantial portion of the review of Guidelines Act compliance function (examination of annual financial reports) be transferred to the State Auditor's office. This office should have the necessary staff and expertise to perform this function and this would relieve the overworked staff of the Tax Audit Section of the Insurance Division of the Commerce Department of a considerable load (and would allow them to perform their prime function, which is auditing the tax returns of insurance companies). As part of the duties of the State Auditor's office, the Commission staff recommends that the State Auditor compile and present to the Commission biennially a summary of the condition of the various volunteer funds generally and specifically. This would serve the very same function as the annual financial and actuarial valuation for the major pension funds, serves. It would allow the Commission to perform its legislative oversight and supervisory duties in a more meaningful and more comprehensive way than is presently occurring with the piecemeal special legislation approach.

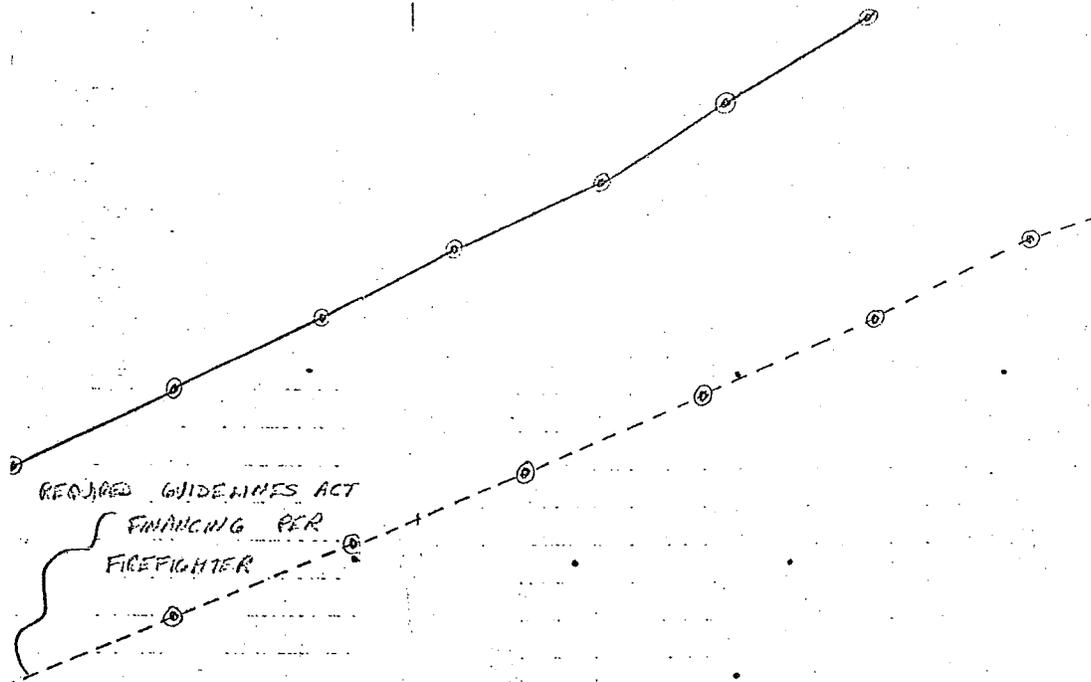
FUNDS PROVIDED
LUMP SUM SERVICE PENSIONS

FIRE STATE AID AND MUNICIPAL CONTRIBUTIONS PER FIRE FIGHTER

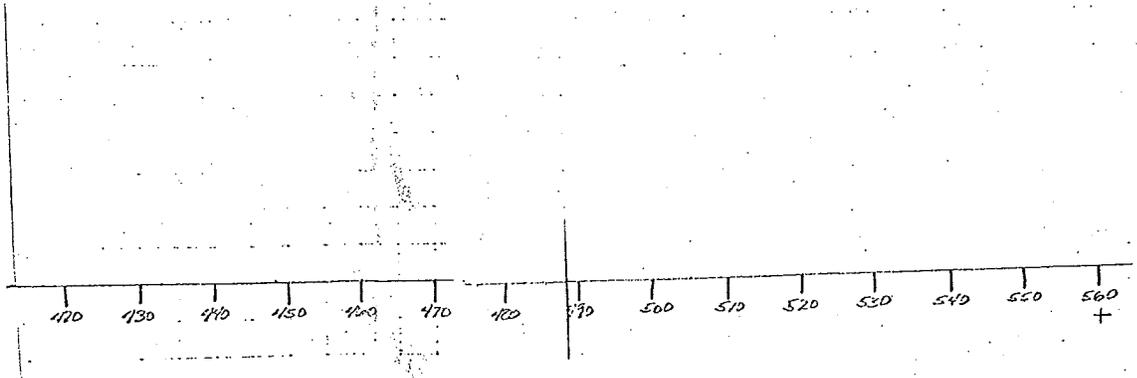
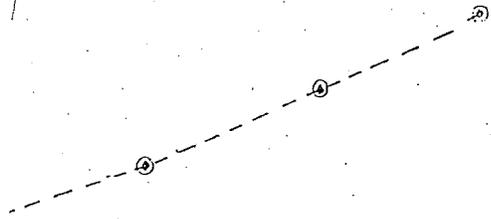


