Minnesota Volunteer Fire Relief Association
Working Group Meeting

Office of the State Auditor
Tuesday, December 7, 2010
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 November 16, 2010 Meeting Minutes

III. Discussion of Special Fund Administrative Expenses
Exhibit B.

IV. Discussion of Form Signature Requirement Changes
Exhibit C.

V. Discussion of Special Fund Revenues
Exhibit D.

VI. Discussion of Certified Public Accountant Technical Change
Exhibit E.

VII. Discussion of Amortization Period and the Schedule Form
Exhibit F. Topic Summary
Exhibit G. Background on the Financing Guidelines Act
Exhibit H. Items for Consideration

VIII. Other Business

IX. Next Meeting
Tuesday, January 11, 2011
11 a.m. to 1 p.m.
Office of the State Auditor

X. 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 6, 2010.

Volunteer Fire Relief Association Working Group

Office of the State Auditor
Tuesday, November 16, 2010
11 a.m. to 1 p.m.

Members Present
Wayne Anderson, Coon Rapids Fire Department Inspector (defined contribution plans)
Bruce Duncan, Excelsior Fire Relief Association President (defined benefit lump sum plans)
Dave Ganfield, Apple Valley Fire Relief Association Administrator (defined benefit monthly/lump sum combination plans)
Jim Hansen, Minnesota Area Relief Association Coalition Representative
Dave Jaeger, Mahnomen Fire Relief Association Treasurer (defined benefit lump sum plans)
John King, Minnesota State Fire Department Association Representative
Larry Martin, Legislative Commission on Pensions and Retirement Director
Rebecca Otto, State Auditor
Bruce Roed, Mentor Fire Relief Association Trustee (defined contribution plans)
Steven Wallner, Watertown City Finance Director

Members Excused
Tim Simon, Elk River City Finance Director
Nyle Zikmund, Minnesota State Fire Chiefs Association Representative (defined benefit monthly plans)

Others Present
Jeff Anderson, Oakdale Fire Relief Association Representative
Colleen Bollom, Minnesota Firefighter Pension Consultants Representative
Celeste Grant, Deputy State Auditor/General Counsel
Rose Hennessy Allen, Pension Director
Lucas Hinz, Pension Analyst
Jim Jensen, Pension Intern
Michael Johnson, Pension Analyst
Mark Kerr, Assistant Legal Counsel
Brian McKnight, Wells Fargo Advisors Representative
Mike Stroeing, Oakdale Fire Relief Association Representative
Kent Zoya, Inver Grove Heights Fire Relief Association Representative

The following motions were duly made, seconded and approved:

RESOLVED to approve the October 14, 2010, Working Group Meeting Minutes;
RESOLVED to discuss the $200,000 audit threshold topic during a January Working Group meeting, if time allows;
RESOLVED to adopt the technical changes related to survivor benefits and the definition of a volunteer firefighters relief association;
RESOLVED to draft language to be considered to allow all trustees to be paid salaries from the special fund, if approved by the municipality, and to strike the 1986 grandfathering language currently in statute;

RESOLVED to expand the list of authorized special fund administrative expenses to include filing and application fees that are payable to a federal or state governmental entity;
RESOLVED to table the discussion on the continuation of monthly benefits until a future meeting so that monthly plans seeking this change can attend the meeting to provide additional information;
RESOLVED to allow members who don't meet the minimum period of resumption service requirement to receive service credit for time served after returning from the break in service;
RESOLVED to table the discussion on allowing relief associations to restrict the resumption of active service and membership to only those members who have not been paid a service pension or benefit.

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 October 14, 2010, meeting minutes that had been provided in advance. Wallner made a motion to adopt the meeting minutes. Jaeger seconded the motion that was adopted unanimously.

III. Review of Topic Rankings

The members reviewed the list of proposed Working Group topics that received the highest rankings and therefore are slated for discussion this season. Auditor Otto suggested that the Group not pursue the unclaimed benefits topic (#9) and the state aid withholding topic (#10). These topics would require that the Working Group bill be heard by additional legislative committees and also present administrative concerns. The members agreed to strike both topics from the list for consideration this season.

The members discussed the proposal to increase the $200,000 audit threshold. This topic has been previously discussed by the Working Group on several occasions. Anderson made a motion to revisit this topic in January if time allows. Jaeger seconded the motion that was adopted unanimously.

IV. Review of Technical Changes

The members reviewed draft language for three technical changes. Auditor Otto explained that the change for the survivor benefit section is needed because language was inadvertently omitted from the 2010 Working Group bill. The definition of a "volunteer firefighter relief association" was adopted by the Working Group last year, but was also inadvertently omitted from the bill. Jaeger made a motion to adopt both technical changes. Ganfield seconded the motion that was adopted unanimously.

The members agreed to revisit the third technical change at a future meeting. The change would strike the term "licensed public accountant" from the list of consultants required to provide relief associations with a copy of their certificate of insurance. The term was removed from most Minnesota statutes during the last legislative session in an effort to clean-up outdated language. The members discussed whether to include the term "certified public accountant" or "accountant" in the list, instead. Kerr suggested that the members use "certified public accountant," which is a defined term and preferred by the Minnesota Board of Accountancy, rather than "accountant" that isn't defined and includes bookkeepers and others.

