

**Minnesota Volunteer Fire Relief Association  
Working Group Meeting**

Office of the State Auditor  
Tuesday, December 18, 2012  
11 a.m. to 1 p.m.

- I. Call to Order**  
*Chair Auditor Otto.*
- II. Review and Approval of Working Group Meeting Minutes**  
Exhibit A. Draft December 4, 2012 Meeting Minutes
- III. Update on the Statewide Voluntary Firefighter Retirement Plan**  
Presentation by Dave DeJonge, Assistant Director, PERA
- IV. Review of Draft Language**  
Exhibit B. Return to Service DC Plan Change  
Exhibit C. Return to Service Clarification  
Exhibit D. Fiscal Year Definition  
Exhibit E. Deferred Interest Municipal Ratification Clarification
- V. Update on Fire Department Service Requirements**  
Presentation by Bruce Roed, Fire Service Specialist, State Fire Marshal Division
- VI. Other Business**  
Update on IRS Tax-Exempt and Filing Issues
- VII. Next Meeting**  
Tuesday, January 15, 2013  
11 a.m. to 1 p.m.  
Office of the State Auditor
- VIII. 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 17, 2012.

# **Volunteer Fire Relief Association Working Group**

Office of the State Auditor  
Tuesday, December 4, 2012  
11 a.m. to 1 p.m.

## **Members Present**

Steve Donney, City of Harmony Mayor  
Bruce Duncan, Excelsior Fire Relief Association President (defined benefit lump sum plans)  
Bruce Hemstad, Bemidji Fire Relief Association Secretary (defined benefit lump sum plans)  
Dave Jaeger, Mahnomon Fire Relief Association Treasurer (defined benefit lump sum plans)  
Aaron Johnston, Coon Rapids Fire Relief Association Treasurer (defined contribution plans)  
Larry Martin, Legislative Commission on Pensions and Retirement Director  
Rebecca Otto, State Auditor  
Mark Rosenblum, Minnesota State Fire Department Association Representative (defined benefit lump sum plans)  
Tim Simon, Elk River City Finance Director  
Nyle Zikmund, Minnesota State Fire Chiefs Association Representative (defined benefit monthly plans)

## **Members Excused**

Dave Ganfield, Apple Valley Fire Relief Association Administrator (defined benefit monthly/lump sum combination plans)  
Bruce Roed, Mentor Fire Relief Association Trustee (defined contribution plans)

## **Others Present**

Bill Braun, Woodbury Fire Relief Association Representative  
Mary Chamberlain, Abdo, Eick & Meyers Representative  
Aaron Dahl, Office of the State Auditor Pension Analyst  
Celeste Grant, Deputy State Auditor/General Counsel  
Rose Hennessy Allen, Office of the State Auditor Pension Director  
Jim Jensen, Office of the State Auditor Pension Analyst  
Deb Jezierski, HLB Tautges Redpath Representative  
Michael Johnson, Office of the State Auditor Pension Analyst  
Samantha Lee, Office of the State Auditor Pension Intern  
Brian McKnight, Wells Fargo Advisors Representative

The following motions were duly made, seconded and approved:

- RESOLVED to approve the November 28, 2012, Working Group Meeting Minutes;
- RESOLVED to approve the revised draft language that clarifies deferred interest rates established by the board of trustees become effective on the January 1 next following the approval date;
- RESOLVED to approve the draft technical language that corrects the defined-benefit plan default deferred interest calculation method for relief associations that do not define a calculation method in their bylaws; and

RESOLVED to approve the concept of clarifying municipal ratification requirements for deferred interest rates established by a relief association's board of trustees so that ratification is required only if the association is underfunded.

**I. Call to Order**

Chair Auditor Otto called the meeting to order.

**II. Review and Approval of Working Group Meeting Minutes**

The members reviewed the November 28, 2012, meeting minutes that had been provided in advance. Hemstad made a motion to adopt the meeting minutes. Jaeger seconded the motion that was adopted unanimously. Duncan abstained.

**III. Discussion of Defined Benefit Plan Deferred Interest**

Auditor Otto shared some data with the Group showing how many relief associations of each plan type offer interest to deferred members under the various deferred interest types. During the previous Working Group meeting some members had expressed an interest in allowing deferred interest rates to be effective retroactively. Auditor Otto asked if this is something that the Group is still interested in pursuing. The consensus of the Group was that the separate investment account and separate investment vehicle options provide an alternative for those relief associations that do not want to set deferred interest rates on a prospective-only basis, and that more time is needed to collect feedback from relief associations before any major changes should be proposed. McKnight said that he has worked with several relief associations to set up separate investment accounts and the process has not been difficult. The separate investment accounts are much easier for a relief association to maintain and administer than variable interest rates established by the association's board of trustees.

Working Group members expressed concerns their relief associations have about changing their deferred interest option, and the risk that doing so could prompt long-serving firefighters to retire before any changes would go into effect. Some members of the Group shared that they are seeing a movement among relief associations away from offering deferred interest. In time, the board-set deferred interest option, and its inherent issues, may become obsolete.