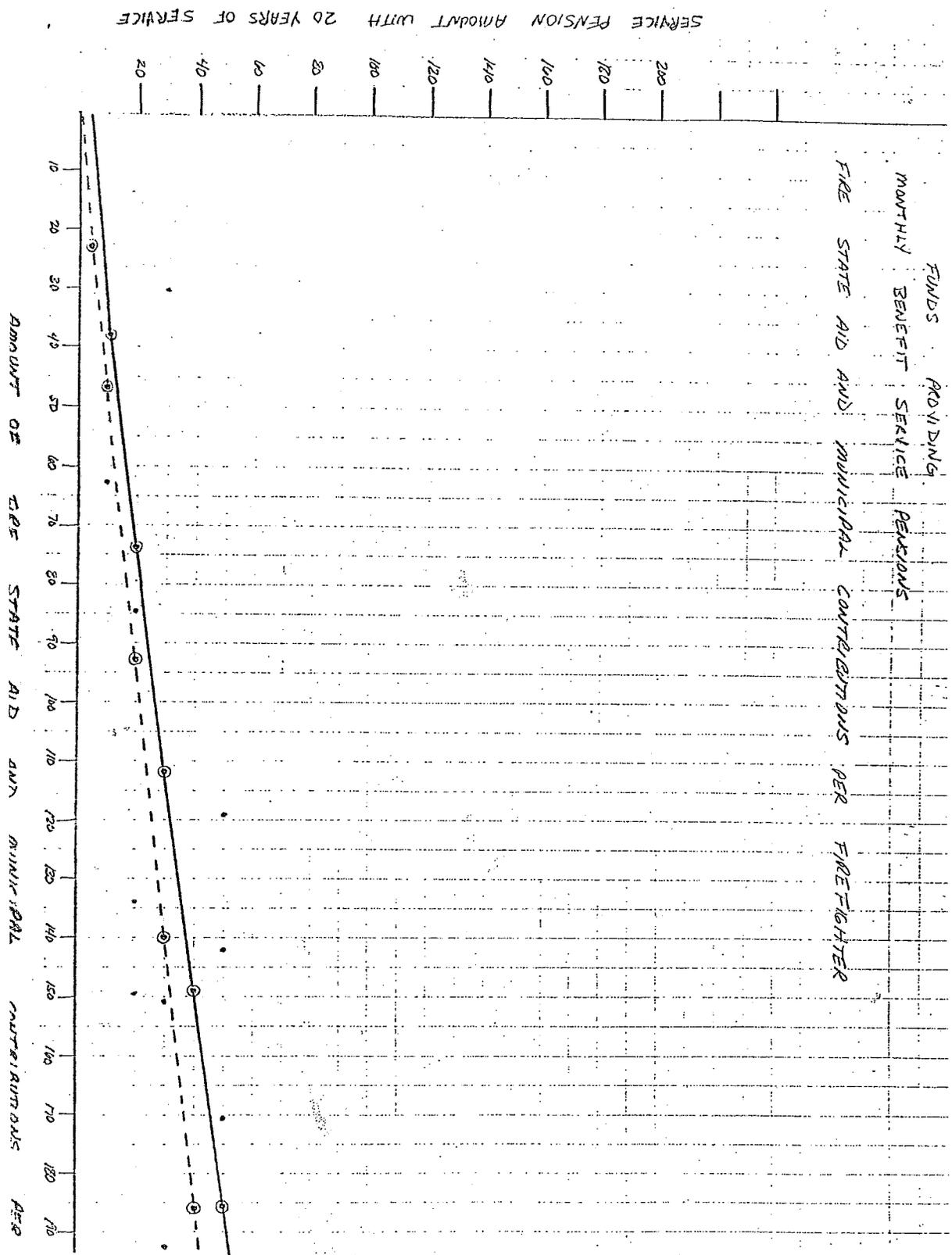
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