

Minnesota Volunteer Fire Relief Association Working Group Meeting

Office of the State Auditor

Friday, November 8, 2019

11 a.m. to 1 p.m.

- I. Call to Order**
Chair Auditor Blaha.
- II. Review and Approval of Working Group Meeting Minutes**
Exhibit A. Draft October 22, 2019 Meeting Minutes
- III. Review of Draft Language for Supplemental Benefits for Firefighters Receiving Multiple Distributions**
Exhibit B.
- IV. Overview of Fire State Aid Program**
Exhibit C.
- V. Overview of Supplemental State Aid Program**
Exhibit C.
- VI. Overview of Fire State Aid Work Group Draft Legislation (Informational)**
Exhibit D.
- VII. Discussion of Interest or Additional Investment Income for Deferred Members**
Exhibit E.
- VIII. Other Business**
- IX. Next Meeting**
Tuesday, November 26, 2019
11 a.m. to 1 p.m.
Retirement Systems Building
- X. Adjournment**

Volunteer Fire Relief Association Working Group

Office of the State Auditor

Tuesday, October 22, 2019

11 a.m. to 1 p.m.

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

Sue Iverson, City of Lake Elmo Finance Director (by phone)

Dave Jaeger, Mahnomon 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)

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

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

Members Excused

Bruce Hemstad, Bemidji Fire Relief Association Secretary (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

Rose Hennessy Allen, Office of the State Auditor Pension Director

Susan Lenczewski, Legislative Commission on Pension and Retirement Executive Director

Others Present

Anne Finn, League of Minnesota Cities Representative

Todd Greseth, Wanamingo Fire Relief Association Representative

Angie Huss, Lockridge Grindal Nauen Representative

Emily Knutson, Van Iwaarden Associates Representative

Donald McFarland, Office of the State Auditor Communications and Legislative Affairs Director

Molly Resch, Office of the State Auditor Pension Analyst

Brian Rice, Rice Michels & Walther Representative

Jeff Skime, Public

Amy Strenge, Public Employees Retirement Association Representative

Mike Stroeing, Public

Kristie Strum, Minnesota Department of Revenue Representative

Maddison Zikmund, Spring Lake Park, Blaine, Mounds View Fire Department Representative

Nyle Zikmund, City of Mounds View Administrator

The following motions were duly made and approved:

RESOLVED to approve the October 1, 2019, meeting minutes;

RESOLVED to approve authorizing a supplemental benefit payment equal to ten percent, up to a \$1,000, with each lump-sum distribution a firefighter receives from different entities;

RESOLVED to approve authorizing a supplemental benefit payment with each lump-sum distribution a firefighter receives from the same entity, subject to a cumulative \$1,000 maximum on the total of all supplemental benefits paid;

RESOLVED to approve the draft language updating the uniformity of benefits provision for relief association service pensions; and

RESOLVED to approve requiring that relief associations with a defined contribution plan move away from not offering interest to deferred members and instead be required to provide investment gains and losses or establish separate investment accounts or vehicles for deferred members.

I. Call to Order

Auditor Blaha called the meeting to order.

II. Review and Approval of Working Group Meeting Minutes

The members reviewed the October 1, 2019, meeting minutes that had been provided in advance. Skime requested that the minutes be amended to reflect that he attends as a member of the public. The minutes were then adopted unanimously as amended.

III. Discussion of Supplemental Benefits for Firefighters Receiving Multiple Distributions

Auditor Blaha explained that at the last Working Group meeting the members started the discussion of how supplemental benefits should be handled for firefighters who will receive more than one lump-sum distribution. These firefighters fall into two categories: 1) firefighters who receive multiple distributions from the same entity; and 2) firefighters who receive one distribution from multiple entities. The entities may be relief associations or fire departments that participate in the Public Employees Retirement Association (PERA) Statewide Plan.

At the last meeting, Auditor Blaha shared that the Working Group agreed that firefighters who receive distributions from more than one entity should receive a supplemental benefit with each distribution. Auditor Blaha asked if each supplemental benefit should be equal to ten percent of the distribution amount, up to a \$1,000 maximum, or if the total of the supplemental benefits should be subject to a cumulative \$1,000 maximum. The Working Group members adopted unanimously the motion that there should not be a cumulative maximum for supplemental benefits paid with lump-sum distributions from different entities.

