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New Law Allows Earlier Distributions for Some Firefighters

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A new law allows firefighters who are members of defined contribution plans to receive retirement benefits before age 50. The change went into effect January 1 of this year and we're getting a lot of questions. Let's look at which relief associations the law change impacts and resources for those considering earlier distributions.

Relief Association Plan Types

The new law that went into effect on January 1 applies only to relief associations with a defined contribution plan. To understand whether this change affects your organization, let's review the two types of retirement plans relief associations can choose between.

A **defined contribution** retirement plan, also known as a "split-the-pie" plan, provides a retirement benefit with predetermined funding. The benefit amount equals the member's individual account balance at the time of retirement. Members of defined contribution plans generally receive equal shares of state and municipal contributions and prorated shares of investment earnings. Individual member account balances vary from year to year based on investment performance, revenues, and expenses, and members usually receive benefits as a one-time lump sum payment.

Most relief associations provide a **defined benefit** retirement plan, with benefits also usually distributed as a one-time lump sum payment. A defined benefit retirement plan provides a retirement benefit in which a formula (length of service x benefit level x vested percent) predetermines the actual amount of the benefit. The amount of funding needed to support the predetermined benefits is the unknown variable for a defined-benefit retirement plan. A combination of fire state aid, municipal contributions, and investment earnings primarily funds benefits. When revenue from one of these funding sources decreases, pressure may shift to the other funding sources to make up the difference. If a relief association experiences investment losses, for example, a municipality may need to increase its contributions to the association so that benefits are sufficiently funded.

Minimum Retirement Age

Prior to January 1, 2026, all relief association members had to be at least age 50 to be eligible for a retirement benefit distribution. Relief associations could establish a higher required retirement age in their bylaws and could pay disability and survivor benefits without regard to minimum age requirements.

Beginning January 1, 2026, relief associations with a **defined contribution** plan may amend their bylaws to remove the required minimum retirement age or establish a minimum retirement age below 50. This bylaw change would allow members to request their benefit distribution as soon as practicable after becoming vested and separating from active service.

The new law also provides authority for defined contribution plans that amend their bylaws to permit earlier distributions to apply the change to members who have already separated from service and have deferred benefits, in addition to members who are active. If a relief association decides to allow members who have deferred benefits to request their distributions prior to age 50, the relief association must amend its bylaws to specify that the lower retirement age applies to deferred members who separated prior to the effective date of the bylaw change.

If a member elects to receive a distribution prior to age 50, the member should consult with their tax or financial advisor about tax penalties the member may incur if the benefit is not directly rolled over to an eligible retirement plan.

It is very important to note that members of relief associations with **defined benefit** plans must still be at least age 50 to receive a retirement benefit. These relief associations do not have authority to lower the minimum retirement age defined in their bylaws below age 50, although the bylaws can allow disability and survivor benefits to be paid without regard to minimum age requirements.

Additional Resources

The Office of the State Auditor provides sample Bylaw Guides that relief associations interested in changing the minimum retirement age can use as a resource when amending their bylaws. Visit the OSA website at www.osa.state.mn.us and choose the “Fire Relief Associations” menu option. The top of the Fire Relief Associations page includes a “Bylaw Guides” button that links to guides that are available for defined benefit and defined contribution plans in both Word and PDF formats.