



Working Group

Meeting Agenda: December 14, 2022

- I. Call to Order**
Chair Auditor Blaha.
- II. Review and Approval of Working Group Meeting Minutes**
Exhibit A. Draft December 7, 2022, Meeting Minutes
- III. Review of Draft Investment Report Certification Technical Change**
Exhibit B.
- IV. Review of Draft Audit Threshold Change**
Exhibit C.
- V. Discussion of Benefits for EMS-Only Members**
Sam Meixell, Treasurer, Sherburn Fire Relief Association
- VI. Discussion of DC Plan Allocation Timing**
Exhibit D.
- VII. Discussion of Firefighter Definitions**
Exhibit E.
- VIII. Other Business**
- IX. Next Meeting**
TBD January 2023
In-Person/Virtual Hybrid Format
- X. 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 December 12, 2022.



Exhibit A

12-07-22 Draft Minutes

Members Present

Julie Blaha, State Auditor

Eric Bullen, Minnesota State Fire Chiefs Association Representative (defined benefit lump sum plans) (via Zoom)

Steve Donney, City of Harmony Mayor (via Zoom)

Sue Iverson, City of Red Wing Finance & Accounting Manager (via Zoom)

Dan Johnson, Mendota Heights Fire Relief Association Trustee (defined contribution plans) (via Zoom)

Aaron Johnston, Coon Rapids Fire Relief Association Treasurer (defined contribution plans)

Karl Mork, Bemidji Fire Relief Association Treasurer (defined benefit lump sum plans) (via Zoom)

Darrell Pettis, St. Peter Fire Relief Association Treasurer (defined benefit lump sum plans) (via Zoom)

Kevin Wall, Lower Saint Croix Valley Fire Relief Association President (defined benefit lump sum plans)

Michael Walstien, Plymouth Fire Relief Association Member (defined contribution plans) (via Zoom)

Thomas Wilson, Eden Prairie Fire Relief Association Secretary (defined benefit monthly/lump sum plans) (via Zoom)

Members Excused

Ron Johnson, Minnesota State Fire Department Association Representative (defined contribution plans)

Andy Paszak, Proctor Fire Relief Association President (defined benefit lump sum plans)

Office of the State Auditor and Legislative Support Present

Ramona Advani, Deputy State Auditor and General Counsel

Chad Burkitt, Legislative Commission on Pension and Retirement Analyst (via Zoom)

Rose Hennessy Allen, Office of the State Auditor Pension Director

Susan Lenczewski, Legislative Commission on Pension and Retirement Executive Director (via Zoom)

I. Call to Order

Auditor Blaha called the meeting to order. She explained that the meeting was being conducted in a hybrid format and being recorded and streamed to the Office of the State Auditor (OSA) YouTube channel. The meeting agenda was accepted with no changes.

II. Review and Approval of Working Group Meeting Minutes

Members reviewed the November 10, 2022, meeting minutes that had been provided in advance. The meeting minutes were accepted with no changes.

III. Discussion of Required Investment through the SBI

Auditor Blaha shared that there was discussion about this topic during the last legislative session. The Working Group had taken a position to support local control, but the topic was being revisited to see if the group still held that position. Working Group members expressed their continued support that investment through the SBI be an option and not required. There are some situations, such as separate accounts for deferred members, that cannot be accommodated with the SBI. It was acknowledged that there are some misconceptions about the 2022 legislative proposal that would have required investment through the SBI. Advani suggested that the OSA could perhaps publish a Q&A with someone from the SBI in a relief association newsletter to help address misconceptions and educate relief association trustees.

IV. Review of Draft Investment Report Certification Technical Change

Hennessy Allen explained the current certification process for a relief association's annual financial and investment reporting form and the OSA's plan to add the new certification that the annual investment report provided by the OSA has been reviewed by the board of trustees. To clear up questions about who on the relief association's board of trustees is required to complete the certification, the OSA has proposed a technical change to the investment report certification statute. After discussion among the Working Group members, it was agreed that the OSA would update the draft technical change to be consistent with certification language elsewhere in the relief association statutes and bring the language back for review at the next meeting.