Auditor Blaha asked the Working Group how supplemental benefits should be handled for firefighters who receive more than one distribution from the same entity, and whether the current \$1,000 maximum should be for each benefit or be a cumulative maximum.

The Working Group members commented that keeping track of a cumulative maximum would cost more to administer than it would save in lower benefit payments. Lenczewski reminded the members that the intent of the supplemental benefit program is to help offset taxes that firefighters must pay when they receive their service pensions. Taxes must be paid with each distribution, regardless of whether the distribution is from a different entity or the same entity. The Working Group members also discussed that a firefighter with continuous service on a fire department would only be eligible to receive one distribution and one supplemental benefit, while a firefighter who left service and later returned could be eligible for two distributions and two supplemental benefits. The members did not want to incentivize firefighters to separate from firefighting service so they could collect multiple supplemental benefits, and did not want to create an additional benefit for firefighters who incur breaks in service.

The Working Group members adopted unanimously the motion that firefighters who receive more than one lump-sum distribution from the same entity are eligible to receive a supplemental benefit with each distribution, but that a cumulative maximum of \$1,000 applies to the total of all supplemental benefits paid.

IV. Discussion of Uniformity of Benefits Technical Change

Auditor Blaha explained that this is a technical change. The original provision was difficult to understand and included citations to statutes that had been repealed. Lenczewski shared that the concept of the provision is that service pensions paid from relief associations need to be based on years of service and not on compensation. The updated language reflects this intent. The Working Group members unanimously adopted the draft language.

V. Discussion of Interest or Additional Investment Income for Deferred Members

Auditor Blaha explained that when the Legislative Commission on Pensions and Retirement heard the Working Group bill this spring questions arose about why relief associations have authority to pay interest to deferred members. Deferred interest, or deferred augmentation, was eliminated for members of the statewide retirement systems.

The Working Group members wanted to protect local control for the defined benefit plans, but recognized situations in some relief associations where members separate from active service because they earn more in interest during their period of deferral than in active service credit. The members also recognized that providing deferred interest goes against recruitment and retention efforts as it provides an incentive for firefighters to leave early. The Working Group agreed to revisit interest for deferred members of defined benefit plans at a future meeting.

The Working Group members agreed that deferred members of defined contribution plans should receive investment earnings during their period of deferral, as this is consistent with the nature and requirements of a defined contribution plan. The Working Group unanimously adopted the motion that relief associations with a defined

contribution plan be required to move away from not offering interest to deferred members and instead be required to provide investment gains and losses or establish separate investment accounts or vehicles for deferred members.

VI. Review of Working Group Topic Rankings

Auditor Blaha shared the results of the topic rankings.

VII. Discussion of Fire and Supplemental State Aid

Auditor Blaha said that a discussion of the fire and supplemental state aid programs will be held at the next meeting. Burkitt will also provide the Working Group with an update on the legislation drafted to reflect the Fire State Aid Work Group's recommendations. Auditor Blaha asked that members of the public who would like to comment on these agenda topics notify Office of the State Auditor staff prior to the next meeting.

VIII. Other Business

There was no other business.

IX. Next Meeting

Friday, November 8, 2019

11 a.m. to 1 p.m.

Retirement Systems Building

X. Adjournment

The meeting was adjourned shortly before 1:00.

Exhibit B

Supplemental Benefits

Topic:

When a relief association pays a lump-sum distribution, the relief association is also required to pay a supplemental benefit. The supplemental benefit is intended to help offset taxes that must be paid on the service pension or benefit distribution. For service pensions and disability benefits, the amount of the supplemental benefit is equal to 10 percent of the lump-sum distribution, up to a maximum of \$1,000. For survivor benefits, the amount of the supplemental benefit is equal to 20 percent of the survivor benefit distribution, up to a maximum of \$2,000. Relief associations are eligible to apply for reimbursement from the State of Minnesota for supplemental benefits paid to qualified recipients.

