Considerations When Making Relief Association Benefit Changes

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Many volunteer fire relief associations are currently completing the annual reporting forms and some may be considering a benefit level change. This article explains steps that a relief association’s board of trustees should take when considering making a benefit level change.

Benefit level changes can be made at any time during the year, and can be changed more than once during a year. Benefit level changes can only be made for future benefit payments because relief associations do not have authority to make benefit changes retroactive. For example, a relief association could adopt a benefit level change in November and specify that it becomes effective on January 1 of the upcoming year. Conversely, a relief association could not adopt a benefit level change in March, and specify that the change became effective retroactively, back on January 1.

Step 1: Determine the Maximum Allowable Benefit Level

When establishing an annual benefit level, relief associations cannot exceed the maximum benefit level amount authorized under State statute. Even if a municipality was willing to approve such an increase, a relief association cannot increase its benefit level above the statutory maximum. There are severe penalties for paying a service pension above the maximum level and include disqualification from receiving fire state aid.

To avoid this problem, State law requires that relief associations annually calculate the maximum benefit level allowable for each year. The Office of the State Auditor (OSA) provides relief associations with the Maximum Benefit Worksheet to assist in preparing this calculation. A relief association’s maximum allowable benefit level for a given year is derived from a formula which is based on the association’s fire state aid, municipal contributions received, the surplus amount (if any), and the number of active members.
Step 2: Run Financial Projections

Relief associations should be aware of the long-term impact a potential benefit level change would have on the association’s funded status and financial requirements before adopting the change.

Relief associations that pay defined-benefit lump-sum pensions can use the OSA’s Schedule Form to run projections. If your relief association’s Maximum Benefit Worksheet shows that the maximum allowable benefit level is $1,000 per year of service, the relief association can then use the Schedule Form to run projections using benefit levels at or below $1,000 per year. Enter a benefit level on page one of the Schedule Form, and the Form automatically calculates the accrued liabilities and projected asset amounts, and the amount of any city or town contributions that would be required during the upcoming year to support the potential benefit level change. Relief associations may also seek assistance from their accountants or investment advisors to project the effect that proposed benefit levels could have on an association’s finances for several years into the future. Performing these calculations will help relief associations and their affiliated municipalities understand the potential costs of a proposed benefit level.

Monthly plans should not use the Schedule Form to run projections because the financial requirements for relief associations that offer or pay monthly pensions are calculated differently than the financial requirements for associations that pay only lump-sum pensions. Relief associations that pay or offer defined-benefit monthly pensions should work with their actuary to project the effect that proposed benefit levels would have on an association’s finances.

Step 3: Relief Association Board Approval

If a relief association’s board of trustees determines that a benefit change is appropriate after calculating the association’s maximum allowable benefit level and running financial projections, the change needs to be officially approved during a meeting of the board. Relief associations should follow the amendment procedures set forth in the bylaws and follow Open Meeting Law requirements when making a benefit level change.

Step 4: Municipal Ratification

The next step in making a pension benefit level change is to seek municipal ratification of that change. Municipal ratification of a benefit level change is usually required before the new benefit level becomes effective. Relief associations should provide a bylaw amendment containing the benefit level change approved by the relief association board to the city council or town board for ratification. The city council or town board can choose to ratify the benefit level change or choose not to ratify the change. Once the bylaws containing the benefit level change are ratified by the municipality, however, the benefit level is guaranteed by the municipality. The municipality assumes responsibility for ensuring the special fund has sufficient assets to cover approved benefit levels.
A relief association affiliated with an independent nonprofit firefighting corporation should seek ratification of any bylaw changes from the corporation. If the corporation ratifies the change, the corporation assumes responsibility for fully funding the approved benefit levels.

**Step 5: Submit Amended Bylaws and Approvals**

Finally, once the new benefit level is ratified, copies of the amended bylaws, relief association board meeting minutes reflecting the approval, and documentation of municipal ratification of the new benefit level must be promptly provided to the OSA.