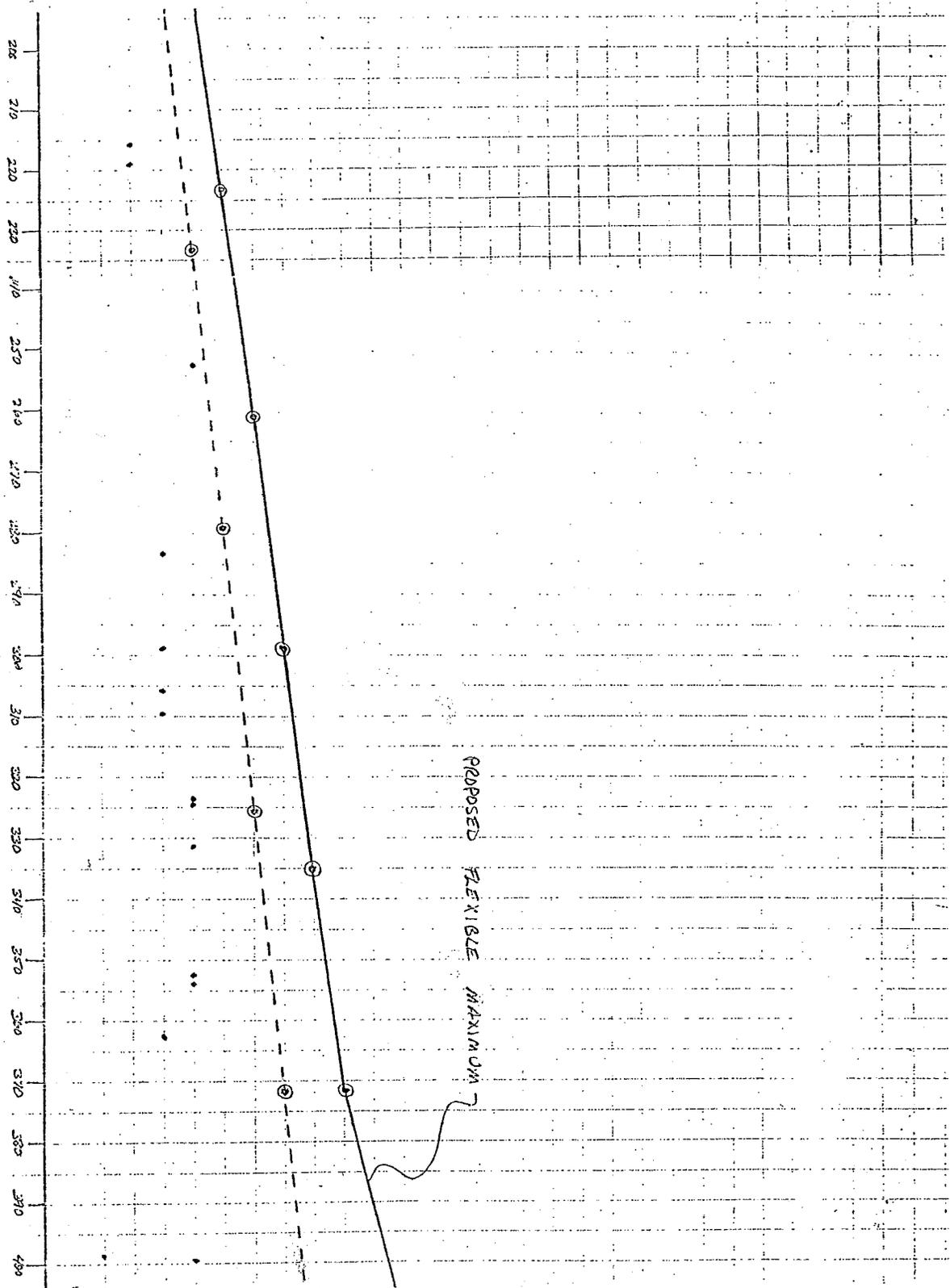