The Department of Revenue has identified several retired firefighters who have or will be receiving more than one lump-sum distribution. These firefighters fall into two categories:

- 1) firefighters who receive multiple distributions from the same entity; and
- 2) firefighters who receive one distribution from multiple entities.

The entities may be relief associations or fire departments that participate in the Public Employees Retirement Association (PERA) Statewide Plan.

Preliminarily, the Working Group agreed that firefighters who receive distributions from more than one entity should receive a supplemental benefit with each distribution. Each supplemental benefit is equal to 10 percent of the lump-sum distribution, up to a maximum of \$1,000 (or, if the final distribution is a survivor benefit, equal to 20 percent of the survivor benefit up to a maximum of \$2,000).

The Working Group also agreed preliminarily that firefighters who receive multiple distributions from the same entity should receive a supplemental benefit with each distribution, but that a cumulative maximum of \$1,000 is established for the supplemental benefits.

Administering a cumulative maximum is not possible for entities in the PERA Statewide Plan, and would be difficult for relief associations. For this reason, the optional statute changes below authorize a supplemental benefit payment with each lump-sum distribution, and each supplemental benefit is equal to 10 percent of the distribution up to a maximum of \$1,000 (or \$2,000 if the final distribution is a survivor benefit).

Optional Changes:

424A.10 STATE SUPPLEMENTAL BENEFIT; VOLUNTEER FIREFIGHTERS.

Subdivision 1. **Definitions.** For purposes of this section:

(1) "qualified recipient" means a volunteer firefighter who receives a lump-sum distribution of pension or retirement benefits from a volunteer firefighters relief association or from the voluntary statewide lump-sum volunteer firefighter retirement plan;

(2) "survivor of a deceased active or deferred volunteer firefighter" means the surviving spouse of a deceased active or deferred volunteer firefighter or, if none, the surviving child or children of a deceased active or deferred volunteer firefighter, or, if none, the designated beneficiary of the deceased active or deferred volunteer firefighter, or, if no beneficiary has been designated, the estate of the deceased active or deferred volunteer firefighter;

(3) "active volunteer firefighter" means a person who:

(i) regularly renders fire suppression service, the performance or supervision of authorized fire prevention duties, or the performance or supervision of authorized emergency medical response activities for a fire department;

(ii) has met the statutory and other requirements for relief association membership; and

(iii) is deemed by the relief association under law and its bylaws to be a fully qualified member of the relief association or from the voluntary statewide lump-sum volunteer firefighter retirement plan for at least one month;

(4) "deferred volunteer firefighter" means a former active volunteer firefighter who:

(i) terminated active firefighting service, the performance or supervision of authorized fire prevention duties, or the performance or supervision of authorized emergency medical response activities; and

(ii) has sufficient service credit from the applicable relief association or from the voluntary statewide lump-sum volunteer firefighter retirement plan to be entitled to a service pension under the bylaws of the relief association, but has not applied for or has not received the service pension; and

(5) "volunteer firefighter" includes an individual whose services were utilized to perform or supervise fire prevention duties if authorized under section 424A.01, subdivision 5, and individuals whose services were used to perform emergency medical response duties or supervise emergency medical response activities if authorized under section 424A.01, subdivision 5a.

Subd. 2. **Payment of supplemental benefit.** (a) Upon the payment by a volunteer firefighters relief association or by the voluntary statewide lump-sum volunteer firefighter retirement plan of a lump-sum distribution to a qualified recipient, the association must pay a supplemental benefit to the qualified recipient. Notwithstanding any law to the contrary, the relief association must pay the supplemental benefit out of its special fund and the voluntary statewide lump-sum volunteer firefighter retirement plan must pay the supplemental benefit out of the voluntary statewide lump-sum volunteer

firefighter retirement plan. This benefit is an amount equal to ten percent of the regular lump-sum distribution that is paid on the basis of the recipient's service as a volunteer firefighter. In no case may the amount of the supplemental benefit exceed \$1,000. A supplemental benefit under this paragraph may not be paid to a survivor of a deceased active or deferred volunteer firefighter in that capacity.

