



STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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Statement of Position Considerations When Making Benefit Changes

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This Statement of Position is not legal advice and is subject to revision.

Benefit level changes can be made at any time during the year and can be changed more than once during a year. However, 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. A relief association cannot 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 must choose an amount that does not exceed the maximum benefit level amount authorized under State law. Currently, the maximum allowable benefit level is \$20,000 per year of service or \$100 per month for each year of service.¹ A relief association cannot increase its benefit level to an amount above the applicable maximum, even if municipal approval of the increase is obtained. The penalties for paying a service pension at a rate higher than the applicable maximum level are severe and include disqualification from receiving fire state aid.²

Step 2: Run Financial Projections

Relief associations should understand the long-term impact a potential benefit level change could have on the association's funded status and financial requirements before adopting the change.

Defined-Benefit Lump-Sum Pensions

Relief associations that pay defined-benefit lump-sum pensions can use the OSA's Schedule Form to run projections. 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.

¹ See Minn. Stat. § 424A.02, subd. 3.

² See Minn. Stat. § 424A.02, subd. 3a.

A “Benefit Level Projections Tools” is a tab contained within the Schedule Form that a relief association may use as a resource to estimate the impact that benefit level changes or investment rate of return changes could have on the relief association's funded status and financial requirements. Relief associations may also seek assistance from their accountants or actuaries 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.

Defined-Benefit Monthly 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. 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. Consequently, using the Schedule Form to run projections will result in inaccurate results for monthly plans.

Step 3: Relief Association Board Approval

If a relief association's board of trustees (Board) determines that a benefit change is appropriate after reviewing 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 their bylaws and 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.³ Municipal ratification of a benefit level change is usually required before the new benefit level becomes effective.⁴ 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, the benefit level is guaranteed by the municipality and the municipality assumes responsibility for ensuring the special fund has sufficient assets to cover approved benefit levels.⁵

Step 5: Submit Amended Bylaws and Approvals

Copies of the amended bylaws, relief association Board approval, and municipal ratification should be maintained for the relief association's records. In addition, the amended bylaws and copies of the Board and municipal ratification should be submitted to the OSA.

³ 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.

⁴ See Minn. Stat. § 424A.02, subd. 10.

⁵ For more information about municipal ratification of benefit levels and required municipal contributions, see the Office of the State Auditor's Statement of Position titled “[Required Municipal Contributions to Volunteer Fire Relief Associations.](#)”