Office of the State Auditor

Agenda
Fire Relief Association Working Group

Meeting Date: October 27, 2026

I. Call to Order

Chair State Auditor Blaha

II. Review and Approval of Working Group Meeting Minutes

Exhibit A. Draft October 6, 2026, Meeting Minutes

III. Update from LCPR Work Group on Vesting and EMPs

Aleena Wilson, Legislative Commission on Pensions and Retirement

Exhibits B and C.

- Memo re: Summary of Survey Responses (B)
- Public Data – EMS and Vesting Survey 2026 (C)

IV. Discussion of Discount Rate Assumption

Exhibits D through F.

- VFRA Discount Rate Memo (D)
- LCPR Actuarial Standards, Appendix B (E)
- Liability Estimates with Various Discount Rates (F)

V. Review of Draft Language for Previously Discussed Topics

Exhibits G through J.

- Plan Conversion “Present Value” Changes (G)
- Certifying Unpaid Required Contributions (H)
- Return to Service Bylaw Requirement (I)
- Fire State Aid Reduction Changes (J)

VI. Other Business

VII. Adjournment

Office of the State Auditor

Exhibit A
Approved August 20, 2026, Meeting Minutes

Meeting Date: September 17, 2026

Members Present
Julie Blaha, State Auditor
Mike Dahl, Excelsior Fire Relief Association Vice President (defined benefit plans)
Jon Dahlke, Glencoe Fire Relief Association Treasurer (defined benefit monthly/lump sum plans)
Jason Fife, Stewartville Fire Relief Association Member (Minnesota State Fire Department Association representative)
Dan Johnson, Mendota Heights Fire Relief Association Trustee (Minnesota State Fire Chiefs Association representative)
Mikal Knotek, St. Michael Fire Relief Association Secretary (defined benefit lump sum plans)
Tom Lawell, City of Apple Valley Administrator (municipal representative)
Karl Mork, Bemidji Fire Relief Association Treasurer (defined benefit lump sum plans)
Darin Nelson, City of Minnetonka Finance Director (municipal representative)
David Paul, Lake Crystal Fire Relief Association Trustee (defined benefit lump sum
Thomas Wilson, Eden Prairie Fire Relief Association Secretary (defined benefit monthly/lump sum plans)

Members Excused
Aaron Johnston, Coon Rapids Fire Relief Association Treasurer (defined contribution plans)
Darrell Pettis, St. Peter Fire Relief Association Treasurer (defined benefit lump sum plans)
Michael Walstien, Plymouth Fire Relief Association Member (defined contribution plans)

Office of the State Auditor Representatives Present
Ramona Advani, Deputy State Auditor and General Counsel
Rose Hennessy Allen, Office of the State Auditor (OSA) Pension Director

Legislative Support Present
Susan Lenczewski, Legislative Commission on Pensions and Retirement (LCPR) Executive Director
Mollie Pierson, Legislative Commission on Pensions and Retirement Commission Assistant

I. Call to Order

Auditor Blaha called the meeting to order. She explained that the meeting was being conducted in a hybrid format and being recorded and streamed to the OSA YouTube channel. She explained the meeting norms and voting procedures. The meeting agenda was adopted unanimously.

II. Introductions

Working Group members and support staff in attendance introduced themselves. Auditor Blaha welcomed everyone.

III. Review and Approval of Working Group Meeting Minutes

Working Group members reviewed the September 30, 2025, meeting minutes that had been provided in advance. Johnson noted that the minutes should be corrected to reflect his position as Minnesota State Fire Chiefs Association representative to the group. The minutes were unanimously adopted as amended.

IV. Working Group Process Discussion

- Working Group Purpose Statement
  Auditor Blaha described the goal and process of the group, and the members reviewed the Purpose Statement. No changes were made to the Purpose Statement.

- Working Group Process Statement
  Members reviewed the Process Statement and Auditor Blaha noted that unanimous consent is required for a proposal to move forward, although proposals that do not have unanimous agreement may be revisited and reconsidered. No changes were made to the Process Statement.

- Working Group Membership List
  Auditor Blaha explained that the Membership List would be posted on the OSA website. Mork noted a change to his email address.

- Respectful Workplace Policy
  Auditor Blaha shared the Respectful Workplace Policy in place for State of Minnesota employees, volunteers, contractors, and others who visit the workplace and public service environment. She explained that we ask Working Group members to adhere to the policy, and know that they are protected by the policy, too.

V. Legislative Review

Hennessy Allen summarized Working Group proposals passed during the 2026 Legislative Session and shared non-Working Group proposals impacting fire relief associations that may be of interest to the group. The Work Group on Vesting and Emergency Medical Providers convened by the LCPR was mentioned, and the plan that the Working Group would have a discussion about reduced vesting and benefits for emergency medical providers so feedback or input could be shared with the LCPR Work Group.