(b) Upon the payment by a relief association or the retirement plan of a lump-sum survivor benefit to a survivor of a deceased active volunteer firefighter or of a deceased deferred volunteer firefighter, the association must pay a supplemental survivor benefit to the survivor of the deceased active or deferred volunteer firefighter from the special fund of the relief association and the retirement plan must pay a supplemental survivor benefit to the survivor of the deceased active or deferred volunteer firefighter from the retirement fund if chapter 353G so provides. The amount of the supplemental survivor benefit is 20 percent of the survivor benefit, but not to exceed \$2,000.

(c) For purposes of this section, the term "regular lump-sum distribution" means the pretax lump-sum distribution excluding any interest that may have been credited during a volunteer firefighter's period of deferral.

(d) An individual may receive a supplemental benefit under paragraph (a) or under paragraph (b), but not under both paragraphs with respect to one lump-sum volunteer firefighter benefit.

(e) If a qualified recipient receives more than one lump-sum distribution, the qualified recipient is eligible to receive a supplemental benefit or supplemental survivor benefit, as applicable, with each lump-sum distribution, with each supplemental benefit calculated pursuant to paragraph (a) or paragraph (b), as applicable.

(f) Qualified recipients who elect to receive their lump-sum distribution in installments under section 424A.016, subdivision 5, or 424A.02, subdivision 8, are eligible to receive one supplemental benefit calculated on the total lump-sum distribution amount pursuant to paragraph (a) or paragraph (b), as applicable.

Subd. 3. State reimbursement. (a) Each year, to be eligible for state reimbursement of the amount of supplemental benefits paid under subdivision 2 during the preceding calendar year, the volunteer firefighters relief association or the voluntary statewide lump-sum volunteer firefighter retirement plan shall apply to the commissioner of revenue by February 15. By March 15, the commissioner shall reimburse the relief association for the amount of the supplemental benefits paid by the relief association to qualified recipients and to survivors of deceased active or deferred volunteer firefighters.

(b) The commissioner of revenue shall prescribe the form of and supporting information that must be supplied as part of the application for state reimbursement. The commissioner of revenue shall reimburse the relief association by paying the reimbursement amount to the treasurer of the municipality where the association is located and shall reimburse the retirement plan by paying the reimbursement amount to the executive director of the Public Employees Retirement Association. Within 30 days after receipt, the municipal treasurer shall transmit the state reimbursement to the treasurer of the association if the association has filed a financial report with the municipality. If the relief association has not filed a financial report with the municipality, the municipal treasurer shall delay transmission of the reimbursement payment to the association until the complete financial report is filed. If the association

has dissolved or has been removed as a trustee of state aid, the treasurer shall deposit the money in a special account in the municipal treasury, and the money may be disbursed only for the purposes and in the manner provided in section 424A.08. When paid to the association, the reimbursement payment must be deposited in the special fund of the relief association and when paid to the retirement plan, the reimbursement payment must be deposited in the retirement fund of the plan.

(c) A sum sufficient to make the payments is appropriated from the general fund to the commissioner of revenue.

Subd. 4. In lieu of income tax exclusion. (a) The supplemental benefit provided by this section is in lieu of the state income tax exclusion for lump-sum distributions of retirement benefits paid to volunteer firefighters.

(b) If the law is modified to exclude or exempt volunteer firefighters' lump-sum distributions from state income taxation, the supplemental benefits under this section are no longer payable, beginning with the first calendar year in which the exclusion or exemption is effective. This subdivision does not apply to exemption of all or part of a lump-sum distribution under section 290.032 or 290.0802.

2019-2020 Fire Relief Association Working Group (OSA) State Aid Programs for Fire Relief Associations

Oct. 22, 2019 • Prepared by Kristie Strum • kristie.strum@state.mn.us • 651-556-6074

For More Information

Go to www.revenue.state.mn.us and enter keywords in the Search box:

- “Fire State Aid”
- “SBR”

Supplemental Benefit Reimbursement

- Next filing period begins mid-November 2019 for supplemental benefits paid in 2019
- May also include benefits not previously claimed that were paid in 2015 through 2018
- Form SBR due Feb. 15, 2020
- Reimbursements paid by Mar. 15, 2020

Payable Year	Number of Forms Filed	Number of Firefighters Reported	Total Reimbursed
2015	341	671	\$625,468
2016	308	570	\$533,782
2017	328	622	\$583,942
2018	330	667	\$631,691
2019	360	747	\$705,412