V. Discussion of DC Plan Allocation Timing

Hennessy Allen explained that relief associations with a defined contribution plan are required to complete an allocation table at least once annually to determine each member's current account balance. An allocation table with account balances as of December 31 is required to be submitted to the OSA. Some relief associations choose to prepare allocation tables more frequently. For those relief associations that only prepare the December 31 allocation table, questions have arisen about the amounts payable to members who retire mid-year. Specifically, the concern that has been brought to the OSA's attention is in situations where members who retire mid-year are paid their prior December 31 account balance, which does not take into consideration any investment gains or losses between December 31 and the member's retirement date. In years when there are investment losses and the relief association pays a retiring member the prior December 31 account value, the accounts of the remaining members would need to be reduced by both their share of the investment loss and the retiring member's share of the investment loss.

Walstien shared his relief association's practice of paying up to 75 percent of a member's account for a mid-year distribution, and then paying the final amount after the December 31 contribution table is prepared and the final allocation amounts are known. Johnston shared his relief association's practice of preparing allocation tables quarterly and providing retiring members with the option of paying for preparation of an additional allocation table if the member requests payment as of a different date. Working Group members wanted to avoid unintended consequences and were hesitant to pursue a statute change that could increase relief association costs by requiring preparation of additional allocation tables. It was agreed that the topic would be revisited at the next Working Group meeting.

VI. Other Business

Auditor Blaha asked if there were any objections to scheduling one additional meeting in January for the Working Group to conduct a final review of draft language. There were no objections to scheduling a January meeting.

VII. Next Meeting

Wednesday, December 14, 2022
11:00 a.m. to 12:30 p.m.
In-Person/Virtual Hybrid Format

VIII. Adjournment

The meeting was adjourned at 3:24.



Exhibit B

Investment Report Certification

Topic:

A provision in the 2022 Pension and Retirement Bill that was passed into law in May requires the Office of the State Auditor (OSA) to annually provide each relief association with an investment report. The "Investment Report Card" that the OSA provides annually to relief associations as an educational tool satisfies this new requirement.

The new law also requires that each relief association's board of trustees certify to the OSA as part of the relief association's annual financial reporting that the board has received and reviewed the Investment Report Card.

While working to incorporate the new certification into the 2022 financial reporting form (the FIRE Form), OSA staff noted that requiring the "relief association," rather than the "relief association's board of trustees," to certify would better accommodate the current signature process. The current FIRE Form signature process, which a relief association can complete online through our secure SAFES site or by submitting a paper signature page, requires the following individuals to sign a certification on the Form:

- 1) an officer of the board of trustees;
- 2) the municipal clerk or clerk-treasurer;
- 3) the CPA (if an attestation rather than audit is required); and
- 4) the secretary of the independent nonprofit firefighting corporation, if applicable.

The concern is that if the board of trustees must certify its receipt and review of the Investment Report Card, all nine trustees of the board may need to sign, rather than the four people identified above. An optional change is provided below that would allow the Investment Report Card certification to be incorporated into the current FIRE Form certification structure.

Optional Change:

424A.095 INVESTMENTS.

Subd. 2. **Investment report.** (a) Annually, the state auditor must provide an investment report to each relief association that has complied with the reporting

requirements under section 356.219, subdivisions 1 and 3. The investment report must contain the following information:

- (1) the relief association's average annual rates of return for at least the previous one-, three-, five-, ten-, 15-, and 20-year periods for which the state auditor has investment information;
 - (2) the relief association's asset allocation;
 - (3) the average annual one-year and ten-year benchmark rates of return;
 - (4) the average annual one-year and ten-year rates of return for the statewide volunteer firefighter plan;
 - (5) the one-year and ten-year average annual rates of return for the State Board of Investment supplemental investment fund; and
 - (6) a graphical comparison between:
 - (i) the relief association's average annual rates of return for the previous year and for the previous multiyear periods provided under clause (1); and
 - (ii) the average annual rates of return for the same periods for the supplemental investment fund's balanced fund or any successor fund.
- (b) The state auditor shall select the benchmark rates of return based on the best practice in the industry.
- (c) ~~The~~ An officer of the relief association's board of trustees must certify to the state auditor that the board reviewed the investment report. The certification must accompany the audited financial statements or detailed financial statement under section 424A.014, subdivision 1 or 2, whichever applies. A copy of the report must be kept on file by the relief association and must be available for inspection by any member of the public.