VI. Discussion of Working Group Topic Suggestions

Hennessy Allen shared the list of topic suggestions received from relief association trustees and members, raised during LCPR meetings, and from OSA staff. She briefly explained each topic and said Working Group members would be asked to complete a survey to rank their topic priorities.

VII. Review of Plan Conversion "Present Value" Language

Hennessy Allen explained that a provision included in the 2026 Omnibus Pension and Retirement Bill that was passed into law in May removes the requirement from the relief association dissolution statute that benefits be calculated for participants using the "present value" of each participant's accrued benefit when the plan is terminated. There was talk about making similar changes to the relief association statute that governs conversion from a defined benefit to a defined contribution plan, but references to determining benefits based on the "present value" were not made to the plan conversion section. Lenczewski shared with the group the difference in firefighter benefit amounts between using a "present value" calculation and using the typical length of service multiplied by benefit level calculation. She also explained that when a defined benefit plan converts to a defined contribution plan it's considered a termination of the defined benefit plan, which is a full vesting event under federal law. It was agreed that this topic would be continued to the next meeting.

VIII. Review of Fire State Aid Penalty and Forfeiture Amounts

The group ran out of time to discuss this topic, so it was held over to the next meeting.

IX. Discussion of Certifying Unpaid Required Contributions

The group ran out of time to discuss this topic, so it was held over to the next meeting.

X. Other Business

There was no other business.

XI. Next Meeting

Thursday, September 17, 2026
1:00 p.m. to 2:30 p.m.
In-Person/Virtual Hybrid Format

XII. Adjournment

The meeting was adjourned at 2:29 p.m.

To: *Members of the Work Group on Vesting and Emergency Medical Providers in Relief Associations and the SVF Plan*

From: *Aleena Wilson, Analyst*

Date: *October 13, 2026*

Summary of Survey Responses

On September 15, 2026, a link to the 2026 Survey on Membership in Fire Relief Associations and the Statewide Volunteer Firefighter Plan was sent to 768 fire departments in Minnesota. The survey was 19 questions long; however, depending on the answer to a specific question, a respondent may not have been asked to answer all the survey questions.

LCPR staff requested that survey be completed by September 30, 2026. Due to some late submissions, LCPR staff collected data from the survey through October 7, 2026. 296 fire departments (38.5%) completed the survey. A workbook of the data collected by the survey was provided to the Work Group on October 13, 2026.

This memo provides a summary of the survey responses unless the responses contained personal information or the responses could not be summarized due to the open-ended nature of the question. For questions that allowed for an open-ended response, Work Group members should refer to the workbook to see the responses.

Q1: What is your full name?

Responses to Q1 contain personal information and are not included in this memo or the workbook.

Q2: What is your email?

Responses to Q2 may contain personal contact information and are not included in this memo or the workbook.

Q3: What is your phone number?

Responses to Q3 may contain personal contact information and are not included in this memo or the workbook.

Q4: What is your title? (include your title in the fire department and any title you have with the relief association, if the fire department is affiliated with a relief association)

See the workbook for the responses to Q4.

Q5: What is the name of your fire department?

See the workbook for the responses to Q5.

Q6: Are retirement benefits provided to the firefighters in your fire department?

Response	Number of Responses
Yes	295
No	1*

*A "no" response to this question means that the respondent was automatically not asked the rest of the survey questions, except for Q19, which was optional.

Q7: How are retirement benefits provided to the firefighters in your fire department? (check all that apply)

Response	Number of Responses
Affiliated relief association	137
PERA SVF Plan	109
PERA Police & Fire Plan	2
PERA General Plan	1
PERA Defined Contribution Plan	4
Affiliated relief association; PERA Police & Fire Plan	17
Affiliated relief association; PERA Police & Fire Plan; PERA General Plan	2
Affiliated relief association; PERA Police & Fire Plan; PERA SVF Plan	1
Affiliated relief association; PERA SVF Plan	4
Affiliated relief association; state plan not PERA	1
PERA SVF Plan; PERA Police & Fire Plan	8
PERA SVF Plan; PERA General Plan	1
PERA SVF Plan; PERA Police & Fire Plan; PERA General Plan	1

PERA SVF Plan; PERA Defined Contribution Plan	2
PERA Police & Fire Plan; PERA Defined Contribution Plan	2
PERA Police & Fire Plan; PERA General Plan	1
Switching to PERA SVF Plan in January 2027	1

Q8: Excluding compensation in the form of a retirement benefit, how are firefighters in your fire department compensated for their services? (check all that apply)