Fire State Aid: Totals for Most Recent Five Years

Payable Year	Total Initial Aid Available	\$ Difference From Prior Year	% Difference From Prior Year	Minimum Aid	Distributed*
2015	\$27,431,516	\$1,545,298	5.89%	\$897,436	\$28,314,579
2016	\$28,113,508	\$332,605	1.20%	\$897,436	\$28,546,841
2017	\$28,250,811	\$137,303	0.49%	\$897,436	\$28,763,068
2018	\$29,119,645	\$868,834	3.08%	\$897,436	\$29,572,434
2019	\$30,095,986	\$976,341	3.35%	\$897,436	\$30,468,416**

* After deductions for OSA costs, adjustments, penalties, and forfeitures

** This amount will be finalized in June 2020

Fire State Aid Overview

Initial Aid

This component is funded by a surcharge on homeowner's insurance policy premiums. An example of how initial aid is calculated is shown below.

2019 Fire State Aid – Initial Aid Component Calculation Example: Spruce FD

Step	Action	Information or Calculation
1	Collect Service Area Data	City of Spruce: 100% Daisy Township: 50%
2	Find 2018 Estimated Market Value (EMV) of Service Area	City of Spruce: \$230,395,300 x 100% = \$230,395,300 Daisy Township: \$532,588,300 x 50% = \$266,294,150
3	Collect 2010 Census Population of Service Area	City of Spruce: 3,460 x 100% = 3,460 Daisy Township: 173 x 50% = 87
4	Calculate Statewide Totals	EMV for Fire State Aid: \$824,342,355,416 Population for Fire State Aid: 5,297,302
5	Calculate Service Area EMV Divided by State Total EMV	City of Spruce: $(\$230,395,300 / \$824,342,355,416) \times 100 = 0.02795\%$ Daisy Township: $(\$266,294,150 / \$824,342,355,416) \times 100 = 0.03230\%$
6	Calculate Service Area Population Divided by State Total Population	City of Spruce: $(3,460 / 5,297,302) \times 100 = 0.06532\%$ Daisy Township: $(87 / 5,297,302) \times 100 = 0.00164\%$
7	Collect Initial Fire State Aid Amounts	Total Fire State Aid (after OSA costs): \$29,612,271 <ul style="list-style-type: none"> • EMV Aid: \$14,806,135 • Population Aid: \$14,806,135
8	Calculate EMV Aid	City of Spruce: $0.02795\% \times \$14,806,135 = \$4,138$ Daisy Township: $0.03230\% \times \$14,806,135 = \$4,783$ Total: \$8,921
9	Calculate Population Aid	City of Spruce: $0.06532\% \times \$14,349,535 = \$9,671$ Daisy Township: $0.00164\% \times \$14,349,535 = \243 Total: \$9,914
10	Calculate Total Initial Fire State Aid	$\$8,921 + \$9,914 = \$18,835$

Minimum Aid

This component is funded through a separate aid program, Amortization Aid, and can vary depending on how much aid is distributed to the other recipients of that program. The amount has been \$897,435.90 since aid payable in 2013.

This component is targeted to fire departments with lower estimated market value and/or population. Only fire departments with a volunteer fire relief association or that participate in PERA’s statewide volunteer plan can qualify for minimum aid.

The first step in calculating this component is to use a baseline number of active firefighters to set an amount of initial aid per member. That baseline number is also used to come up with an amount of minimum aid per member. If the minimum aid amount per member is greater than the initial amount per member, a department receives the minimum aid in addition to initial aid.

Year Relief Association Established	Calendar Year Financial Reporting to OSA	Maximum number of active volunteer firefighters
Before or during 1993	1993	30
1994 through 1999	1998	30
2000 and later	First annual reporting	20
PERA statewide plan	As of date joined	30

Minnesota Statutes, section 69.021, subdivision 7, paragraph (d)

Police & Fire Retirement Supplemental Aid (Minnesota Statutes, section 423A.022)

Statute provides a total appropriation of \$15,500,000 for this aid program. That amount is distributed as follows:

- 58.064% (\$8,999,920) to PERA Police & Fire Fund
- 35.484% (\$5,500,020) to all fire departments that do not solely employ firefighters with retirement coverage provided by the PERA Police & Fire Fund
- 6.452% (\$1,000,060) to MSRS State Patrol Fund

The \$5.5 million in aid for fire departments that do not solely employ firefighters with retirement coverage provided by the PERA Police & Fire Fund is proportioned based on each qualifying department’s total Fire State Aid compared to the Fire State Aid of all other qualifying departments.