Exhibit C

Audit Threshold Change

Topic:

In 1986, an audit threshold of \$200,000 for relief associations was set in statute. A relief association that exceeded \$200,000 in either special fund assets or liabilities was required to file with the Office of the State Auditor (OSA) audited financial statements. Relief associations with assets and liabilities both below the threshold were required to file a financial report with the OSA that had been certified by a CPA.

In 2013, the threshold was increased to \$500,000 in either special fund assets or liabilities.

The question the Working Group has been asked to consider is whether the \$500,000 threshold is still appropriate, or whether it should be changed. An option change is provided below that would increase the threshold.

Optional Change:

424A.014 FINANCIAL REPORT; BOND; EXAMINATION.

Subdivision 1. **Financial report and audit.** (a) An annual financial report and audited financial statements in accordance with paragraphs (c) to (e) must be submitted by the board of trustees of the Bloomington Fire Department Relief Association and the board of trustees of each volunteer firefighters relief association with special fund assets of at least ~~\$500,000~~ \$750,000 or special fund liabilities of at least ~~\$500,000~~ \$750,000, according to any previous year's financial report.

(b) The board of trustees of a volunteer firefighters relief association with special fund assets of less than ~~\$500,000~~ \$750,000 and special fund liabilities of less than ~~\$500,000~~ \$750,000, according to each previous year's financial report, may submit an annual financial report and audited financial statements in accordance with paragraphs (c) to (e).

(c) The financial report must cover the relief association's special fund and general fund and be in the style and form prescribed by the state auditor. The financial report must be countersigned by:

(1) the municipal clerk or clerk-treasurer of the municipality in which the relief association is located if the relief association is directly associated with a municipal fire department;

(2) the municipal clerk or clerk-treasurer of the largest municipality in population that contracts with the independent nonprofit firefighting corporation if the volunteer firefighter relief association is a subsidiary of an independent nonprofit firefighting corporation, and by the secretary of the independent nonprofit firefighting corporation; or

(3) the chief financial official of the county in which the volunteer firefighter relief association is located or primarily located if the relief association is associated with a fire department that is not located in or associated with an organized municipality.

(d) The financial report must be retained in the office of the Bloomington Fire Department Relief Association or the volunteer firefighter relief association for public inspection and must be filed with the governing body of the government subdivision in which the associated fire department is located after the close of the fiscal year. One copy of the financial report must be furnished to the state auditor on or before June 30 after the close of the fiscal year.

(e) Audited financial statements that present the true financial condition of the relief association's special fund and general fund must be attested to by a certified public accountant or by the state auditor and must be filed with the state auditor on or before June 30 after the close of the fiscal year. Audits must be conducted in compliance with generally accepted auditing standards and section 6.65 governing audit procedures. The state auditor may accept audited financial statements in lieu of the financial report required in paragraph (a).



Exhibit D

DC Plan Allocation Timing

Topic:

Relief associations with a defined contribution plan complete an allocation table at least once annually to determine each member's current account balance. Contributions, investment returns, and expenditures are allocated to member accounts based on requirements defined in statute and a relief association's bylaws.

Questions have arisen about how to determine the account balance of a member who requests a payout mid-year. If a relief association only completes its allocation table once each year, the most recent account balance available for a retiring member would be the prior December 31 balance. As illustrated during 2022, investment returns can change significantly in just a few months. If a member's account balance is not recalculated to factor in any investment gains or losses between December 31 and the member's retirement date, the member either misses out on receiving gains, or the losses will become the responsibility of the remaining members.

As an example, consider a relief association with a special fund value of \$250,000 that had a rate of return of -20% for the year to-date. A member with a 12/31/2021 account balance of \$37,000 requests his or her pension distribution in mid-2022. If the relief association pays the member a service pension of \$37,000 instead of the approximately \$29,600 that would be the current value of the account, the accounts of the remaining members would need to be reduced by both their share of the \$50,000 investment loss *and* the retiring member's share of the investment loss.