Response	Number of Responses
No compensation (this does not include expenses which may be reimbursed)	56
Paid by the hour	104
Paid per call	66
Salaried full-time	1
No compensation (this does not include expenses which may be reimbursed); Officer stipends	1
No compensation (this does not include expenses which may be reimbursed); Volunteer	1
Paid by the hour for calls and paid one hour of pay per training or class attended	1
Paid by the hour, but only when attending calls, meetings, and trainings	1
Paid by the hour; Paid per call	13
Paid by the hour; Paid per call; Paid by the hour every time a page goes out	1
Paid by the hour; Paid per call; Stipend for officers	1
Paid by the hour; Paid per call; Salaried full-time	4
Paid by the hour; Paid per meeting and by hour	1
Paid by the hour; Salaried full-time	19
Paid by the hour; Salaried full-time; Hourly FT;	1
Paid by the hour; Salaried full-time; Salaried part-time;	1
Paid by the hour; Salaried full-time; Salaried part-time; Fulltime chief, stipend for asst chief and captains job duties, everyone paid hourly for calls, training, pub ed, other duties approved by chief	1
Paid by the hour; Salaried full-time; Stipends; Salaried part-time;	1

Paid by the hour; Salaried part-time;	4
Paid by the hour; We have a flat rate paid for our scheduled trainings 2 times per month	1
Paid per call; Salaried full-time	3
Paid per call; Officers receive an annual stipend	1
Paid per call; Paid per training	1
Salaried full-time; Volunteer firefighters receive a stipend	1
$200 every 6 months if requirement is met	1
$5,600 paid to chief(2500), asst chiefs(500), secretary (1600)	1
$500.00 a year for cell phone reimbursement	1
Stipend	1
Annual stipend	1
Lump Sum Stipend with good year of service	1
Only paid for ems calls	1
Paid based on overall points accumulated at year end	1
Paid per training	1
Paid for Trainings and when insurance is involved	1

Q9: What criteria are used to determine service credit for firefighters?

See the workbook for the responses to Q9.

Q10: Does your fire department directly provide emergency medical services?

Response	Number of Responses
Yes	171
No	124*

*A “no” response to this question means that the respondent was automatically not asked the rest of the survey questions, except for Q19, which was optional.

Q11: How are emergency medical providers compensated for their services? (check all that apply)

Response	Number of Responses
No compensation (this does not include expenses which may be reimbursed)	31
Paid by the hour	66
Paid per call	35
No compensation (this does not include reimbursement of expenses); de-minimus scheduled on-call pay; Paid per call; Salaried full-time	1
No compensation (this does not include reimbursement of expenses); Volunteer	1
Paid by the hour; Paid per call	4
Paid by the hour; Paid per call; Chief officers get paid extra stipend	1
Paid by the hour; Paid per call; Paid by the hour every time a page goes out	1
Paid by the hour; Paid per call; Salaried full-time	2
Paid by the hour; Paid per meeting and by the hour	1
Paid by the hour; Salaried full-time	9
Paid by the hour; Salaried full-time; Hourly FT - they are all FFs too	1
Paid by the hour; Salaried full-time; Salaried part-time	2
Paid by the hour; Salaried part-time	2
Paid by the hour; Salaried full-time; Monthly stipend;	1
Paid by the hour; staff does everything. we do not have separate fire and ems staff	1
Paid by the hour; Salaried full-time; Salaried part-time; All employees have EMS & Firefighting responsibilities	1
Paid on Call and Salary	1
Paid per call; Salaried part-time;	1
Paid per call; Paid per training;	1
Percentage based for year. $200-800;	1
Lump Sum Stipend with good year of service	1
Stipend	1
$500.00 a year for cell phone reimbursement	1
Paid based on overall points accumulated at year end	1

Same as above, all members answer fire and medical calls. No separation in the membership	1
They are required to be both medical and fire firefighter trained so the same retirement requirements apply	1

Q12: Do any of the emergency medical providers in your fire department only provide emergency medical services?

Response	Number of Responses
Yes	36
No, all the emergency medical providers in the fire department also provide firefighting services	135*

*A "no, all the emergency medical providers in the fire department also provide firefighting services" response to this question means that the respondent was automatically not asked the rest of the survey questions, except for Q19, which was optional

Q13: How many emergency medical providers in your fire department only provide emergency medical services?

Response	Number of Responses
1	9
2	9
3	5
4	5
5	2
6	1
7	3
8	1
65	1

Q14: Not counting the emergency medical providers in Q&A 13, how many emergency medical providers in your fire department provide both emergency medical services and firefighting services?

Response	Number of Responses
3	1
4	1
6	2
7	1
9	3
10	1
11	2
12	3
13	1
14	3
15	2
17	1
18	2
20	3
23	1
24	4
25	1
26	3
65	1

Q15: Are retirement benefits provided to emergency medical providers in your fire department?

