



Working Group

Meeting Agenda: November 10, 2020

- I. Call to Order**
Chair Auditor Blaha.
- II. Review and Approval of Working Group Meeting Minutes**
Exhibit A. Draft October 20, 2020 Meeting Minutes
- III. Discussion on Ability to Work as a Full-Time and Paid-on-Call Firefighter with the Same Fire Department**
Exhibit B.
- IV. Discussion on Whether Investment through the State Board of Investment Should be Required**
Exhibit C.
- V. Discussion on Clarification to Audit Threshold**
Exhibit D.
- VI. Discussion on Clarification to Filing and Application Fee Payment Authority**
Exhibit E.
- VII. Other Business**
- VIII. Next Meeting**
Tuesday, November 17, 2020
11 a.m. to 12:30 p.m.
Virtually via Zoom
- IX. 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 November 9, 2020.



Exhibit A

11-10-20 Approved Minutes

Members Present

Julie Blaha, State Auditor

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

Steve Donney, City of Harmony Mayor

Brett Johnson, Elko New Market Fire Relief Association Treasurer (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)

Michael Kruse, Falcon Heights Fire Relief Association Treasurer (defined contribution plans)

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

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

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

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

Members Excused

Bruce Hemstad, Bemidji Fire Relief Association Secretary (defined benefit lump sum plans)

Sue Iverson, City of Red Wing Finance & Accounting Manager

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

Rose Hennessy Allen, Office of the State Auditor Pension Director

Susan Lenczewski, Legislative Commission on Pension and Retirement Executive Director

I. Call to Order

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

II. Review and Approval of Working Group Meeting Minutes

The members reviewed the October 20, 2020, meeting minutes that had been provided in advance. The meeting minutes were accepted with no changes.

III. Discussion on Ability to Work as a Full-Time and Paid-on-Call Firefighter with the Same Fire Department

Auditor Blaha explained that this topic is carried over from the last meeting. Auditor Blaha further explained that "double dipping," or the receipt of concurrent service credit in two pension plans, is prohibited in statute and is not the topic before the Working Group for consideration. Instead, the topic for consideration is whether individuals working as full-time firefighters should be prohibited from working as paid-on-call firefighters with the same fire department.

Hennessy Allen reminded the Working Group members that the issue of payment for work performed is separate from the issue of pension credit earned for that work. The topic before the Working Group is the pension credit issue. Additionally, Hennessy Allen shared some options discussed during the last meeting that already exist, which allow local communities

to prevent full-time firefighters from also working as paid-on-call firefighters with the fire department. These options include the ability of relief associations to limit membership through their bylaws, and the ability of municipalities to limit through policies or position descriptions the ability of full-time firefighters to also work as paid-on-call firefighters.

Working Group members discussed whether a position should be taken on this topic, and agreed to take a position to indicate the group has an opinion and there is agreement. Johnston made a motion to support local control by recommending no statutory changes that would prevent full-time firefighters from also working as paid-on-call firefighters with the same fire department. The Working Group members also agreed that no change should be recommended because of the complexity of this topic, and that there currently is not a known change that would accommodate all communities. The motion was adopted unanimously.

IV. Discussion on Whether Investment through the State Board of Investment Should be Required

Auditor Blaha shared for transparency that she serves on the Board of the State Board of Investment (SBI) by virtue of being State Auditor. She does not believe that the SBI has a position on this topic. Auditor Blaha explained that the Working Group was asked to consider whether relief associations should be required to invest their special fund assets through the SBI, rather than with local investment brokers. Hennessy Allen provided background information on average annual rates of return for relief associations and for the SBI's Balanced Fund, and management fee ranges paid by relief associations compared to those charged by the SBI.

The Working Group members shared their preference for local control, which provides relief associations with choices on how and where to invest their money. Working with a local investment advisor or broker, members explained, allows the board of trustees to meet directly with their advisor to ask questions about returns, develop investment policies, and obtain education for new trustees. The Working Group members believed this topic would best be addressed through education, and making sure that relief association trustees are informed about their investment options and benefits of investing through the SBI. Paszak made a motion to support local control by recommending no changes that would require investment through the SBI. The motion was adopted unanimously.

V. Discussion on Clarification to Audit Threshold

Hennessy Allen explained that this is a technical topic seeking to clarify how the \$500,000 audit threshold in statute is measured. The optional statute changes clarify that the \$500,000 threshold is measured on special fund assets or special fund liabilities, and not the combined total of special fund and general fund assets. The changes also clarify that an audit is required beginning in the reporting year after the relief association exceeds the threshold, and that the annual financial report is a separate document from the annual audit.