V. Discussion of Special Fund Administrative Expenses

Auditor Otto explained that the list of authorized special fund administrative expenses has not been thoroughly reviewed recently. There appears to be an interest in expanding the list so that some additional necessary and reasonable expenses that a relief association may incur could be paid from the special fund.

The members discussed whether all trustees on a relief association board should be allowed to receive salary payments from the special fund. Currently, only a relief association's president, secretary, and treasurer may be paid a salary from the special fund. Additionally, any trustees who were authorized to receive special fund salaries under a relief association's bylaws that were in effect on January 1, 1986, may continue to receive salaries from the special fund. Martin reminded the Working Group that paying salaries from the special fund reduces a relief association's funding, and may result in increased municipal contribution requirements. Martin suggested that any change that would allow additional trustees to be paid from the special fund should include a municipal approval requirement. Anderson made a motion to have language drafted that would allow all trustees to be paid salaries from the special fund, if approved by the municipality, and to strike the 1986 grandfathering language. The Group will review the draft language and finalize its discussion on this topic at a future meeting. Ganfield seconded the motion that was adopted unanimously.

The members discussed the draft language that would clearly authorize filing and application fees that are payable to a federal or state governmental entity to be paid from the special fund. Examples include Internal Revenue Service and Secretary of State filing fees. Duncan made a motion to expand the list of authorized special fund administrative expenses to include filing and application fees that are payable to a federal or state governmental entity. Wallner seconded the motion that was adopted unanimously.

VI. Discussion of Form Signature Requirements

This topic was held over to the December Working Group meeting.

VII. Discussion of Return-to-Service Suggested Changes

The members discussed the suggestion that retirees receiving a monthly service pension be allowed to continue collecting the monthly pension if they rejoin the fire department but don't rejoin the relief association. Currently, a retiree may only continue collecting the monthly service pension if the member rejoins both the fire department and the relief association, and the association's bylaws allow for the continuation of payments. Roed made a motion to table this topic until a future meeting so that monthly plans seeking this change can attend the meeting and provide additional information. Anderson seconded the motion that was adopted unanimously.

The Working Group discussed the suggestion to allow members who don't meet the minimum period of resumption service requirement to receive service credit for time served after returning from a break in service. Currently, if a member doesn't meet the minimum period of resumption service requirement specified in the bylaws, the member is not eligible to receive credit for any time served after returning from the break. The relief association defines in its bylaws whether members who don't meet the minimum period of resumption service requirement are eligible for any benefit increases that occurred during the break. Duncan made a motion to have language drafted that would allow members who don't meet the minimum period of resumption service requirement to receive service credit for time served after returning from the break in service. King seconded the motion that was adopted unanimously.

The members discussed whether relief associations should be able to only allow members who have not been paid a benefit to return to active service and membership. The members agreed to wait to discuss this topic until more time has passed to evaluate how the return-to-service law is working. Anderson made a motion to table the topic. Duncan seconded the motion that was adopted unanimously.

VIII. Other Business

The members discussed possible January meeting dates. Hennessy Allen will send an e-mail to the Working Group members with potential meeting dates.

IX. Next Meeting

Tuesday, December 7, 2010
11:00 a.m. to 1:00 p.m.
Office of the State Auditor

IX. Adjournment

The meeting was adjourned shortly after 1:00.

A bill for an act

relating to retirement; local police, paid fire, and volunteer fire relief associations; authorized administrative expenses; authorizing the payment of salaries to additional relief association officials with municipal approval; authorizing the payment of certain governmental fees; amending Minnesota Statutes 2010, section 69.80.

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

Section 1. Minnesota Statutes 2010, section 69.80, is amended to read:

69.80 AUTHORIZED ADMINISTRATIVE EXPENSES.

(a) Notwithstanding any provision of law to the contrary, the payment of the following necessary, reasonable and direct expenses of maintaining, protecting and administering the special fund, when provided for in the bylaws of the association and approved by the board of trustees, constitutes authorized administrative expenses of a police, salaried firefighters', or volunteer firefighters' relief association organized under any law of this state:

(1) office expense, including, but not limited to, rent, utilities, equipment, supplies, postage, periodical subscriptions, furniture, fixtures, and salaries of administrative personnel;

(2) salaries of the ~~president, secretary, and treasurer~~ officers of the association, or their designees, and ~~any other official~~ salaries of the members of the board of trustees of the ~~relief~~ association ~~to whom a salary is payable under bylaws or articles of incorporation in effect on January 1, 1986~~ if the salary amounts and their payment are approved by the governing body of the entity that is responsible for meeting any minimum municipal obligation under section 69.77, 69.772, or 69.773, and ~~their~~ the itemized expenses of relief

association officers and board members that are incurred as a result of fulfilling their responsibilities as administrators of the special fund;

(3) tuition, registration fees, organizational dues, and other authorized expenses of the officers or members of the board of trustees incurred in attending educational conferences, seminars, or classes relating to the administration of the relief association;

(4) audit, actuarial, medical, legal, and investment and performance evaluation expenses;

(5) filing and application fees payable by the relief association to federal or other governmental entities;

~~(5)~~ (6) reimbursement to the officers and members of the board of trustees, or their designees, for reasonable and necessary expenses actually paid and incurred in the performance of their duties as officers or members of the board; and

~~(6)~~ (7) premiums on fiduciary liability insurance and official bonds for the officers, members of the board of trustees, and employees of the relief association.