Response	Number of Responses
Yes	24
No	12**

**The fire departments that answered “no” to Q15 are Boyd, Cosmos, Crosslake, Glyndon, Goodview, Kinney-Great Scott, Lake Kabetogama Area, Madison Lake, New Auburn, Nisswa, Norwood Young America, and West Concord.

Q16: How are retirement benefits provided to the emergency medical providers in your fire department? (check all that apply)

Response	Number of Responses
Affiliated relief association	10
PERA SVF Plan	11
PERA Police & Fire Plan	1
PERA Defined Contribution Plan	1
PERA SVF Plan; PERA Defined Contribution Plan	1

Q17: What criteria are used to determine service credit for emergency medical providers?

Response	Number of Responses
Same criteria as firefighters (see Q&A 9)	24

Q18: For each emergency medical provider in your fire department, provide the provider's years of service with the fire department as of December 31, 2025.

See the workbook for the responses to Q18.

Q19: Please provide any other information you would like to share with us about how emergency medical services are provided or the compensation and retirement benefits provided to emergency medical providers.

See the workbook for the responses to Q19.

VIA ACTUARIAL SOLUTIONS

MEMORANDUM

TO:	Susan Lenczewski, Legislative Commission on Pensions and Retirement Rose Hennesey-Allen, Minnesota Office of the State Auditor
FROM:	Mark Schulte, VIA Actuarial Solutions Emily Knutson, VIA Actuarial Solutions
DATE:	September 30, 2026
RE:	**Discount Rate Assumption for Volunteer Fire Relief Association Lump Sum Liability Estimates**

Overview

This memo summarizes information about the liability discount rate assumption used to calculate estimated pension liabilities for Minnesota Volunteer Fire Relief Association (VFRA) lump sum pension plans. These liabilities are used to determine each VFRA's required annual contribution on the SC Form under Minnesota Statutes section 424A.092. This memo provides updated capital market information and describes alternative approaches for the Legislative Commission on Pensions and Retirement (LCPR) and the Minnesota Office of the State Auditor (OSA) to consider. It is divided into three parts:

1. Background information
2. Discount rate review
3. Additional considerations

Section 1: Background information

Minnesota VFRAs offering lump sum pension plans currently use a worksheet provided by the OSA to estimate accrued pension liabilities and statutory contribution requirements under Minnesota Statutes section 424A.092 and Appendix B of the LCPR's Standards for Actuarial Work. The worksheet was developed many years ago but was updated to incorporate refinements described in our April 1, 2021 memo.

During the 2021 review, we evaluated the reasonableness of the historical 3.0% discount rate/investment return assumption. Our memo concluded that the assumption remained reasonable, although conservative, for its intended purpose. Other considerations supporting the use of a uniform, conservative assumption included:

- It may be impractical for each VFRA lump sum plan to develop its own long-term investment return assumption.
- Although the discount rate/investment return assumption is important for lump sum plans, it has less effect on their liabilities compared to annuity plans since annuities are paid over a much longer time period.

The OSA and LCPR asked us to review whether the current 3.0% discount rate assumption remains reasonable or whether an alternative assumption should be used. This memo summarizes our review and provides information for the OSA and LCPR to consider in selecting an assumption.

Section 2: Discount rate review

In most public sector actuarial funding valuations, the liability discount rate is based on the pension plan's expected long-term investment return. Our 2021 memo noted that, based on our 2021 capital market assumption model, a 3.0% assumption was consistent with the expected return for a portfolio invested entirely in core U.S. corporate bonds.

Expected returns for many asset classes have changed substantially since 2021. One factor contributing to these changes is the significant increase in interest rates. The table below summarizes the 10-year and 20-year expected returns for several hypothetical equity and fixed income portfolio mixes using our 2026 capital market assumption model with results rounded to the nearest ¼%. We have also assumed a conservative annual investment expense reduction of 100 basis points, or 1%.

Equity/Fixed Income	0%/100%	30%/70%	40%/60%	50%/50%	60%/40%	70%/30%	100%/0%
10-year expected return	4.00%	4.75%	4.75%	5.00%	5.25%	5.25%	5.50%
20-year expected return	4.25%	5.00%	5.25%	5.50%	5.75%	5.75%	6.25%

Our observations from the table are:

- Expected returns for fixed income investments are substantially higher than they were in 2021. This is primarily because interest rates have increased over the past five years. Under our 2026 capital market assumption model, the expected return for a portfolio invested entirely in core U.S. corporate bonds is 4.00% over a 10-year horizon and 4.25% over a 20-year horizon.
- A 100% fixed income portfolio could continue as the basis for a uniform, conservative assumption applicable to all VFRA lump sum pension plans. Alternatively, if reliable data on the average VFRA pension fund asset allocation is available, the OSA and LCPR could compare that allocation with the corresponding hypothetical portfolio shown above when selecting a uniform discount rate and investment return assumption. We would also be glad to provide the return expectations for additional portfolio mixes, if requested.
- Either a 10-year or a 20-year return expectation could provide a reasonable basis for selecting a new assumption. The 10-year horizon may be particularly relevant for VFRA lump sum plans since they pay out large one-time benefit payments, and some vesting requirements have gradually been shortened. These factors may reduce the period over which plan assets remain invested.