There were no objections to the draft language, which was adopted unanimously.

VI. Discussion on Clarification to Filing and Application Fee Payment Authority

Hennessy Allen explained that relief association trustees sometimes have questions about the types of filing and application fees that can be paid from the relief association's special fund. Option changes were presented that clarify filing and application fees payable from the special fund must be necessary to administering the special fund, and be payable to federal or other government entities. Examples of filing or application fees that would be authorized payments from a relief association's special fund include fees with the Secretary of State's Office and the Internal Revenue Service.



There were no objections to the draft language, which was adopted unanimously.

VII. Other Business

There was no other business.

IX. Next Meeting

Tuesday, November 17, 2020

11 a.m. to 12:30 p.m.

Virtually via Zoom

X. Adjournment

The meeting was adjourned at 12:10.



Exhibit B

Combined Service Pensions

Topic:

Relief associations have authority to pay a combined service pension to members with active service in more than one relief association. A combined service pension means that years of service among multiple relief associations are combined for purposes of a volunteer firefighter's vesting. To pay a combined service pension, the bylaws of each participating relief association must be amended to allow the combined service pension payments.

Assets are *not* transferred between or among relief associations when a combined service pension is payable. When a member who is eligible for a combined service pension retires, the member is paid a pension from each participating relief association in which the member has accrued at least one year of active service credit. The service pensions are calculated the same as they would be calculated for other retiring members, except that years of service among all participating relief associations are combined for vesting purposes. As for other retiring members, each pension is based on the benefit level in effect for the relief association, or, for defined contribution plans, based on the member's individual account balance, on the date on which active volunteer firefighting services covered by that relief association terminate.

The question for the Working Group to consider is whether the combined service pension calculation for relief associations should be modified, to mirror how portability works for firefighters who are members of the Statewide Volunteer Firefighter Plan administered by the Public Employees Retirement Association (PERA). A firefighter in the PERA plan who has service with more than one fire department receives vesting for service performed with the initial fire department based solely on service performed with that fire department. If the firefighter subsequently serves with a second fire department, vesting accumulates and is based on the combined years with both fire departments.

Examples showing the difference between the two types of combined service pension calculations are provided below.

Examples:

Relief Associations

Sunfish Fire Relief Association = \$1,000 benefit level

Bass Lake Fire Relief Association = \$2,000 benefit level



Firefighter retires at age 50, with 5 years on the Sunfish Fire Department and 15 years on the Bass Lake Fire Department. The firefighter's service pension is calculated as follows:

5 years x \$1,000 x 100% = \$5,000
15 years x \$2,000 x 100% = \$30,000

Two service pensions are paid, one from the Sunfish Fire Relief Association equal to \$5,000 and one from the Bass Lake Fire Relief Association equal to \$30,000.

PERA Statewide Volunteer Firefighter Plan

Sunfish Fire Department = \$1,000 benefit level
Bass Lake Fire Department = \$2,000 benefit level

Firefighter retires at age 50, with 5 years on the Sunfish Fire Department and 15 years on the Bass Lake Fire Department. The firefighter's service pension is calculated as follows:

5 years x \$1,000 x 40% = \$2,000
15 years x \$2,000 x 100% = \$30,000

One service pension is paid, equal to \$32,000

Statute:

424A.015 GENERALLY APPLICABLE VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION PENSION PLAN REGULATION.

Subd. 7. **Combined service pensions.** (a) A volunteer firefighter with credit for service as an active firefighter in more than one volunteer firefighters relief association is entitled to a prorated service pension from each relief association if:

- (1) the articles of incorporation or bylaws of the relief associations provide;
- (2) the applicable requirements of paragraphs (b) and (c) are met; and
- (3) the volunteer firefighter otherwise qualifies.

(b) A volunteer firefighter receiving a prorated service pension under this subdivision must have a total combined amount of service credit from the two or more relief associations of ten years or more, unless the bylaws of every affected relief association specify less than a ten-year service vesting requirement, in which case, the total amount of required service credit is the longest service vesting requirement of the relief associations. The member must have one year or more of service credit in each relief association. The prorated service pension must be based on:

(1) for defined benefit relief associations, the service pension amount in effect for the relief association on the date on which active volunteer firefighting services covered by that relief association terminate; and

(2) for defined contribution relief associations, the member's individual account balance on the date on which active volunteer firefighting services covered by that relief association terminate.

(c) To receive a prorated service pension under this subdivision, the firefighter must become a member of the second or succeeding association and must give notice of membership to the prior association within two years of the date of termination of active service with the prior association. The second or subsequent relief association secretary must certify the notice.