(b) Any other expenses of the relief association must be paid from the general fund of the association, if one exists. If a relief association has only one fund, that fund is the special fund for purposes of this section. If a relief association has a special fund and a general fund, and any expense of the relief association that is directly related to the purposes for which both funds were established, the payment of that expense must be apportioned between the two funds on the basis of the benefits derived by each fund.

EFFECTIVE DATE. This section is effective July 1, 2011.

Exhibit C

Reporting Requirement Changes – Form Signatures

Issue #1:

The Reporting Form (RF) that is annually submitted to the Office of the State Auditor is required to be signed by the municipal clerk or clerk treasurer. Municipalities from across Minnesota have expressed a desire for more flexibility in meeting this signature requirement so that the individual most familiar with the relief association's operations may sign. In addition, some relief associations are not affiliated with an organized municipality, so there is no municipal clerk or clerk-treasurer who may sign. The Optional Change #1 below would allow the chief financial official or chief administrative official to sign the RF, and would require the chief financial official or the treasurer of the applicable county sign in cases where the relief association is not affiliated with a municipality.

Optional Change #1:

69.051 FINANCIAL REPORT, BOND, EXAMINATION.

Subdivision 1.**Financial report and audit.**

The board of each salaried firefighters relief association, police relief association, and volunteer firefighters relief association as defined in section 424A.001, subdivision 4, with assets of at least $200,000 or liabilities of at least $200,000 in the prior year or in any previous year, according to the applicable actuarial valuation or financial report if no valuation is required, shall:

(1) prepare a financial report covering the special and general funds of the relief association for the preceding fiscal year on a form prescribed by the state auditor. The financial report must contain financial statements and disclosures which present the true financial condition of the relief association and the results of relief association operations in conformity with generally accepted accounting principles and in compliance with the regulatory, financing and funding provisions of this chapter and any other applicable laws. The financial report must be countersigned by:

(i) the ~~municipal clerk or clerk-treasurer~~ chief financial official or chief administrative official of the municipality in which the relief association is located if the relief association is a firefighters relief association which is directly associated with a municipal fire department or is a police relief association; or

(ii) ~~countersigned by~~ the ~~secretary of the independent nonprofit firefighting corporation and by the municipal clerk or clerk-treasurer~~ chief financial official or chief administrative official of the largest municipality in population which contracts with the independent nonprofit firefighting corporation if the volunteer firefighter relief association is a subsidiary of an independent nonprofit firefighting corporation and by the secretary of the independent nonprofit firefighting corporation; or

(iii) the chief financial official or treasurer of the county in which the volunteer firefighter relief association is located if the association lacks municipal officials because the associated fire department is not located in or associated with an organized municipality;

(2) file the financial report in its office for public inspection and present it to the city council after the close of the fiscal year. One copy of the financial report must be furnished to the state auditor after the close of the fiscal year; and

(3) submit to the state auditor audited financial statements which have been attested to by a certified public accountant, public accountant, or the state auditor within 180 days after the close of the fiscal year. The state auditor may accept this report in lieu of the report required in clause (2).

Subd. 1a.**Financial statement.**

(a) The board of each volunteer firefighters relief association, as defined in section 424A.001, subdivision 4, that is not required to file a financial report and audit under subdivision 1 must prepare a detailed statement of the financial affairs for the preceding fiscal year of the relief association's special and general funds in the style and form prescribed by the state auditor. The detailed statement must show the sources and amounts of all money received; all disbursements, accounts payable and accounts receivable; the amount of money remaining in the treasury; total assets including a listing of all investments; the accrued liabilities; and all items necessary to show accurately the revenues and expenditures and financial position of the relief association.

(b) The detailed financial statement required under paragraph (a) must be certified by an independent public accountant or auditor or by the auditor or accountant who regularly examines or audits the financial transactions of the municipality. In addition to certifying the financial condition of the special and general funds of the relief association, the accountant or auditor conducting the examination shall give an opinion as to the condition of the special and general funds of the relief association, and shall comment upon any exceptions to the report. The independent accountant or auditor must have at least five years of public accounting, auditing, or similar experience, and must not be an active, inactive, or retired member of the relief association or the fire or police department.

(c) The detailed statement required under paragraph (a) must be countersigned by the ~~municipal clerk or clerk-treasurer~~ chief financial official or chief administrative official of the municipality, or, where applicable, by the ~~secretary of the independent nonprofit firefighting corporation and by the municipal clerk or clerk-treasurer~~ chief financial official or chief administrative official of the largest municipality in population which contracts with the independent nonprofit firefighting corporation if the relief association is a subsidiary of an independent nonprofit firefighting corporation and by the secretary of the independent nonprofit firefighting corporation. If a relief association lacks municipal officials because the associated fire department is not located in or associated with an organized municipality, the financial report must be countersigned by the chief financial official or treasurer of the applicable county.

(d) The volunteer firefighters' relief association board must file the detailed statement required under paragraph (a) in the relief association office for public inspection and present it to the city council within 45 days after the close of the fiscal year, and must submit a copy of the detailed statement to the state auditor within 90 days of the close of the fiscal year.