Section 3: Additional considerations

Section 2 is intended to provide the LCPR and OSA with sufficient information to select an updated discount rate and investment return assumption for calculating VFRA lump sum plan liabilities and required annual contributions on the SC Form. In making that decision, the LCPR and OSA should also consider the following issues:

- Regardless of the discount rate assumption selected, we recommend reviewing it at least every three to five years, or sooner if capital market conditions change materially. Each review should consider whether the assumption remains consistent with contemporary capital market expectations and with the representative portfolio mix chosen by the LCPR and OSA.
- A more refined approach would allow each VFRA to enter its target asset allocation in the SC Form worksheet and calculate a discount rate and investment return assumption specific to its investment portfolio. However, this approach would likely require significant worksheet enhancements; incorporation and periodic updating of a capital market assumption model; and additional guidance or training so that VFRAs use the worksheet correctly.

L/D/C/R: 4/mws/emk

Appendix B
to the Standards for Actuarial Work

RULES FOR CALCULATING ACCRUED LIABILITIES APPLICABLE TO LUMP SUM DEFINED BENEFIT VOLUNTEER FIREFIGHTER RELIEF ASSOCIATIONS

For calculating accrued liability
beginning with the 2022 calendar year

Application: This appendix applies to lump sum defined benefit plans ("plans") administered by volunteer firefighter relief associations ("relief associations") under Chapter 424A.

Authority: Minnesota Statutes, section 424A.092, subdivision 2, paragraph (a), was amended, effective May 28, 2020, to require each relief association to which this appendix applies to calculate the accrued liability for the relief association's plan using the method described in this appendix. The statute states:

> Subd. 2. **Determination of accrued liability**. (a) Beginning with the calculation performed in 2021 for the 2022 calendar year, each firefighters relief association which pays a lump-sum service pension shall determine the accrued liability of the special fund of the firefighters relief association relative to each active member of the relief association, calculated using the applicable appendix to the standards for actuarial work established by the Legislative Commission on Pensions and Retirement under section 3.85, subdivision 10.

Effective date: Beginning with the calculations performed in 2021 for the 2022 calendar year.

Method: A relief association must input data for active and deferred members, along with benefit level and other plan specific information, into an OSA Form SC spreadsheet. This spreadsheet is available through the State Auditor's website.

For each active and deferred member, the worksheet calculates an estimated actuarial liability based on the inputs and the assumptions described in this Appendix. The worksheet then aggregates the individual member liability estimates into a single plan liability amount. The estimated plan liability, along with additional financial information inputs, is then used to determine the annual required contribution under Minnesota Statutes, section 424A.092, subdivision 3.

Assumptions: The calculation of accrued liability for each relief association plan assumes the following:

- 3% discount rate
- No pre-retirement turnover or mortality
- Age 50 benefit commencement

Summary from the Commission Actuary: See attached memo, which provides background information and rationale for changes enacted in 2020.

Memo

To: Susan Lenczewski, Legislative Commission on Pensions and Retirement
Rose Hennesey-Allen, Minnesota Office of the State Auditor

From: Mark Schulte, Van Iwaarden Associates
Emily Knutson, Van Iwaarden Associates

Date: April 1, 2021

Re: **Actuarial Methodology for Volunteer Fire Relief Association Lump Sum Liability Estimates**

This memo summarizes the proposed methodology for calculating estimated pension liabilities for active members in Minnesota Volunteer Fire Relief Association (VFRA) lump sum pension plans. It is divided into three parts:

1. Background information
2. Proposed methods and rationale
3. Additional considerations

Section 1: Background Information

Minnesota VFRAs offering lump sum pension plans currently use a worksheet provided by the Office of the State Auditor (OSA) to estimate their accrued pension liabilities and statutory contribution rates. This worksheet was developed many years ago and is based on a statutory liability factor table[1] which assumes[2]:

- A lump sum benefit payable immediately after 20 years of service (regardless of age);
- A 3.0% interest rate assumption; and
- No pre-retirement turnover or mortality.

The OSA worksheet provided a reasonable liability estimate for many years because, until recently, Minnesota Statutes required at least 20 years of service for VFRA members to be 100% vested in their benefits. However, this requirement was changed in the 2019 Omnibus Retirement Bill. VFRAs can now set their 100% vesting threshold as low as 10 years. The earliest benefit commencement age remains unchanged at age 50.[3].