SERVICE PENSION AMOUNT WITH 20 YEARS OF SERVICE

FUNDS PROVIDING MONTHLY BENEFIT SERVICE PENSIONS
 FIRE STATE AID AND MUNICIPAL CONTRIBUTIONS PER FIRE FIGHTER

AMOUNT OF FIRE STATE AID AND MUNICIPAL CONTRIBUTIONS PER FIRE FIGHTER

CIRCUIT LINE



PROPOSED FLEXIBLE MAXIMUM

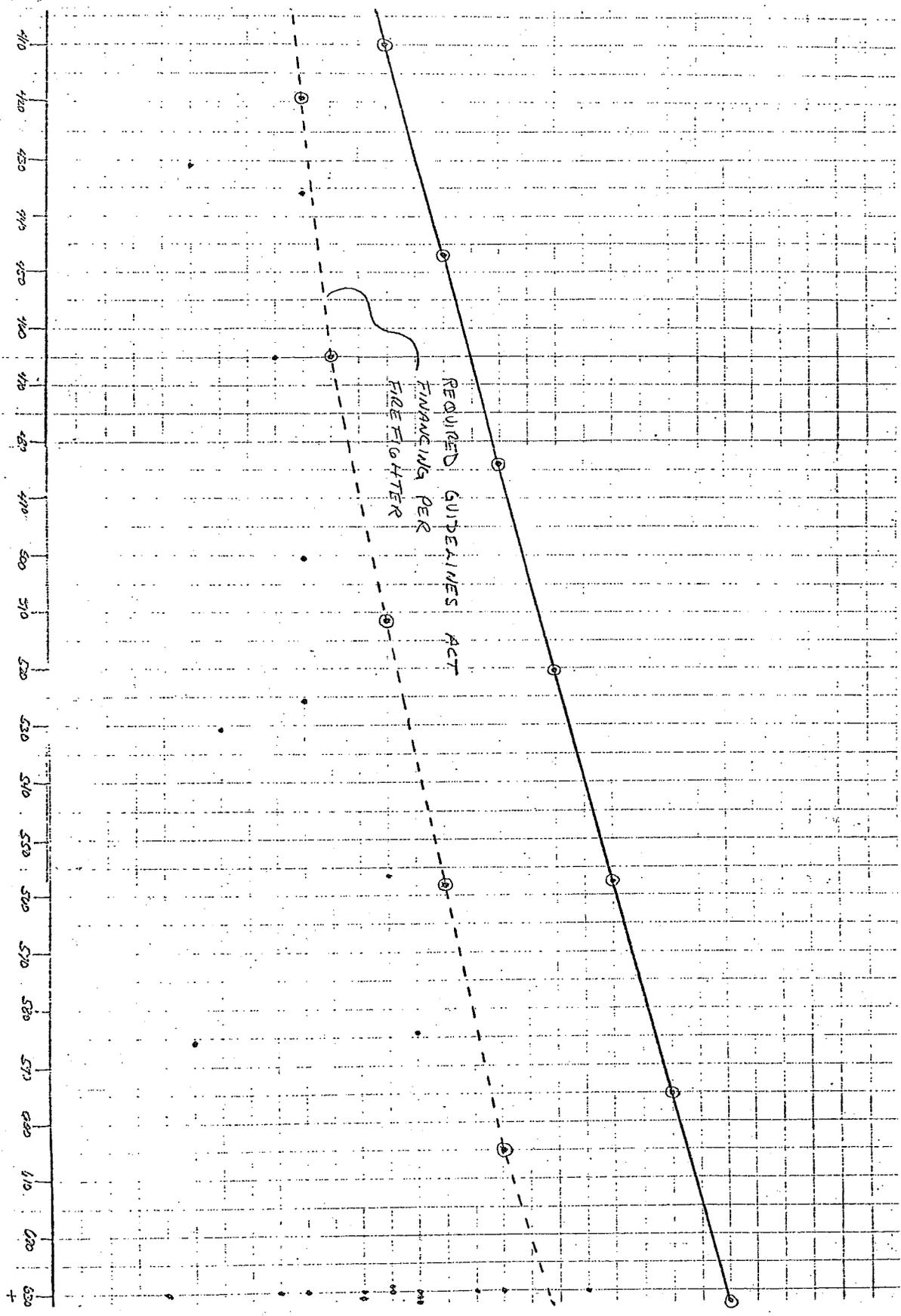


Exhibit D

Municipal Ratification of Benefit Levels

Topic:

Generally, relief associations are required to obtain ratification from the affiliated municipality or independent nonprofit firefighting corporation of a benefit level change before the change becomes effective. There is authority, if certain conditions are met, for a relief association to increase its benefit level without obtaining ratification. This allows a relief association that is well-funded to make benefit level changes even if the affiliated municipality or independent nonprofit firefighting corporation does not support the change.

Whether a relief association is required to obtain ratification depends on if the relief association has a surplus and if the municipality is required to provide financial support.

