Office of the State Auditor

Pension Division Newsletter

July 2022

Inside this issue:

Office of the State Auditor

Pension Division

525 Park Street, Suite 500

Saint Paul, MN 55103

(651) 282-6110

Fax: (651) 282-5298

pension@osa.state.mn.us

Marriage Dissolutions

The 2022 Pension and Retirement Bill that was passed into law in May includes provisions that permit distributions following the divorce of a relief association member, and provides options regarding these distributions. While relief associations have traditionally paid amounts to the former spouse (or "alternate payee") after a relief association member gets divorced, the 2022 law changes expressly authorize these payments and provide definitions of the terms "qualified domestic relations order" and "alternate payee."

The new law also permits a relief association, if its bylaws allow, to pay the benefit amount due to the alternate payee immediately following finalization of the divorce, rather than waiting until the relief association member reaches age 50 and separates from active service. Allowing payment as soon as practicable following finalization of the divorce helps ease the administrative burden of maintaining records and contact information of former spouses. Relief associations wishing to permit these immediate payments must do so through an amendment to their bylaws. The relief association member cannot be paid his or her portion of the benefit until after reaching the relief association's minimum retirement age and separating from active service.

For relief associations that pay monthly service pensions, the new law allows the relief association to amend its bylaws to permit payment to the former spouse in a lump sum amount, rather than as a monthly benefit.

All relief associations must permit the former spouse to elect a direct rollover of his or her portion of the benefit, if the service pension is an eligible rollover distribution.

If a member of a relief association is involved in a divorce proceeding, the relief association might be contacted for information by the parties in the divorce or their attorneys. The value of the member's accrued benefit may be important to appropriately evaluate the marital assets. Courts may either award a percentage of the member's benefit to the ex-spouse or a flat dollar amount. The division method may depend upon whether the member was active or retired at the time of the marriage dissolution.

Relief associations are usually given a draft copy of the divorce judgment or decree before it is filed with the court. If your relief association has questions regarding the draft of the judgment, your association should discuss it with the attorneys for both parties, the court, and/or the association's own legal counsel.

What's Ahead:

August 1:
The 2022 Schedule Form must be certified to the municipality or independent nonprofit firefighting corporation.

September 15:
First certification deadline for 2022 fire state aid. To be certified as eligible, all 2021 information must be submitted to the OSA, the OSA review must be completed, and any issues resolved.

October 1:
Fire state aid is paid for those relief associations certified as eligible on the first certification deadline.

Schedule Form Reminders

The 2022 Schedule Form for relief associations with a defined-benefit lump-sum plan must be certified by the relief association **on or before August 1, 2022**. The certification must be made to the entity responsible for satisfying the minimum required contribution to the relief association's special fund.

The 2022 Schedule Form is designed to help determine the relief association's projected assets and liabilities for 2022 and the minimum required contribution for 2023. The Schedule Form is available for download from the **State Auditor's Form Entry System (SAFES)**.

As noted in our **February 2021 Pension Newsletter**, you may notice that the calculated accrued liability amounts may be different for active members with similar lengths of service but different ages. To accommodate shorter vesting schedules that are now authorized for defined benefit plans without systemically understating liability estimates, a new method for calculating the liabilities was implemented beginning with last year's Schedule Form.

The new method is based on the current age and length of service of each member, and the requirement for full-vesting defined in the relief association's bylaws. Liabilities for members who are younger than 50 are discounted, using an assumption that the relief association will earn three percent on its investments each year. Investment returns help fund the future benefit payable to each member.

If the 2022 Schedule Form shows that a contribution is required, and if the relief association's benefit level was ratified, the affiliated municipality or independent nonprofit firefighting corporation is required to pay the contribution amount in full to the relief association during the 2023 calendar year. See the Office of the State Auditor's **Statement of Position** for additional information.

Protecting Private Member Data

As relief association trustees have begun conducting more business using electronic means, trustees should be sure that private member data is being protected in accordance with Minnesota's Data Practices Act.

Some reporting forms that a relief association completes contain private member information. For example, the annual Schedule Form contains member birth dates, years of service, leaves of absence, and vesting information. A relief association, therefore, should not share or post a copy of the Schedule Form or other reporting forms containing private member data without first redacting (removing or covering up) all private data, unless sharing the information with an individual authorized to access the data.

The **Data Practices Office** within the Minnesota Department of Administration provides information about data practices and classifications on its website.

Statements of Position:

[Considerations When Making Benefit Changes]

[Required Municipal Contributions]

[Municipal Contribution Calculations for Monthly Plans]

[Interest Earnings for Deferred Members]

Municipal Ratification of Benefit Levels and Interest Rates

Many relief associations review their finances in the summer, after completing their annual Schedule Form, and determine whether to seek a change to their benefit levels.

As a reminder, a relief association initiates a change in benefit levels by amending its bylaws. A city council or town board can choose to approve or not approve a relief association's proposed benefit change. Once the bylaws are ratified by the governing body, however, the benefit levels are guaranteed by the municipality.

In approving benefit levels, the city council or town board assumes responsibility for ensuring the relief association special fund has sufficient assets to cover approved benefit levels.

The OSA knows of no authority for a city council or town board to ratify a relief association benefit level while simultaneously limiting any future contributions to the relief association to amounts less than those required by Minnesota law. Minnesota law is clear that a municipality is required to make any contributions that become due to the relief association at the approved benefit level.

For more information regarding the process for changing relief association benefit levels, please see the OSA's **Statement of Position** on this topic.

Interest rates set by a relief association's board of trustees become payable beginning on January 1 following the date on which the rate was ratified by the municipality or independent nonprofit firefighting corporation. For example, a relief association's board of trustees sets an interest rate of three percent on December 15, 2022. The affiliated city council ratifies the interest rate at its council meeting on January 20, **2023**. The interest rate will become effective on January 1, **2024**. Relief associations that credit interest to deferred members should keep this timing in mind when setting interest rates and seeking municipal ratification of the rates.

Pension Division Staff

If you have questions, please contact us:

Michael Johnson, Pension Analyst
(651) 282-5430
michael.johnson@osa.state.mn.us

Molly Resch, Pension Analyst
(651) 297-2765
molly.resch@osa.state.mn.us

Maia Dabney-Miller, Pension Analyst
(651) 284-3423
maia.dabney-miller@osa.state.mn.us

Robin Paulsen, Administrative Specialist
(651) 296-6267
robin.paulsen@osa.state.mn.us

Rose Hennessy Allen, Pension Director
(651) 296-5985
rose.hennessy-allen@osa.state.mn.us