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Issue #2:

The Schedule Form (SC) that is annually submitted to the Office of the State Auditor must be certified to the governing body of the municipality. In many communities, the municipality is not the entity responsible for satisfying contribution requirements to the relief association. In some cases, a joint powers board is required to make contributions to the relief association, while in other cases the independent nonprofit firefighting corporation must pay required contribution amounts. Relief associations have asked that the reporting requirements be changed so that the SC form is certified to the entity that is responsible for satisfying the contribution requirements. Optional Change #2 below would require that the SC form be certified to the entity responsible for satisfying the minimum obligation, or as specified in the joint powers agreement, as applicable.

Optional Change #2:

69.772 RELIEF ASSOCIATIONS PAYING LUMP-SUM SERVICE PENSIONS.

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Subd. 4.**Certification of financial requirements and minimum municipal obligation; levy.**

(a) The officers of the relief association shall certify the financial requirements of the special fund of the relief association and the minimum obligation of the municipality with respect to the special fund of the relief association as determined under subdivision 3 ~~to the governing body of the municipality~~ on or before August 1 of each year. The certification shall be made to the entity responsible for satisfying the minimum obligation with respect to the special fund; except if the entity is a joint powers entity, the certification shall be made as specified in the joint powers agreement, or if the agreement does not so specify, the certification shall be made to the chair of the joint powers board.

(b) The financial requirements of the relief association and the minimum municipal obligation must be included in the financial report or financial statement under section 69.051. The schedule forms related to the determination of the financial requirements must be filed with the state auditor by March 31, annually, if the relief association is required to file a financial statement under section 69.051, subdivision 1a, or by June 30, annually, if the relief association is required to file a financial report and audit under section 69.051, subdivision 1.

(~~b~~c) The municipality shall provide for at least the minimum obligation of the municipality with respect to the special fund of the relief association by tax levy or from any other source of public revenue.

(~~c~~d) The municipality may levy taxes for the payment of the minimum municipal obligation without any limitation as to rate or amount and irrespective of any limitations imposed by other provisions of law upon the rate or amount of taxation until the balance of the special fund or any fund of the relief association has attained a specified level. In addition, any taxes levied under this section must not cause the amount or rate of any other taxes levied in that year or to be levied in a subsequent year by the municipality which are subject to a limitation as to rate or amount to be reduced.

(~~d~~e) If the municipality does not include the full amount of the minimum municipal obligations in its levy for any year, the officers of the relief association shall certify that amount to the county auditor, who shall spread a levy in the amount of the certified minimum municipal obligation on the taxable property of the municipality.

(~~e~~f) If the state auditor determines that a municipal contribution actually made in a plan year was insufficient under section 69.771, subdivision 3, paragraph (c), clause (5), the state auditor may request a copy of the certifications under this subdivision from the relief association or from the city. The relief association or the city, whichever applies, must provide the certifications within 14 days of the date of the request from the state auditor.

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Exhibit D

Special Fund Revenues

Topic:
Many relief associations are, or would like to, deposit member contributions and dues into their special funds. Relief associations have authority to deposit “any moneys or property donated, given, granted or devised by any person which is specified for use for the support of the special fund” into their special fund. However, because dues are included in the list of revenues that must be deposited into the general fund, if established, it has caused confusion. Relief associations have asked for clear authority to deposit member contributions and dues in the special fund.

Optional Change:
424A.05 RELIEF ASSOCIATION SPECIAL FUND.

Subd. 2.**Special fund assets and revenues.**

The special fund must be credited with all fire state aid moneys received under sections 69.011 to 69.051, all taxes levied by or other revenues received from the municipality under sections 69.771 to 69.776 or any applicable special law requiring municipal support for the relief association, any moneys or property donated, given, granted or devised by any person which is specified for use for the support of the special fund<u>, including member contributions and dues,</u> and any interest or investment return earned upon the assets of the special fund. The treasurer of the relief association is the custodian of the assets of the special fund and must be the recipient on behalf of the special fund of all revenues payable to the special fund. The treasurer shall maintain adequate records documenting any transaction involving the assets or the revenues of the special fund. These records and the bylaws of the relief association are public and must be open for inspection by any member of the relief association, any officer or employee of the state or of the municipality, or any member of the public, at reasonable times and places.

424A.06 RELIEF ASSOCIATION GENERAL FUND.

Subd. 2.**General fund assets and revenues.**

To the general fund, if established, must be credited all moneys received from dues, fines, initiation fees, entertainment revenues and any moneys or property donated, given, granted or devised by any person, for unspecified uses. The treasurer of the relief association is the custodian of the assets of the general fund and must be the recipient on behalf of the general fund of all revenues payable to the general fund. The treasurer shall maintain adequate records documenting any transaction involving the assets or the revenues of the general fund. These records must be open for inspection by any member of the relief association at reasonable times and places.

Exhibit E

Technical Changes

Technical Changes #2:

424A.04 VOLUNTEER RELIEF ASSOCIATIONS; BOARD OF TRUSTEES.

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Subd. 3. **Conditions on relief association consultants.**

(a) If a volunteer firefighter relief association employs or contracts with a consultant to provide legal or financial advice, the secretary of the relief association shall obtain and the consultant shall provide to the secretary of the relief association a copy of the consultant's certificate of insurance.