One possible shortfall of the current calculation methodology is that it could understate plan liabilities for members who are hired at older ages in plans with shorter vesting requirements. For example, suppose a VFRA implements a vesting schedule with 100% vesting after 10 years of service. If a member is hired at age 40 then they would be eligible to receive 100% of their accrued benefit at age 50, but the current worksheet would calculate their liability by automatically assuming retirement after 20 years of service (i.e., 10 years of interest discounting). This would produce a liability which is lower than the actual amount eligible to be paid.

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[1] See MN Statutes 424A.092 Subd. 2

[2] From LCPR memo LM092804-1 titled "Background Information on Volunteer Firefighter Relief Associations"

[3] See MN Statutes 424A.02 Subd. 1(a) and Subd. 2

Section 2: Proposed methods and rationale

In order to accommodate potentially shorter vesting schedules without systematically understating actuarial liability estimates, we propose a new method for calculating the liability discount factors. The proposed new method uses:

- Actuarial liability factors that adjust for each VFRA plan's vesting requirements;
- 3.0% liability discount rate;
- No pre-retirement turnover or mortality; and
- Age 50 benefit commencement age.

The exhibit below describes the rationale for each of these assumptions.

Actuarial liability factors that adjust for specific vesting schedules

This is the main change to the actuarial methodology for estimating lump sum liability factors. These factors are used to discount the value of future estimated lump sum liabilities into "today's dollars".

Instead of automatically discounting all lump sums over a 20-year period, liability factors will be based on how a member's current age and service compare to a VFRA pension plan's specific retirement age and 100% vesting requirements. Benefits will be discounted over a time period equal to the greater of (1) years until a member reaches age 50 or (2) years until a member reaches the plan's 100% vesting service requirement.

We believe this new methodology provides an improved approximation of actuarial liabilities without making the calculations unnecessarily complex.

3.0% liability discount rate

In most public sector actuarial funding valuations, the liability discount rate represents a pension plan's expected long-term investment return assumption. It's unclear how the current 3.0% discount rate assumption was developed, but it may have been intended as a general conservative estimate that could be used by a majority of VFRA pension plans.

We believe it's reasonable to continue using a 3.0% discount rate as a universal conservative assumption for all VFRA lump sum pension plans. Rationale for this conclusion are:

- It may be impractical for each individual VFRA lump sum plan to develop their own long-term investment return assumption.
- We calculated the expected return of a portfolio invested 100% in US corporate bonds to be roughly 3.0%[4]. This means that a 100% fixed income investment portfolio (which is likely more conservative than most VFRAs' actual investment strategies) would annually be expected to earn 3.0% over the long-term.
- Although the discount rate/investment return assumption is important for lump sum plans, it has less effect on their liabilities compared to annuity plans since annuities are paid over a much longer time period.

[4] Based on our 2020 capital market assumption model, an underlying 2.5% price inflation assumption, and estimated 1.0% annual investment fees.

No pre-retirement turnover or mortality assumptions

Assuming no pre-retirement turnover or mortality creates a more conservative liability estimate since it assumes each member will work a full career until they're 100% eligible to receive a pension benefit. It would be impractical for each VFRA to have their own turnover and mortality assumptions, and we believe that even general assumptions would add significant calculation complexity while not substantially improving the accuracy of the liability factor estimates.

Age 50 benefit commencement age

MN Statutes 424A.02 Subd. 1(a) defines the minimum benefit commencement age for VFRAs to be age 50. Since this is a uniform statutory requirement, the updated calculation worksheet assumes that active members retire at the later of age 50 or their projected full vesting age.

Please note that both the current and updated worksheets do not assume any interest discounting for terminated members with deferred vested benefits, even though these members cannot receive their retirement pensions until they're at least age 50. This is a conservative assumption, and the worksheet could be refined to apply interest discounting to terminated members with deferred benefits. However, we have not made this adjustment since these members generally are a small fraction of a plan's overall pension liability.

Section 3: Additional Considerations

We believe that the proposed methodologies will provide a reasonable estimate of VFRA lump sum pension liabilities. However, the LCPR and OSA should review the following additional considerations:

- Although the model could be refined so that it more closely resembles an actuarial valuation, this would require substantial additional programming and expense. An alternative would be to prepare full actuarial valuations to determine pension liabilities and statutory contribution rates for each VFRA pension plan, but this may not be a cost-effective option.

- We encourage the LCPR and OSA to periodically review the lump sum liability model to ensure that the underlying methods and assumptions remain consistent with best practices and contemporary actuarial assumptions.

- We recommend removing the current table of estimated actuarial factors from Minnesota Statutes and replacing them in the Appendix to the LCPR's Standards of Actuarial Work with a description of the underlying assumptions for the new factors.

