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Municipal Contributions to Volunteer Fire Relief Associations

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Minnesota has over 700 volunteer fire relief associations, and the majority of firefighters in Minnesota are volunteers. Relief associations are governmental entities that receive and manage public and nonpublic money to provide retirement benefits for individuals who serve as firefighters and emergency first responders. These retirement benefits are firefighters' primary source of compensation. Cities may provide municipal contributions to these funds. The question has arisen as to how the economic downturn and poor markets may affect required municipal contributions levels. This article is an attempt to simplify this complex topic.

The main sources of revenue for relief associations are municipal contributions, fire state aid, and investment earnings. Municipal contributions can be made voluntarily by a local community or may be required, based on the relief association's financial situation. State law requires a municipality to pay a minimum annual contribution to the special fund of its affiliated relief association, unless the special fund is fully funded or fire state aid is sufficient to cover the municipal obligation. Decreased earnings on investments generally mean higher required municipal contributions, which can create challenges for a municipality's budget.

The fictional city of Frostbite Lake is used below to illustrate how required municipal contribution amounts are calculated for lump sum plans.

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Illustration

The city council of Frostbite Lake knows that the city is statutorily responsible for ensuring that the pension fund is able to pay retiring firefighters at the benefit level the council had last approved. They also know that the size of a required contribution is affected by a number of factors besides benefit levels including, but not limited to, the number and timing of firefighter retirements, administrative costs, and the investment performance of the fund.

When the financial markets fell in the fall of 2008, the Frostbite Lake city council wanted to determine the impact this might have on their required contribution for 2010. The volunteer firefighters of Frostbite Lake have a lump sum pension plan. In 2008, the relief association's special fund had a surplus (its assets were greater than its accrued liability), but the city was still required to make a contribution since the projected revenues were not enough to offset the expected expenses. When the special fund's assets decreased in 2009, the association quickly found itself in a deficit situation, which affected the city's contributions, as the chart below indicates.

Required Municipal Contributions for Frostbite Lake

		Year	
	2009	**2010**	**2011**
Projected Assets	606,114	448,946	526,673
Accrued Liability	561,416	609,476	659,768
Surplus or (Deficit)	**44,698**	**(160,530)**	**(133,095)**
Normal Cost	48,060	50,292	52,596
Projected Administrative Expense	11,382	11,382	11,382
Deficit Amortization Payment	0	16,053	16,053
Credit for Surplus	4,470	0	0
State Fire Aid	19,940	19,940	19,940
Member Dues	0	0	0
Interest Assumption	30,306	22,447	26,334
Required Contribution	**4,726**	**35,340**	**33,757**

This scenario assumes that the relief association's special fund experienced investment losses equal to 30 percent of the association's assets between 2008 and 2009 and then rebounded with investment gains of five percent in 2010. The assumption that the markets will rebound slightly in 2010 reduces the relief association's deficit, but it is easy to see that it could take longer to get out of the hole than it took to get into it.

The relief association completed the calculation of the 2008 financial requirements in July, and determined the required contribution for 2009. Because the recent losses were not experienced until after the 2008 financial requirements were calculated, the losses will not be recognized until the 2009 financial requirements are calculated this summer. When the 2009 financial requirements are calculated, many municipalities will see an increased required contribution for 2010. It is important to note that deficits are amortized over a ten-year period, so municipalities are not required to make the relief association fully funded right away. Future investment gains will decrease the deficit amount and the future required contributions.

Although this is just one example of the potential impact the markets can have on municipal contributions, every municipality will have their own unique circumstances to consider. State law has been summarized and simplified for this article, and Minnesota Statutes should be consulted before making decisions based on this article.

For additional information on required municipal contributions, including information on monthly service pension plans and a municipality's ability to levy to pay for pensions, see the Statement of Position, "Required Municipal Contributions to Volunteer Firefighters' Pension Plans", at:

http://www.auditor.state.mn.us/other/Statements/required%20municipal%20contributions_0901.pdf.

Citations to relevant statutes can be found in the Statement of Position.