The concern is that if several members request pension distributions during a year when there are investment losses, and are paid amounts that don't include their share of the loss, the remaining members would unfairly be left to absorb the entire negative return. In some scenarios, if a relief association were to pay retiring members at the higher account balances, it could result in completely depleting the special fund assets.

Options:

1. Make no changes.
2. Require a relief association to prepare a new allocation table to determine current account balances for members who request a mid-year pension payment.

- a. Consider allowing relief associations to charge the member a fee to pay for preparation of the allocation table.
3. Require that members be paid based on an allocation table that was prepared within a certain number of days (e.g., 30 days, 60 days, or within the quarter). If no allocation table was prepared within that required timeframe, an updated allocation table would need to be prepared.
4. Address through targeted education and provide examples of best practices.
5. Others?



Exhibit E

Firefighter Definitions

Topic:

The Working Group previously reviewed definitions of "volunteer firefighter" that exist in statute for different purposes, and considered whether definitions of "volunteer," "paid on-call," "part-time," and "full-time/career" firefighters should be added to the relief association statutes. In addition, the Working Group discussed adding a definition of "combination fire department" to the relief association statutes.

The Working Group created the chart below to illustrate compensation, availability, and pension characteristics, with the intent that the information be used when drafting new firefighter definitions.

Firefighter	Compensation		Availability		Pension	
	Paid per Call or Hour	Salaried	Firefighter's Choice	Scheduled Hours	Relief Association or SVF Plan	PERA P&F or Coordinated
Volunteer			X		X	
Paid on-Call	X		X		X	
Part-Time	X			X		X
Full-Time/Career	X	X		X		X

*Volunteer firefighters not paid per call but may receive reimbursement for expenses.

Draft Definitions:

424A.001 DEFINITIONS.

~~Subd. 10. **Volunteer firefighter.** "Volunteer firefighter" means a person who is a member of the applicable fire department or the independent nonprofit firefighting corporation and is eligible for membership in the applicable relief association and:~~

~~(i) is engaged in providing emergency response services or delivering fire education or prevention services as a member of a fire department;~~

~~(ii) is trained in or is qualified to provide fire suppression duties or to provide fire prevention duties under subdivision 8; and~~

~~(iii) meets any other minimum firefighter and service standards established by the fire department or specified in the articles of incorporation or bylaws of the relief association.~~

Subd. 13. **Firefighter.** “Firefighter” for purposes of this chapter means a person who is a member of the applicable fire department or the independent nonprofit firefighting corporation. A firefighter includes the following:

(a) **“Volunteer firefighter”** means a person who does not receive compensation per call or hour but may receive reimbursement for expenses, who has a choice of availability in providing services with the applicable fire department, and who is eligible for membership in a relief association or participates in the statewide volunteer firefighter plan under chapter 353G;

(b) **“Paid on-call firefighter”** means a person who receives compensation per call or per hour, who has a choice of availability in providing services with the applicable fire department, and who is eligible for membership in a relief association or participates in the statewide volunteer firefighter plan under chapter 353G;

(c) **“Part-time firefighter”** means a person who receives compensation per call or per hour, whose services with the applicable fire department are scheduled, and who has retirement coverage by a public employees retirement plan other than solely through participation in the statewide volunteer firefighter plan under chapter 353G; and

(d) **“Full-time firefighter”** or **“career firefighter”** means a person who receives compensation per call or per hour or is salaried, whose services with the applicable fire department are scheduled, and who has retirement coverage by a public employees retirement plan other than solely through participation in the statewide volunteer firefighter plan under chapter 353G.

Subd. 14. **Membership eligibility.** To be eligible for membership in a relief association a firefighter must be a member of the applicable fire department and:

(i) provide services as a volunteer firefighter or as a paid on-call firefighter, although the firefighter need not exclusively provide services as either firefighter type;

(ii) be engaged in providing emergency response services or delivering fire education or prevention services as a member of a fire department;

(iii) be trained in or qualified to provide fire suppression duties or to provide fire prevention duties under subdivision 8; and

(iii) meet any other minimum firefighter and service standards established by the fire department or specified in the articles of incorporation or bylaws of the relief association.

Subd. 15. **Combination fire department.** “Combination fire department” means a fire department with at least one full-time or career firefighter and at least one volunteer or paid on-call firefighter.