Office of the State Auditor

Exhibit G
Plan Conversion "Present Value" Changes

Meeting Date: October 27, 2026

Below are proposed changes that would remove the requirement that accounts be determined using the "present value" of lump sum accrued benefits when a relief association converts from a defined benefit to a defined contribution plan.

A question for the Working Group to consider is what effective date should be proposed for these changes. Should the changes be effective the day following final enactment?

Proposed Changes:

424B.13 **CONVERSION OF RELIEF ASSOCIATION DEFINED BENEFIT PLAN TO DEFINED CONTRIBUTION PLAN.**

Subdivision 1. **Authority to initiate conversion.** (a) The board of trustees of a defined benefit relief association may convert the defined benefit plan to a defined contribution plan in accordance with this section.

(b) A conversion consists of:

(1) termination of the defined benefit plan;

(2) establishment of a defined contribution plan; and

(3) transfer and allocation of the assets of the defined benefit plan to accounts under the defined contribution plan.

(c) The termination of the defined benefit plan does not dissolve the relief association, which is an ongoing nonprofit corporation under chapter 317A, unless dissolved under chapter 317A and section 424B.22.

Subd. 2. **Board of trustees.** To initiate and complete a conversion, the board of trustees must: (1) approve resolutions that:

(i) state that the defined benefit plan is being converted to a defined contribution plan;

(ii) designate a conversion effective date;

(iii) direct that each participant, except any retiree in pay status who is receiving a monthly service pension from a relief association described in section 424A.093, becomes fully (100 percent) vested as of the conversion effective date in the participant's retirement benefit;

(iv) if the relief association has a surplus as of the end of the relief association's most recent fiscal year before the conversion effective date, at the option of the board of trustees, conditionally increase the lump-sum benefit or monthly pension amount under the defined benefit plan, as provided under subdivision 4;

(v) determine the method for allocating a surplus;

(vi) adopt a defined contribution plan and approve a plan document that complies with section 424A.016 and states the terms and conditions for eligibility, vesting, allocation of contributions, distribution of retirement benefits, and any ancillary benefits; and

(vii) authorize any bylaws amendments needed to incorporate items (i) to (vi) into the bylaws;

(2) obtain the consent of the municipality or firefighting corporation if required by subdivision 3;

(3) determine ~~the present value of~~ each participant's accrued benefit as of the conversion effective date as required by subdivision 5;

(4) if there is a surplus, allocate the surplus under a method that complies with subdivision 6;

(5) if there is not a surplus, take the actions required under subdivision 7;

(6) provide the notices required under subdivisions 8 and 9; and

(7) implement the conversion, including the requirements under subdivision 10.

Subd. 3. **Consent of municipality or firefighting corporation.** The consent of the affiliated municipality, all municipalities if more than one municipality operates the fire department pursuant to a joint powers agreement, or firefighting corporation to a relief association's conversion of its defined benefit plan to a defined contribution plan is required as provided under subdivision 7 only if the relief association does not have a surplus as of the end of the relief association's most recent fiscal year before the conversion effective date.

Subd. 4. **Benefit increase.** (a) If the relief association has a surplus as of the end of the relief association's most recent fiscal year before the conversion effective date, the board of trustees may approve a resolution that increases the lump-sum benefit or monthly pension amount or both the lump-sum and monthly pension amount, if the relief association offers both, and amends the relief association bylaws without the consent of the affiliated municipality or firefighting corporation, notwithstanding section 424A.02, subdivision 10. The resulting lump-sum benefit or monthly pension amount is not limited to the maximum lump-sum service pension amount or maximum monthly service pension amount under section 424A.02, subdivision 3.

(b) The benefit increase must not cause the liabilities of the retirement plan to exceed the value of the assets, after taking into account full vesting as required under subdivision 2 and any administrative expenses arising from the conversion.

(c) The board of trustees shall specify whether the benefit increase will apply only to participants who are members active as of the conversion effective date or whether the benefit increase will apply to all participants, including members who are not active as of the conversion effective date, notwithstanding section 424A.015, subdivision 6.

(d) The board of trustees' resolution approving an increase in the benefit level must be considered conditional on there being sufficient assets to fund the increase and must state that if, as of the date benefits are transferred to the defined contribution plan, there are not sufficient assets to cover all benefit liabilities at the new higher benefit level, the benefit level will be reduced until assets equal or are greater than liabilities. The resolution must state that the new lower benefit level will be considered approved by the board of trustees without further action by the board.