(b) A consultant is any person who is employed under contract to provide legal or financial advice and who is or who represents to the volunteer firefighter relief association that the person is:

(1) an actuary;

(2) ~~a licensed public accountant or~~ a certified public accountant;

(3) an attorney;

(4) an investment advisor or manager, or an investment counselor;

(5) an investment advisor or manager selection consultant;

(6) a pension benefit design advisor or consultant; or

(7) any other financial consultant.

69.051 FINANCIAL REPORT, BOND, EXAMINATION.

Subdivision 1.**Financial report and audit.**

The board of each salaried firefighters relief association, police relief association, and volunteer firefighters relief association as defined in section 424A.001, subdivision 4, with assets of at least $200,000 or liabilities of at least $200,000 in the prior year or in any previous year, according to the applicable actuarial valuation or financial report if no valuation is required, shall:

(1) prepare a financial report covering the special and general funds of the relief association for the preceding fiscal year on a form prescribed by the state auditor. The financial report must contain financial statements and disclosures which present the true financial condition of the relief association and the results of relief association operations in conformity with generally accepted accounting principles and in compliance with the regulatory, financing and funding provisions of this chapter and any other applicable laws. The financial report must be countersigned by the municipal clerk or clerk-treasurer of the municipality in which the relief association is located if the relief association is a firefighters relief association which is directly associated with a municipal fire department or is a police relief association, or countersigned by the secretary of the independent nonprofit firefighting corporation and by the municipal clerk or clerk-treasurer of the largest municipality in population which contracts with the independent

nonprofit firefighting corporation if the volunteer firefighter relief association is a subsidiary of an independent nonprofit firefighting corporation;

(2) file the financial report in its office for public inspection and present it to the city council after the close of the fiscal year. One copy of the financial report must be furnished to the state auditor after the close of the fiscal year; and

(3) submit to the state auditor audited financial statements which have been attested to by a certified public accountant~~, public accountant,~~ or the state auditor within 180 days after the close of the fiscal year. The state auditor may accept this report in lieu of the report required in clause (2).

Exhibit F

Amortization Period and the Schedule Form

Discussion Item #1:

Deficits for lump sum plans are currently amortized over a 10-year period, while deficits for relief associations paying monthly benefits are amortized over 10 years or 20 years, depending upon whether the deficit was attributable to experience losses or changes in actuarial assumptions or bylaw changes. A suggestion has been made to change the amortization period for all deficits to 20 years. The Working Group discussed this topic at several meetings during 2009 and decided to make no changes. Larry Martin provided the Working Group with background information for the discussions last year, and also outlined ten items for consideration should the Group decide to pursue a change to the amortization periods. These documents are attached as Exhibits G and H.

Discussion Item #2:

A suggestion has also been made to allow relief associations to make changes to the annual Schedule Form that's completed by lump sum plans after the Form has been certified to the municipality. Any changes to the Schedule Form would require extensive work by the Office of the State Auditor to make formula and design changes to the Schedule Form, the data pre-population and upload processes, and to the Office of the State Auditor's database application. These changes would require that a fiscal note be attached to the Working Group bill.

Discussion Item #3:

A final suggestion for the Working Group's consideration is to change when the municipal contribution calculated on the Schedule Form would be required to be paid. For example, the 2010 Schedule Form calculates the required municipal contribution for 2011. The proposal is to change the timing of the contribution payment so that the 2010 Schedule Form would calculate the required municipal contribution for 2012.

Background Information on the 1971 Volunteer Fire Relief Association Financing Guidelines Act

a. In General. The Volunteer Firefighter Relief Association Financing Guidelines Act of 1971 (Laws 1971, Chapter 261) was the result of an interim study by the Legislative Commission on Pensions and Retirement during the 1969-1971 Interim. The 1971 Guidelines Act was adapted from the Local Police and Paid Firefighter Relief Association Guidelines Act of 1969 (Laws 1969, Chapter 223).

Minnesota Statutes, Sections 69.771 through 69.776, Volunteer Firefighter Relief Association Financing Guidelines Act of 1971, governs the calculation of the actuarial accrued liability and annual funding requirement of volunteer firefighter relief associations, the determination of the financial requirements of volunteer firefighter relief associations, the determination of the minimum obligation of municipalities or independent nonprofit firefighting corporations toward the volunteer firefighter relief association, the requirement for municipal ratification of volunteer firefighter relief association plan amendments, and the investment of volunteer firefighter relief association special fund assets.

b. Determination of Volunteer Fire Relief Association Asset Values For Funding Purposes. Under Minnesota Statutes, Section 69.772, Subdivision 3, Paragraph (b), Clause (2), for lump sum volunteer fire relief associations, the determination of the relief association's funded condition and financial requirements is based on the total present assets of the special fund projected to December 31 of the current year, including receipts by and disbursements from the special fund anticipated through the upcoming December 31. The asset value is to be based on the current market value of assets to the extent possible for assets for which a market value is readily ascertainable. For assets for which no market value is readily ascertainable, the cost or book value of the assets must be used. Under Minnesota Statutes, Section 69.773, Subdivision 4, Paragraph (c), for monthly benefit volunteer fire relief associations, the determination of the relief association's funded condition and financial requirements is based on the current market value of assets for which there is a readily ascertainable market value and on the cost or book value, whichever is applicable, of assets for which there is no readily ascertainable market value.