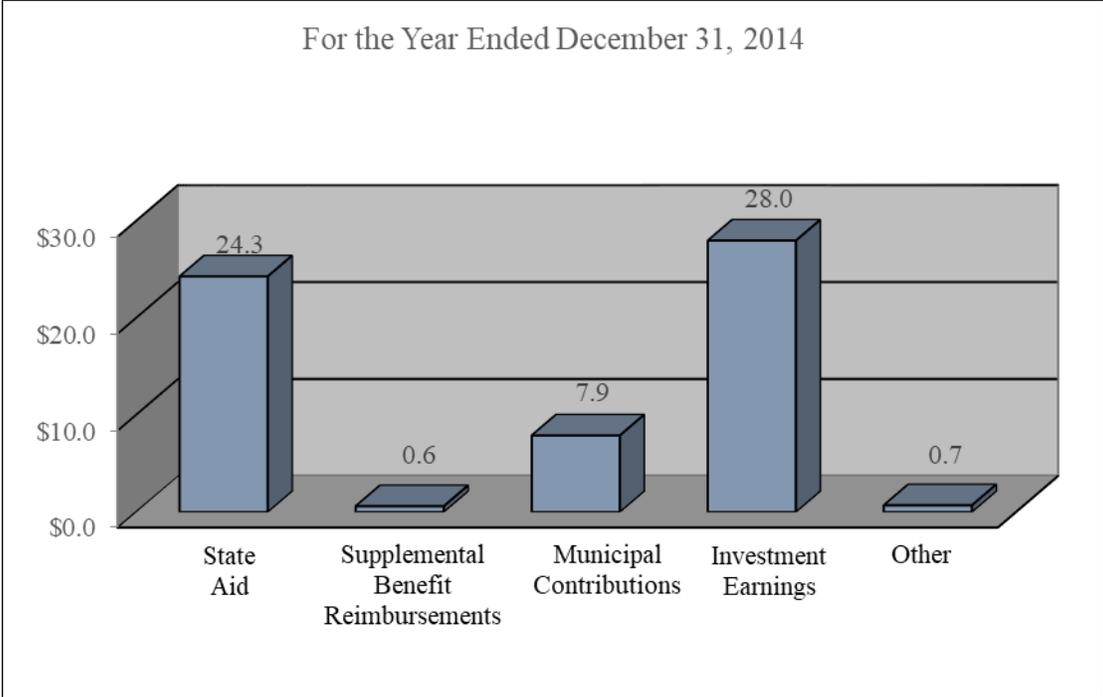
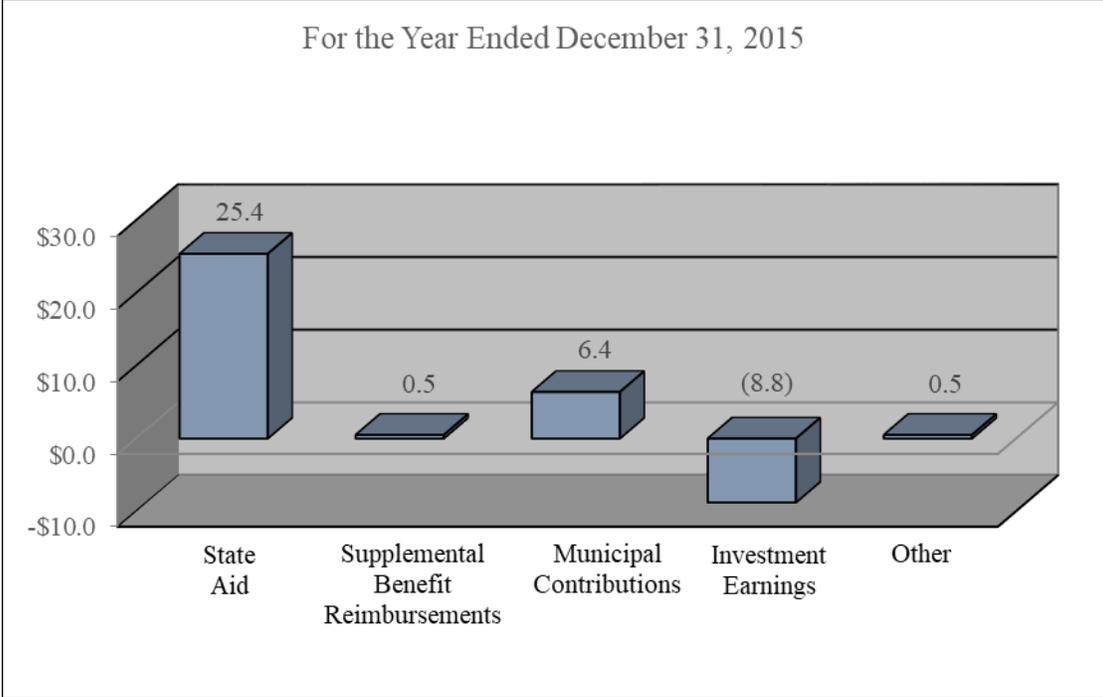
However, there is a risk if a relief association decides to increase benefits on its own. If the benefit level is increased without ratification and a municipal contribution should subsequently become required, the benefit level is no longer effective without ratification and any future benefits can only be paid using the ratified benefit level (i.e., the relief association must drop its benefit level to the last ratified level).

There currently are about 30 relief associations operating at benefit levels that have not been ratified by the affiliated municipality or independent nonprofit firefighting corporation, with almost all of them being located in Greater Minnesota.