Exhibit C

Supplemental State Aid Calculation

Topic:

The Working Group has been asked to consider whether the calculation for determining each community's supplemental state aid amount should be changed. Supplemental state aid is the common name for aid payable under the Police and Firefighter Retirement Supplemental State Aid program defined in Minn. Stat. § 423A.022.

A total of \$15.5 million is appropriated annually to the supplemental state aid program. The aid is distributed as follows:

- 58.064 percent (\$8,999,920) to the PERA Police & Fire Fund;
- 35.484 percent (\$5,500,020) to relief associations and the PERA Statewide Volunteer Firefighter Plan; and
- 6.452 percent (\$1,000,060) to the MSRS State Patrol Fund.

Supplemental state aid is paid at the same time as fire state aid, and is proportioned based on each qualifying entity's fire state aid amount compared to the total fire state aid of all other qualifying entities. For example, if a relief association's portion of fire state aid is 1.25 percent of the total, the relief association would be eligible to receive supplemental state aid equal to 1.25 percent of the total.

Fire state aid allocations are primarily based on the population and market value of each fire service area. There have been suggestions to change the supplemental state aid calculation so it is based on the number of active members, or some other factor, rather than being portioned in the same manner as fire state aid.

Options for the Working Group include:

1. Suggesting a statute change;
2. Taking no action;
3. Adopting a position statement;
4. Others?



Exhibit D

Retaining Service Credit for Nonvested Members

Topic:

A defined benefit relief association is obligated to credit all years of active service for any member who is active and meets the minimum service and membership requirements. Credit must be given for all years of active service, except for caps on service credit if so provided in the bylaws of the relief association.

For example, a member serves for four years and then moves from the community. The member is absent from the fire department for two years before returning and resuming active service with the fire department and active membership in the relief association. When the member resumes active service and active membership, the member retains credit for the original four years of service. Any additional service credit that is accrued is added to the four years accrued during the member's original period of service.

The Working Group has been asked to consider how long service credit should be retained when a nonvested member leaves active service. The concern among some defined benefit plan trustees is that these nonvested members who have left service are not included when the relief association determines its annual liabilities and funding requirement. If a nonvested member is later rehired and resumes active service and membership, the liability added during the member's initial year of resumption service is higher than that of a new member.

Statute:

424A.02 DEFINED BENEFIT RELIEF ASSOCIATIONS; SERVICE PENSIONS.

Subd. 3. **Flexible service pension maximums.**

...

(h) The method of calculating service pensions must be applied uniformly for all years of active service. Credit must be given for all years of active service except for caps on service credit if so provided in the bylaws of the relief association.



Exhibit E

Allowing Payments to Firefighters Hired on a Full-Time Basis Prior to age 50

Topic:

To qualify for a service pension distribution from a relief association, a firefighter must:

- 1) separate from active service with the fire department;
- 2) reach age 50;
- 3) complete at least five years of active service with the fire department;
- 4) complete at least five years of active membership in the relief association; and
- 5) comply with any additional conditions as to age, service, and membership that are prescribed by the relief association's bylaws.

If a volunteer firefighter is hired on a full-time basis by the municipality and discontinues volunteer firefighter duties, the firefighter may qualify for an exception to the requirement that he or she separate from active service to be paid the relief association service pension.

The Working Group has been asked to consider an exception to the age-50 payment requirement for these firefighters. This would allow firefighters hired on a full-time basis to be paid their relief association service pensions immediately upon the discontinuation of their volunteer firefighter duties. Currently, these individuals are considered deferred members after they discontinue their volunteer firefighter duties, and must wait until they reach the relief association's minimum retirement age to qualify for a distribution.

Statute:

424A.015 GENERALLY APPLICABLE VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION PENSION PLAN REGULATION.

Subdivision 1. **Separation from active service; exception.** (a) No service pension is payable to a person while the person remains an active member of the respective fire department, and a person who is receiving a service pension is not entitled to receive any other benefits from the special fund of the relief association.

(b) No relief association as defined in section 424A.001, subdivision 4, may pay a service pension or disability benefit to a former member of the relief association if that person has not separated from active service with the fire department to which the relief association is directly associated, unless:

(1) the person discontinues volunteer firefighter duties with the fire department and performs duties within the fire department on a full-time basis;

(2) the governing body of the municipality, of the independent nonprofit firefighting corporation, or of the joint powers entity has filed its determination with the board of trustees of



the relief association that the person's experience with and service to the fire department in that person's full-time capacity would be difficult to replace; and

(3) the bylaws of the relief association were amended to provide for the payment of a service pension or disability benefit for such full-time employees.