2019 Volunteer Portion of Supplemental Aid: Calculation Example

Step	Action	Information or Calculation
1	Find Fire Department’s Total 2019 Fire State Aid	Spruce FD: \$18,835
2	Find Total 2019 Fire State Aid for All Qualifying Departments	\$23,758,110
3	Calculate Fire Department’s Proportion	$\$18,835 / \$23,758,110 = 0.08\%$
4	Calculate Fire Department’s Supplemental Aid	$0.08\% \times \$5,500,020 = \$4,360$

Information for Most Recent Five Years

Payable Year	Number of Qualifying Departments	Percentage of Fire State Aid*
2015	750	24.47%
2016	748	24.26%
2017	745	24.20%
2018	744	23.79%
2019	742	23.15%

* This percentage is provided for informational purposes only. The percentage has been decreasing each year because this aid's appropriated amount stays the same from year to year while Fire State Aid has been increasing each year.

1.1 A bill for an act
1.2 relating to retirement; volunteer firefighter relief associations; revising the allocation
1.3 of fire state aid; amending Minnesota Statutes 2019 Supplement, section 477B.04,
1.4 subdivision 3; proposing coding for new law in Minnesota Statutes, chapter 477B.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. Minnesota Statutes 2019 Supplement, section 477B.04, subdivision 3, is amended
1.7 to read:

1.8 Subd. 3. **Deposit of state aid.** (a) If the municipality or the independent nonprofit
1.9 firefighting corporation is covered by the voluntary statewide volunteer firefighter retirement
1.10 plan under chapter 353G, the executive director of the Public Employees Retirement
1.11 Association must credit the fire state aid against future municipal contribution requirements
1.12 under section 353G.08 and must notify the municipality or the independent nonprofit
1.13 firefighting corporation of the fire state aid so credited at least annually.

1.14 (b) If (1) the municipality or the independent nonprofit firefighting corporation is not
1.15 covered by the voluntary statewide volunteer firefighter retirement plan, and is affiliated
1.16 with a duly incorporated firefighters relief association, (2) the relief association has filed a
1.17 financial report with the municipality pursuant to section 424A.014, subdivision 1 or 2,
1.18 whichever applies, and (3) there is not an aid allocation agreement under section 477B.042
1.19 in effect, then the treasurer of the municipality must, within 30 days after receipt, transmit
1.20 the fire state aid to the treasurer of the ~~duly incorporated firefighters'~~ relief association, ~~if~~
1.21 ~~there is one organized and the association has filed a financial report with the municipality~~
1.22 ~~pursuant to section 424A.014, subdivision 1 or 2, whichever applies.~~ If clauses (1) and (2)
1.23 are satisfied and there is an aid allocation agreement under section 477B.042 in effect, then

2.1 fire state aid must be transmitted as described in that section. If the relief association has
 2.2 not filed a financial report with the municipality, then, regardless of whether an aid allocation
 2.3 agreement is in effect, the treasurer of the municipality must delay transmission of the fire
 2.4 state aid to the relief association until the complete financial report is filed.

2.5 (c) The treasurer of the municipality must deposit the fire state aid money in the municipal
 2.6 treasury if (1) the municipality or independent nonprofit firefighting corporation is not
 2.7 covered by the voluntary statewide volunteer firefighter retirement plan, (2) there is no
 2.8 relief association organized, (3) the association has dissolved, or (4) the association has
 2.9 been removed as trustees of state aid. The money may be disbursed from the municipal
 2.10 treasury only for the purposes and in the manner set forth in section 424A.08 or for the
 2.11 payment of the employer contribution requirement with respect to firefighters covered by
 2.12 the public employees police and fire retirement plan under section 353.65, subdivision 3.