The Group agreed that clarifying that deferred interest rates established by the relief association's board of trustees become effective on the January 1 next following the approval date would make it easier for associations to administer and for the Office of the State Auditor to review. Donney made a motion to adopt the draft language, as amended to include Martin's wording suggestions. Rosenblum seconded the motion that was adopted unanimously.

The Group reviewed draft language for a technical change that corrects a mistake when last year's Working Group bill was assembled. The change corrects the default calculation method for defined-benefit relief associations that offer interest under the

board-set option or based on a separate investment account, and do not specify a calculation method in the bylaws. Duncan made a motion to adopt the draft language. Simon seconded the motion that was adopted unanimously.

The Group discussed municipal ratification requirements for deferred interest rates established by the relief association's board of trustees. Current law contains conflicting ratification requirements. One provision appears to always require municipal ratification, while another provision appears to only require ratification if the relief association is underfunded. The Working Group agreed that always seeking municipal ratification of deferred interest rates is the best practice, but that in some communities it is not always possible. Zikmund made a motion to approve the concept of requiring municipal ratification of deferred interest rates established by the relief association's board of trustees only if the association is underfunded. Rosenblum seconded the motion that was adopted unanimously. Grant and Martin will work on drafting language for the Group's consideration at the next meeting.

#### **IV. Discussion of Audit Threshold and Requirements**

Auditor Otto explained that the Working Group members who have served on the Group for a while may recall that the issue of the \$200,000 statutory audit threshold for relief associations has been discussed previously. The Working Group members decided not to pursue any changes when the topic was previously discussed. There is an interest in revisiting the topic. Auditor Otto shared information with the Group on how many relief associations are required to have an audit performed, and shared a comparison of form submission trends for relief associations with the audit requirement and for those without the requirement. Relief associations that are audited are far more likely to submit their annual reporting forms early or on time, whereas associations without the audit requirement are far more likely to submit their forms at least two months late. Late reporting forms may result in a delay in receiving state fire aid. The Group discussed the benefits of having an audit, and that the legislature requires assurances that taxpayer money given to the largely volunteer relief association system is spent appropriately. Members of the Group shared their experience that audit fees can be reduced by bidding with the city or town for audit services. The Working Group members agreed not to pursue any changes to the audit threshold or requirements.

#### **V. Discussion of Service Credit Calculations**

Relief associations award service credit based on each completed year of active service or, if the bylaws authorize it, prorate service credit on a monthly basis. If a relief association's bylaws authorize the monthly proration of service credit, the bylaws may define what constitutes a "month." The definition must require a calendar month to have at least 16 days of active service. Auditor Otto explained that some relief associations have expressed an interest in prorating service credit on a quarterly or semi-annually basis. Other relief associations have inquired about allowing the bylaws to define what constitutes a "year" of active service. The Group felt that the options allowed under current law provide enough flexibility, and discussed how relief associations and fire

departments can work together to implement a process of determining service credit that works for both entities. The Working Group decided to pursue no changes.

**VI. Other Business**

A recommendation was made to invite Dave DeJonge with the Public Employees Retirement Association to provide an update at the next meeting on the Statewide Volunteer Firefighter Retirement Plan. Zikmund also suggested that there could be an update on the work being done by the State Fire Marshal's Office to define fire department standards.

**VII. Next Meeting**

Tuesday, December 18, 2012

11 a.m. to 1 p.m.

Office of the State Auditor

**VIII. Adjournment**

The meeting was adjourned at 1:00.

**Exhibit B**  
**Return to Service DC Plan Change**

**424A.01 MEMBERSHIP IN A VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION.**

...

Subd. 6. **Return to active firefighting after break in service.**

...

(i) For defined contribution plans, a firefighter who returns to active relief association membership under paragraph (b) and who qualifies for a service pension under paragraph (c) or (d) must have, upon a subsequent cessation of duties, any service pension for the resumption service period calculated as a separate benefit. If a service pension had been paid to the firefighter upon the firefighter's previous cessation of duties, and if the firefighter meets the minimum service requirement of section 424A.016, subdivision 3, based on the resumption years of service, a second service pension for the resumption service period must be calculated to include allocations credited to the firefighter's individual account during the resumption period of service and deductions for administrative expenses, if applicable.

(j) For defined contribution plans, if a firefighter who had not been paid a service pension returns to active relief association membership under paragraph (b), and who meets the minimum service requirement of section 424A.016, subdivision 3, based on the firefighter's original and resumption years of service, must have, upon a subsequent cessation of duties, a service pension for the original and resumption service periods calculated to include allocations credited to the firefighter's individual account during the original and resumption periods of service and deductions for administrative expenses, if applicable, less any amounts previously forfeited under section 424A.016, subdivision 4.