The value of assets for funding purposes for lump sum and monthly benefit volunteer fire relief associations differs from the value of assets for funding purposes for other Minnesota public pension plans. For all statewide retirement plans and for the Duluth Teachers Retirement Fund Association (DTRFA), the St. Paul Teachers Retirement Fund Association (SPTRFA), the Minneapolis Employees Retirement Fund (MERF), the Fairmont Police Relief Association, the Virginia Fire Department Relief Association, and the Bloomington Firefighters Relief Association, the pension plan assets are valued based on a five-year moving average of expected and market values where, at the end of each plan year, an average asset value is calculated as the average of the market asset value at the beginning and end of the fiscal year net of investment income for the fiscal year, the investment gain or loss is taken as the excess of actual investment income over the expected investment income based on the average asset value as calculated, and is recognized over five years at 20 percent per year, and the total asset value is the sum of the expected asset value plus the scheduled recognition of investment gains or losses during the current and the preceding four plan years.

The value of assets for funding purposes for the Minneapolis Firefighters Retirement Association and the Minneapolis Police Retirement Association is the value of all assets at cost, including not realized capital gains or losses, and the average net value of total unrealized capital gains or losses for the three-year period ending at the end of the preceding plan year.

c. Calculation of Volunteer Firefighter Relief Association Actuarial Accrued Liability and Annual Funding Requirement. State law differentiates in the calculation of volunteer firefighter relief association actuarial accrued liabilities or its equivalent and the annual funding requirements. For volunteer firefighter relief associations providing monthly benefit service pensions, because there is a mortality risk and the need for making complicated computations, the relief association is required by Minnesota Statutes, Section 69.773, to utilize an approved actuary and have a quadrennial actuarial valuation prepared. For volunteer firefighter relief associations providing lump sum service pensions, because there is no mortality risk and the liability and funding calculations are less complicated, the relief association officers are required by Minnesota Statutes, Section 69.772, to estimate the association's actuarial liabilities and its annual funding requirement.

The monthly benefit volunteer firefighter relief association actuarial work is governed essentially by the same requirements applicable for other Minnesota public pension plans, Minnesota Statutes, Sections 356.215, and 356.216. The actuarial valuations will disclose the relief association's actuarial accrued liability, the assets, unfunded actuarial accrued liability, normal cost, and amortization of the unfunded actuarial accrued liability (typically using a 20-year amortization period.) The financial requirement of the monthly benefit relief association is the combination of five items:

1. The normal cost; plus
2. the prior year's administrative expense, multiplied by a factor of 1.035; plus
3. the amount needed to amortize the relief association unfunded actuarial accrued liability on a level-dollar basis by the December 31 occurring ten years later if there is an unfunded actuarial accrued liability and there has been no benefit increase, actuarial assumption change, or actuarial method change since the last actuarial valuation; plus
4. the amount needed to amortize the unfunded actuarial accrued liability from a recent benefit increase, actuarial assumption change, or actuarial method change over 20 years for each change and aggregated into a single figure, if there is an unfunded actuarial accrued liability; and less
5. one-tenth of the amount of relief association assets in excess of relief association actuarial accrued liability if there is no unfunded actuarial accrued liability.

The lump sum volunteer firefighter relief association computations are required to follow simplified calculation procedures set forth in Minnesota Statutes, Section 69.772, Subdivision 2. The Commission and its consulting actuary developed the table and related provisions in Minnesota Statutes, Section 69.772, Subdivision 2, in 1970-1971. The statutory table is basically a present value table assuming a lump sum benefit payable immediately after 20 years of service, based on a three-percent interest assumption, and assuming no pre-retirement turnover or mortality. The following is the statutory pension liability table, applicable for a $100 per year of service lump sum benefit:

Cumulative Year	Accrued Liability	Cumulative Year	Accrued Liability
1	$60	12	$962
2	$124	13	$1,070
3	$190	14	$1,184
4	$260	15	$1,304
5	$334	16	$1,428
6	$410	17	$1,560
7	$492	18	$1,698
8	$576	19	$1,844
9	$666	20	$2,000
10	$760	21 and thereafter	$100 add'l per year
11	$858		

The financial requirement of the lump sum relief association is the combination of the following items:

1. The annual accruing liability (difference between the current accrued liability and the accrued liability determined assuming an additional year of service for each member); plus
2. the prior year's administrative expenses, multiplied by a factor of 1.035; plus
3. one-tenth of the original amount of the unfunded liability resulting from the last benefit increase if there is an unfunded liability; plus
4. one-tenth of the unfunded liability resulting from a net accrued investment loss occurring since the most recent benefit increase if there is an unfunded liability (added by First Special Session Laws 2005, Chapter 8, Article 9, Section6); and less
5. one-fifth of the amount by which relief association assets exceed relief association liabilities if there is no unfunded liability.