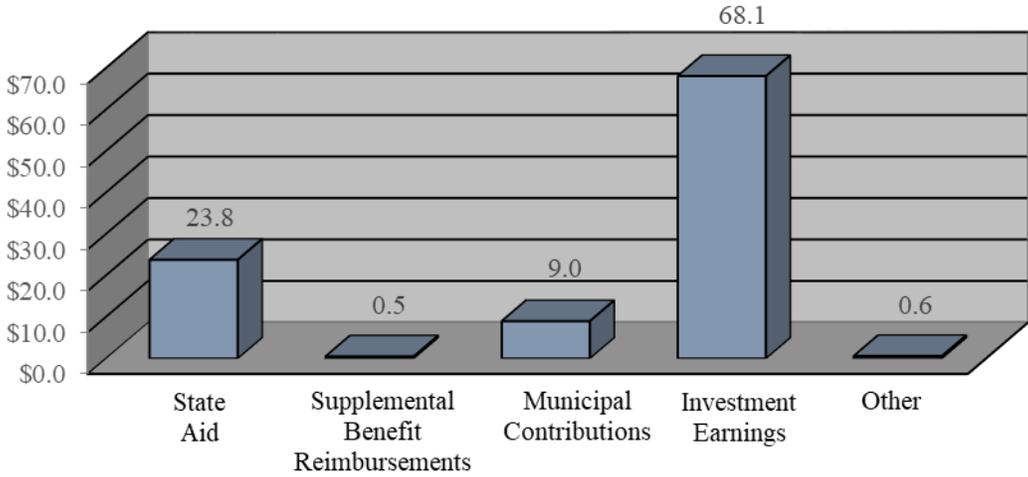
Two topics regarding municipal ratification of benefit levels have been brought to the Working Group for discussion. The topics are:

1. Municipalities that choose not to ratify benefit level increases when the affiliated relief association has an excessively-high funding ratio; and
2. The current statutory authority that relief associations have to increase benefit levels on their own without municipal ratification.
3. Is there a different approach?

Exhibit E
Municipal Contribution Data
(Dollars in Millions)