2.13 **EFFECTIVE DATE.** This section is effective for aids payable in 2021 and thereafter.

2.14 Sec. 2. **[477B.042] ALLOCATION OF FIRE STATE AID FOR RELIEF**
 2.15 **ASSOCIATIONS.**

2.16 Subdivision 1. **Applicability.** (a) This section applies to fire state aid payable each year
 2.17 under section 477B.04, subdivision 3, paragraph (b), if during the prior year, the municipality
 2.18 or independent nonprofit firefighting corporation:

2.19 (1) employs one or more volunteer firefighters covered by the relief association affiliated
 2.20 with the municipality or independent nonprofit firefighting corporation under chapter 424A;
 2.21 and

2.22 (2) contributes on behalf of one or more firefighters to the public employees police and
 2.23 fire retirement plan under chapter 353.

2.24 (b) This section does not apply to police and firefighter supplemental state aid under
 2.25 section 423A.022.

2.26 Subd. 2. **Allocation of fire state aid.** (a) The municipality or independent nonprofit
 2.27 firefighting corporation and the affiliated relief association may agree to allocate fire state
 2.28 aid between the relief association and the public employees police and fire retirement plan
 2.29 by entering into an aid allocation agreement described in subdivision 3.

2.30 (b) If an aid allocation agreement has been filed with the state auditor and is in effect,
 2.31 then within 30 days of receipt of the fire state aid the treasurer of the municipality must
 2.32 transmit to the relief association an amount equal to the percentage or dollar amount of the
 2.33 fire state aid set forth in the aid allocation agreement. If a municipality receives fire state

3.1 aid on behalf of an independent nonprofit firefighting corporation, the municipality must
3.2 also transmit any remaining fire state aid to the independent nonprofit firefighting
3.3 corporation.

3.4 (c) The fire state aid allocated to the municipality or independent nonprofit firefighting
3.5 corporation may only be disbursed for the payment of employer contributions for firefighters
3.6 covered by the public employees police and fire retirement plan or for contributions to the
3.7 relief association and must be disbursed within 18 months of receipt by the municipality or
3.8 independent nonprofit firefighting corporation.

3.9 Subd. 3. **Aid allocation agreement.** (a) An aid allocation agreement is a written
3.10 agreement that meets all of the following requirements:

3.11 (1) The agreement specifies:

3.12 (i) the percentage of the fire state aid, a dollar amount, or a formula for determining the
3.13 amount of fire state aid that will be transmitted to the relief association annually; and

3.14 (ii) the period of time covered by the agreement and the date on which the agreement
3.15 expires.

3.16 (2) The agreement has been signed by:

3.17 (i) an individual authorized to sign on behalf of the municipality or independent nonprofit
3.18 firefighting corporation; and

3.19 (ii) the president of the relief association or its representative duly appointed for the
3.20 purposes of this section.

3.21 (b) An aid allocation agreement is not effective unless properly filed with the state auditor
3.22 under subdivision 5.

3.23 Subd. 4. **Modifying or terminating the aid allocation agreement.** (a) The parties to
3.24 the agreement may modify or terminate the aid allocation agreement, provided that the
3.25 modification or termination is in writing and signed by the parties.

3.26 (b) If the amount of fire state aid paid to a municipality or independent nonprofit
3.27 firefighting corporation by the commissioner changes by an amount greater than 50 percent
3.28 of the prior year's amount, then the aid allocation agreement may be terminated by either
3.29 party to the agreement by providing written notice of termination to the other party.

3.30 (c) Unless the aid allocation agreement provides otherwise, termination is effective for
3.31 the fire state aids payable in the calendar year after notice of termination has been given.

4.1 Subd. 5. Filing requirement and remedy. (a) By March 1 of the year in which fire
4.2 state aid is to be allocated, the municipality or independent nonprofit firefighting corporation
4.3 must file a copy of the aid allocation agreement or modified agreement with the state auditor.

4.4 (b) If an aid allocation agreement terminates by its own terms or for any other reason,
4.5 the municipality or independent nonprofit firefighting corporation must notify the office of
4.6 the state auditor in writing within 30 days after the termination date.