d. Calculation of the Minimum Municipal Obligation. The Volunteer Firefighter Relief Association Financing Guidelines Act of 1971, Minnesota Statutes, Sections 69.771 through 69.776, requires municipal support of a relief association if the main other revenue source, the fire state aid program under Minnesota Statutes, Sections 69.011 through 69.051, is insufficient. Specifically, Minnesota Statutes, Section 69.772, Subdivision 3, for lump sum volunteer firefighter relief associations, and Minnesota Statutes, Section 69.773, Subdivision 5, for monthly benefit volunteer firefighter relief associations, require that the municipality include in its budget, levy for, and pay over to the relief association the amount of the financial requirements of the relief association, reduced by the amount of the fire state aid anticipated to be received in the following year. The determination of the minimum municipal obligation must be made by the officers of the relief association, and must be certified to the municipality as part of the municipal budget preparation process.

e. Compliance with Municipal Funding Requirement. If the municipality fails to include the minimum municipal obligation in its budget or fails to spread the obligation in its property tax levy, Minnesota Statutes, Section 69.772, Subdivision 4, for lump sum volunteer firefighter relief associations, and

Minnesota Statutes, Section 69.773, Subdivision 5, for monthly benefit volunteer firefighter relief associations, require that the relief association officers certify the required municipal obligation amount to the county auditor, who is required to levy that amount.

f. Municipal Ratification of Plan Amendments. Minnesota Statutes, Section 772, Subdivision 6, for lump sum volunteer firefighter relief associations, and Minnesota Statutes, Section 69.773, Subdivision 6, for monthly benefit volunteer firefighter relief associations, generally require municipal ratification of benefit plan amendments made by volunteer firefighter relief associations. This municipal ratification requirement applies unless the volunteer firefighter relief association has assets in excess of its actuarial accrued liability and hence does not require municipal support, when the relief association can approve benefit plan amendments and improve benefit increases with an estimate of the actuarial impact of the change if the actuarial impact does not exceed 90 percent of the asset surplus and does not require the annual financial requirements to exceed the anticipated fire state aid of the municipality. After a benefit change that is subject to relief association approval only is implemented, if the financial requirements of the relief association exceed the fire state aid, the benefit change is no longer effective without subsequent municipal ratification.

g. Application to Relief Associations Subsidiary to Independent Nonprofit Firefighting Corporations. Volunteer firefighter relief associations that are subsidiaries of independent nonprofit firefighting corporations are also covered by the 1971 Guidelines Act. Subsidiary volunteer firefighter relief associations that provide lump sum service pensions are governed through Minnesota Statutes, Section 69.774, Subdivision 2, Clause (a), by the applicable provisions of the lump sum volunteer firefighter relief association accrued liability and financial requirements determination statute. Subsidiary volunteer firefighter relief associations that provide monthly benefit service pensions are governed through Minnesota Statutes, Section 69.774, Subdivision 2, Clause (b), by the applicable provisions of the monthly benefit volunteer firefighter relief association accrued liability and financial requirements determination statute. Under Minnesota Statutes, Section 69.724, Subdivision 2, Clauses (c) and (d), the independent nonprofit firefighting corporation has the same obligation that a municipality would have under Minnesota Statutes, Section 69.772 or 69.773.

h. Investments. Volunteer firefighter relief associations are required to invest special fund assets under the short list of authorized investments or the long list of authorized investments set forth in public pension plan fiduciary obligation law, whichever applies. An exception is provided for sizeable (maximum of 75 percent) mutual fund investments if the mutual fund conforms with the authorized investment list in its holdings. Volunteer firefighter relief associations are also permitted to invest through the State Board of Investment in the Minnesota Supplemental Investment Fund.

Volunteer Fire Working Group Topic:
Contribution Calculations/Payment Requirements

Considerations in Modifying Volunteer Fire Relief Association Amortization Periods

In considering the Working Group topic, which includes a potential lengthening of volunteer fire relief association amortization periods, several points merit evaluation and analysis, as follows:

1. Apparent Popular Misconceptions that Current Law Requires Immediate Amortization of Volunteer Fire Relief Association Experience Loss. The current volunteer fire relief association funding laws, Minnesota Statutes, Section 69.772 or 69.773, the Volunteer Fire Relief Association Financing Guidelines Act of 1971, does not require the immediate elimination of investment losses, contrary to misconceptions by some volunteer firefighters and some municipal officials. Investment losses in any year are required to be amortized over a ten-year period.

2. The Current Investment Situation/Volunteer Fire Relief Association Funding is a Historically Rare Event. The period 2007-2008 and the investment losses triggered by a housing bubble and the widespread indiscriminate investment in derivatives based on securitized mortgages is a very rare event historically, perhaps comparable only to the Great Depression of the 1930s and Panic of 1873. The investment losses occurred at the same time as fire state aid receipts are down, in whole or in part because of an overstatement by the Revenue Department of past fire state aid and a phase in of its corrections. While the investment losses were severe, it is unwise to base long-term pension policy on events that can be expected, based on history, to occur once every 60 or 70 years.

3. Any Significant Amortization Requirement Delay Will Not Change the Retirement Dates of the Current Volunteer Firefighter Work Force. The current amortization dates applicable to volunteer firefighters are set based on an expectation as to the upcoming retirements of volunteer firefighters when they reach age 50, which in defined benefit plans is unlikely to be similarly lengthened if the current amortization requirements are delayed in response to the current financial situation. Retirement plans are not operated to suffer future benefit payment defaults or to narrowly avoid future benefit payment defaults. Any lengthening of an amortization period in the face of a significant investment decline and market value loss in relief association assets will make benefit payment defaults more likely.