For the Year Ended December 31, 2013



For the Year Ended December 31, 2012

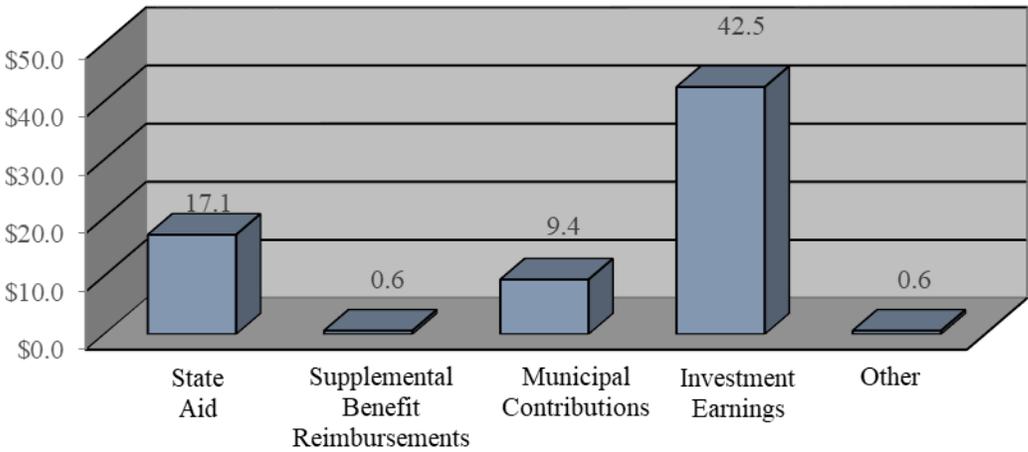
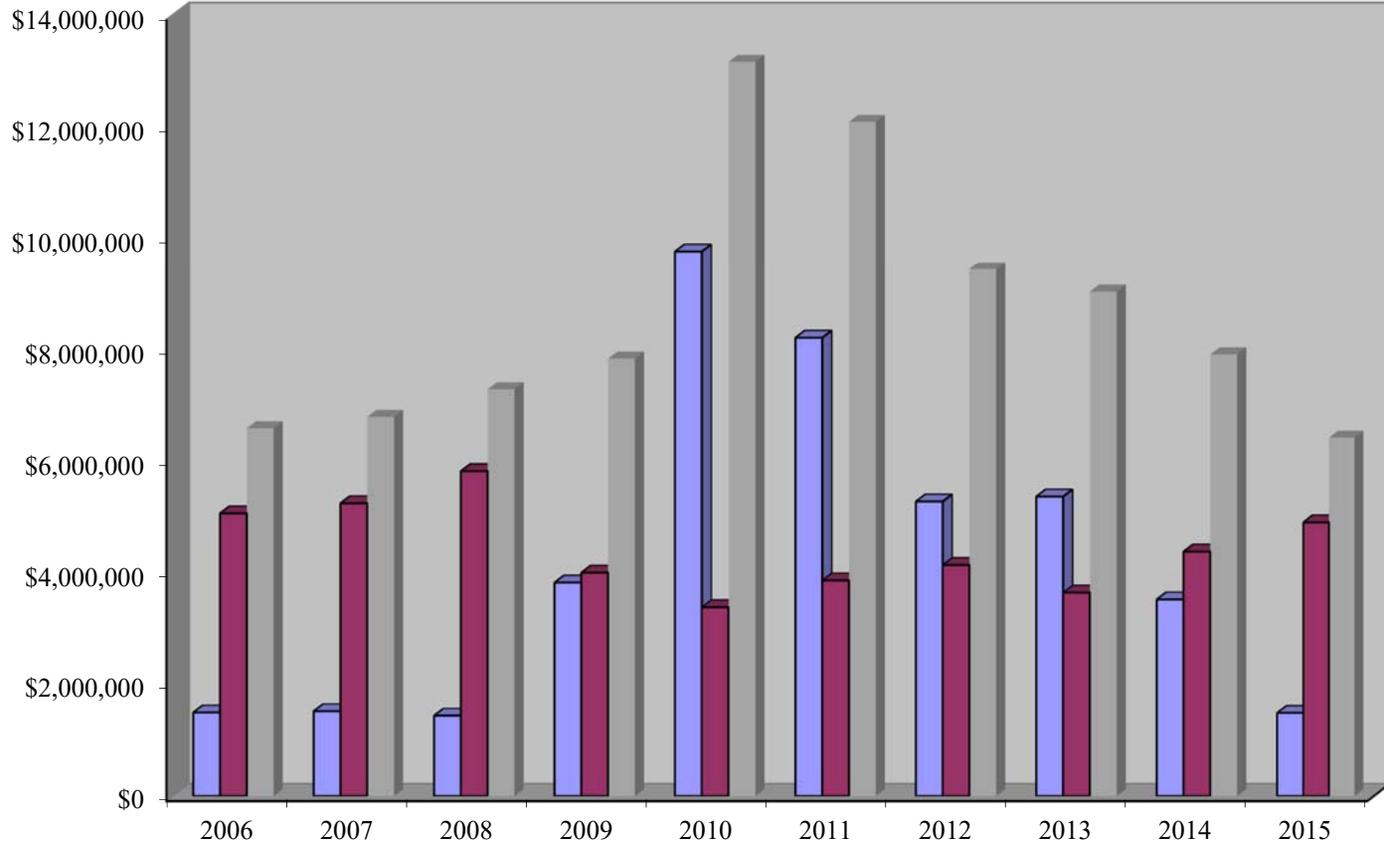


Exhibit E Municipal Contribution Data



■ Required Municipal Contributions ■ Voluntary Municipal Contributions ■ Total Municipal Contributions