4.7 (c) If the municipality or independent nonprofit firefighting corporation fails to file by
4.8 the deadline in paragraph (a), fire state aid payments must not be allocated, but must be
4.9 transmitted to the relief association until the agreement has been properly filed. If the state
4.10 auditor determines that an aid allocation agreement does not meet the requirements of
4.11 subdivision 3, any future fire state aid payments must be transmitted to the relief association
4.12 by the municipality until the municipality files with the state auditor an aid allocation
4.13 agreement that satisfies the requirements under subdivision 3.

4.14 **EFFECTIVE DATE.** This section is effective for aids payable in 2021 and thereafter.

Exhibit E Deferred Interest

Topic:

During the 2019 Legislative Session, questions were raised by members of the Legislative Commission on Pensions and Retirement (LCPR) about the payment of interest or additional investment income to deferred members of relief associations. Deferred interest, or deferred augmentation, has been phased out for members of the statewide retirement systems.

Below are a few reasons identified for LCPR members in a March 12, 2019, memo by Susan Lenczewski, LCPR Executive Director, that augmentation was eliminated for the statewide retirement systems:

- With the scrutiny applied to public pension plans and the funded levels of those plans, eliminating a benefit that provided no benefit to current employees or current retirees was a relatively painless way to reduce benefit costs for the plans.
- Augmentation benefits former employees (firefighters, in this case) without regard to why their service ended. Reasons for that could include termination because of poor performance, inappropriate or unprofessional behavior, or worse.
- With one exception (in South Dakota), no other governmental pension plan nation-wide provides this benefit. For context, augmentation is an unknown concept in the private sector: private sector defined benefit pension plan do not pay cost-of-living adjustments (interest, in this case) on deferred vested benefits.
- Augmentation does not encourage portability, if “portability” is defined as the ability of an individual to terminate service and take his or her retirement benefits to the next position. Augmentation, in fact, inhibits the transfer of pension benefits, because doing so means no more interest payments.

Currently, relief associations can credit interest or additional investment earnings to deferred members if allowed by their bylaws. Relief associations that elect to offer deferred interest can do so in the following ways:

1. **Set up a Separate Investment Account.** Deferred member assets are pooled in a separate investment account and members receive interest at the investment performance rate actually earned on the account.
2. **Set up a Separate Investment Vehicle.** A separate investment vehicle is established for each deferred member. The deferred member receives interest at the investment performance rate actually earned on the separate investment vehicle.

3. **Board of Trustees Sets Interest Rate.** The relief association’s board of trustees determines the rate of interest for deferred members, between 0 and 5 percent. This option is available only to defined-benefit plans.
4. **Credit Full Investment Gains and Losses.** Deferred members receive investment allocations in the same manner as active members. Each deferred member’s account balance is credited with net investment gains or losses at the rate actually earned on the investment of special fund assets. This option is available only to defined-contribution plans.

Over 70 percent of the defined-benefit relief associations no longer offer interest or additional investment income to new members who become deferred. The number of relief associations that pay interest using the different available options are listed below:

Defined-Benefit Relief Associations (Data for 493 plans)

Number of Plans	Interest Type	Median Funding Ratio
348	No Interest	129%
111	Board-Set Return (0% to 5%)	122%
13	Separate Account	131%
21	Separate Investment Vehicle	116%

Note: Only two of the 22 relief associations that pay monthly benefits offer deferred interest. Both pay a flat 5% return.

Defined-Contribution Relief Associations (Data for 86 plans)

	No Interest	Full Gains/Losses	Separate Account	Separate Investment Vehicle
Number of Plans	23	39	15	9

Considerations:

1. Should defined-benefit relief associations continue to have authority to pay interest or additional investment income to deferred members?
 - a. If yes, what is the Working Group’s rationale for recommending to the LCPR that no change to current law be made?
 - b. If no, should a phase-out be recommended (i.e., interest stops for members who join as of a certain date) or should interest payments for all members stop as of a specified date?
2. Should defined-contribution relief associations continue to have authority to pay interest or additional investment income to deferred members?

Preliminarily, the Working Group agreed that defined contribution plans should be required to provide investment gains and losses to deferred members.