## Exhibit C Return to Service Clarification

### 424A.01 MEMBERSHIP IN A VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION.

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Subd. 6. **Return to active firefighting after break in service.** (a) ~~The requirements of this section apply~~ This subdivision applies to all breaks in service, except ~~breaks in service mandated by~~ that the resumption service requirements of this subdivision do not apply to leaves of absence made available by federal statute, such as the Family Medical Leave Act, 29, U.S.C. § 2691 *et seq.*, and the Uniformed Services Employment and Reemployment Rights Act, 38 U.S.C. 4301 *et seq.* and do not apply to leaves of absence made available by ~~or~~ state law statute, such as the Parental Leave Act, section 181.941, the Leave for Organ Donations Act, section 181. 9456; the Leave for Civil Air Patrol Service Act, section 181.946; the Leave for Immediate Family Members of Military Personnel Injured or Killed in Active Service Act, section 181.947, or the Protection of Jurors' Employment Act, section 593.50.

**Exhibit D**  
**Fiscal Year Definition**

**Technical Change #3:**  
**424A.0001 DEFINITIONS.**

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Subd. 11. **Fiscal year.** The fiscal year for a volunteer fire relief association begins on January 1 of each calendar year and ends on December 31 of the same calendar year.



**Exhibit E**  
**Deferred Interest**  
**Municipal Ratification Clarification**

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

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Subd. 7. **Deferred service pensions.** (a) A member of a defined benefit relief association is entitled to a deferred service pension if the member:

(1) has completed the lesser of either the minimum period of active service with the fire department specified in the bylaws or 20 years of active service with the fire department;

(2) has completed at least five years of active membership in the relief association; and

(3) separates from active service and membership. The requirement that a member separate from active service and membership is waived for persons who have discontinued their volunteer firefighter duties and who are employed on a full-time basis under section 424A.015, subdivision 1.

(b) The deferred service pension is payable when the former member reaches at least age 50, or at least the minimum age specified in the bylaws governing the relief association if that age is greater than age 50, and when the former member makes a valid written application.

(c) A defined benefit relief association that provides a lump-sum service pension governed by subdivision 3 may, when its governing bylaws so provide, pay interest on the deferred lump-sum service pension during the period of deferral. If provided for in the bylaws, interest must be paid in one of the following manners:

(1) at the investment performance rate actually earned on that portion of the assets if the deferred benefit amount is invested by the relief association in a separate account established and maintained by the relief association;

(2) at the investment performance rate actually earned on that portion of the assets if the deferred benefit amount is invested in a separate investment vehicle held by the relief association; or

(3) at an interest rate of up to five percent, compounded annually, as set by the board of directors ~~and approved as provided in subdivision 10.~~

(d) The interest rate set by the board of directors under paragraph (c), clause (3), must be ratified by the governing body of the municipality served by the fire department to which the relief association is directly associated, or by the independent nonprofit firefighting corporation, as applicable, if the special fund of the relief association has a deficit from full funding or if the municipality or independent nonprofit firefighting corporation is required to provide financial support as determined by the most recent certification under section 69.771, subdivision 4, or section 69.773, subdivision 5.

(e) Interest under paragraph (c), clause (3), is payable beginning on January 1 next following the date on which the municipality has approved the deferred service pension

interest rate is established by the board of trustees and, if ratification is required under paragraph (d), the date on which the deferred service pension interest rate is ratified.

~~(e)~~(f) Unless the bylaws of a relief association that has elected to pay interest or additional investment performance on deferred lump-sum service pensions under paragraph (c) specifies a different interest or additional investment performance method, including the interest or additional investment performance period starting date and ending date, the interest or additional investment performance on a deferred service pension is creditable as follows:

(1) for a relief association that has elected to pay interest or additional investment performance under paragraph (c), clause (1) or (3), beginning on the ~~date that the member separates from active service and membership and ending on the accounting date immediately before the deferred member commences receipt of the deferred service pension~~ first day of the month next following the date on which the member separates from active service and membership and ending on the last day of the month immediately before the month in which the deferred member commences receipt of the deferred service pension; or

(2) for a relief association that has elected to pay interest or additional investment performance under paragraph (c), clause (2), beginning on the date that the member separates from active service and membership and ending on the date that the separate investment vehicle is valued immediately before the date on which the deferred member commences receipt of the deferred service pension.

~~(f)~~(g) For a deferred service pension that is transferred to a separate account established and maintained by the relief association or separate investment vehicle held by the relief association, the deferred member bears the full investment risk subsequent to transfer and in calculating the accrued liability of the volunteer firefighters relief association that pays a lump-sum service pension, the accrued liability for deferred service pensions is equal to the separate relief association account balance or the fair market value of the separate investment vehicle held by the relief association.

~~(g)~~(h) The deferred service pension is governed by and must be calculated under the general statute, special law, relief association articles of incorporation, and relief association bylaw provisions applicable on the date on which the member separated from active service with the fire department and active membership in the relief association.