4. No 2010 Amortization Period Change Legislation Will Affect 2009 Volunteer Fire Relief Association Levies by Municipalities. Any potential legislation recommended by the Working Group and processed by the Legislative Commission on Pensions and Retirement will not likely be enacted, at the earliest, until March 2010, roughly six months after municipalities are required by state law to certify their volunteer fire relief association funding levies to the respective county auditors. If any retroactive amortization change recommendation is processed by the Legislative Commission on Pensions and Retirement as part of the 2010 Omnibus Retirement Bill, that legislation could be delayed until late May or early June 2010, if past even-numbered year legislative session patterns continue.

5. Municipal Inaction on Volunteer Fire Relief Association Levies in Hopes of Special Legislative Amortization Period Change Threatens Fire State Aid. Under Minnesota Statutes, Section 69.771, Subdivision 3, Paragraph (c), Clause (5), the failure of a municipality to certify a volunteer fire relief association required funding levy or the failure of a municipality to provide required municipal funding to a volunteer fire relief association disqualifies the municipality and the volunteer fire relief association from future fire state aid. If a municipality delays in levying a required volunteer fire relief association funding requirement or defers making an additional municipal contribution to the volunteer fire relief association in hopes of special legislative relief, it could have serious financial and benefits payment ramifications for the city, the volunteer fire relief association, and its volunteer firefighters. The fire state aid disqualification would be made by the Officer of the State Auditor based on audited volunteer fire relief association financial reporting.

6. Any Municipal Inaction on Volunteer Fire Relief Association Funding Levy Triggers Mandatory Relief Association Levy Certification. Minnesota Statutes, Sections 69.772, Subdivision 4, and 69.773, Subdivision 5, require the officers of a volunteer fire relief association to certify the minimum municipal obligation toward the volunteer fire relief association to the applicable county auditor if the municipality fails to include the obligation in its budget and tax levy. This means that volunteer fire relief association officers cannot be complicit in any attempt by a municipality this Fall to delay or defer its volunteer fire relief association funding obligation without violating their fiduciary obligation.

7. The Current Market Value of Investment Securities Makes Them a Bargain Best Realized by Regular Pension Fund Funding. Even if state law did not require regular volunteer fire relief association funding following this financial downturn, the availability of various investment securities at essentially bargain prices makes this the opportune time for pension fund funding. Investments can be obtained at "sale" prices and those "sale" prices will be lost if required contributions are delayed or deferred until the financial downturn reserves and municipal revenues are more easily obtained.

8. 2005 Legislation Providing Ten-Year Amortization of Investment Losses Already Moderates Municipal Contributions in the Short Run and Long Run. In 2005 (First Special Session Laws 2005, Chapter 8, Article 9, Section 3), enacted following the experience of the more limited investment downturn of the dot-com bubble collapse, a new ten-year amortization period was created for any investment loss, moderating municipal contributions in the event of an experience loss in the initial year following the investment loss, and triggered by each experience loss to systematize the funding of the relief association unfunded actuarial accrued liability upon investment losses. If the 2005 legislation had not occurred, the ultimate amortization process likely would have been less systematic and have a more problematic impact on municipal budgets at this time.

9. Current Ten-Year Investment Loss Amortization Period Already is a Relatively Long Period and Would Not Appropriately Be Lengthened. Given the short vesting period for a service pension of many volunteer fire relief associations (five or ten years) and given the relatively early age at which a volunteer fire relief association service pension is payable (age 50), utilizing ten-year amortization periods for the unfunded liabilities attributable to service pension increases and to experience losses already is a relatively long period. For many volunteer fire relief associations, unless relief associations routinely experience young entry ages into the fire service and regularly have firefighters engage in firefighting service beyond 20 years, extending that amortization period will result in municipalities and volunteer fire relief associations funding liabilities for retired/retiring firefighters for years after the termination of active service.

10. Need for Immediate Implementation of Scheduled Amortization Payments Inherent in Single Employer Volunteer Fire Relief Association System. The need for the immediate commencement of a set of municipal amortization payments in the event of investment experience losses by a volunteer fire relief association is an inherent consequence of Minnesota's system of single employer retirement plan volunteer fire relief associations. The liabilities of a single employer retirement plan are underwritten by a single employing unit and are shaped by the employment practices of that single employer. When there are significant experience losses, such as investment losses, bolstering the funding of the retirement plan to offset the loss in short order is needed to avoid a potential benefit default and to protect the employer from more significant pension plan outlays in the future. In a well-funded retirement plan, two-thirds or more of the assets ultimately used to pay retirement benefits are generated by investment returns. In contrast to a multiple employer liability pooling retirement plan, where a larger risk pool typically produces reduced actuarial cost and demographic experience is moderated by multiple personnel systems, volunteer fire relief associations in Minnesota cover small membership populations, can experience significant demographic (entry, service duration, and retirement) savings, and have no broadened financial base on which to spread the retirement funding risk. If immediate corrective efforts do not follow adverse investment experience, the applicable municipality will have a shorter period over which to cover future benefit expenditures, will cover those benefit expenditures with less investment earnings, and may eventually have to choose between a huge short duration demand on municipal resources, a future benefit default, or a future municipal bankruptcy.