Subd. 5. **Determination of value of pension benefits and distribution to retirees in pay status.** (a) The board of trustees shall determine ~~the present value of~~ each participant's accrued benefit, taking into account the full vesting requirement under subdivision 2 and any increase in the lump-sum benefit or monthly pension amount approved under subdivision 4:

(1) using the method set forth in ~~section 424A.092, subdivision 2, for determining a plan's funded status by calculating~~ the relief association's bylaws to calculate the value of each participant's accrued benefit; or

(2) as determined by an actuary retained by the relief association, who meets the definition of approved actuary under section 356.215, subdivision 1, paragraph (c).

(b) If the retirement plan pays a monthly pension, the board of trustees must determine the present value of the remaining payments to any retiree in pay status or beneficiary who is receiving an annuity. Present value must be determined by an actuary who meets the definition of approved actuary under section 356.215, subdivision 1, paragraph (c), retained by the relief association. At the discretion of the relief association, the relief association must provide the retiree in pay status or beneficiary receiving the annuity either:

(1) an immediate lump-sum distribution of an amount equal to the present value of the remaining payments as determined by the actuary and permit the retiree in pay status or beneficiary to elect a lump-sum payment or a direct rollover of the amount to an eligible retirement plan as permitted under section 356.633, subdivisions 1 and 2, if the distribution is an eligible rollover distribution as defined in section 356.633, subdivision 1, paragraph (e); or

(2) continued payments in the same monthly amount under an annuity to be purchased by the board of trustees from a reputable insurance company licensed to do business in the state.

Subd. 6. **Allocation of surplus.** (a) If, as of the conversion effective date, the defined benefit plan has a surplus, the board of trustees shall allocate the surplus as follows:

(1) per capita method: each participant's account will receive the same dollar amount;

(2) service-based method: each participant's account will receive a share of the surplus based on the ratio of the participant's years of service to the total years of service for all participants; or

(3) participant and municipality sharing method under paragraph (b).

(b) The board of trustees may allocate the surplus using the participant and municipality sharing method in accordance with this paragraph.

(1) For this purpose, "municipality" means "municipality" or "firefighting corporation," as applicable.

(2) If the fire department is operated by more than one municipality under a joint powers agreement:

(i) any consent by the municipality under this paragraph requires consent by each municipality that is party to the joint powers agreement;

(ii) any payment of surplus to the municipality under this paragraph requires a payment of a pro rata share of surplus to each municipality that is party to the joint powers agreement; and

(iii) any restrictions on the use of surplus applies to each municipality that is party to the joint powers agreement.

(3) Under the participant and municipality sharing method:

(i) first, the municipality will receive a share of the surplus based on the ratio of the municipal contributions made to the defined benefit relief association over a specified period of years to the total of fire state aid paid and municipal contributions made to the defined benefit relief association over the same period; and

(ii) second, any remaining surplus will be allocated to accounts of participants using the per capita or service-based method.

(4) The board of trustees may impose conditions on the use of the surplus by the municipality, as follows:

(i) all or a specified portion of the surplus must be contributed back to the defined contribution relief association over a specified number of future years for allocation to the accounts of participants eligible for an allocation;

(ii) all or a specified portion of the surplus must be used by the municipality for the purposes described in section 424A.08, paragraph (a) or (c); or

(iii) all or a specified portion of the surplus must be used by the municipality to provide health insurance or other welfare benefits for the participants.

(c) The board of trustees shall specify whether the surplus will be allocated only to participants who are members active as of the conversion effective date or whether the surplus will be allocated to all participants, including members who are not active as of the conversion effective date.

Subd. 7. **Conversion without surplus.** If the relief association does not have a surplus as of the end of the relief association's most recent fiscal year before the conversion effective date, the board of trustees shall:

(1) obtain the consent of the municipality, of each municipality, if more than one municipality operates the fire department pursuant to a joint powers agreement, or of the firefighting corporation to the conversion and bylaws amendments under subdivision 2; and

(2) either:

(i) include with the resolutions of the board of trustees under subdivision 2 a resolution amending the relief association bylaws to decrease the lump-sum or monthly pension benefit level as necessary to reduce benefit liabilities until plan assets are sufficient to fund all benefit liabilities, taking into account full vesting under subdivision 2 and the payment of administrative expenses arising from the conversion; or

(ii) enter into an agreement with the municipality, each municipality if more than one municipality operates the fire department pursuant to a joint powers agreement, or the firefighting corporation, as applicable, that requires the municipality, municipalities, or firefighting corporation, as applicable, to make a contribution in an amount sufficient to cover all benefit liabilities at the current benefit level, taking into account full vesting under subdivision 2 and the payment of administrative expenses arising from the conversion.

Subd. 8. **Notice to participants.** The board of trustees shall provide notice to all participants at least 90 days before the conversion effective date. The notice shall include:

(1) an explanation that the plan is converting from a defined benefit plan to a defined contribution plan and provide definitions for those terms, the reasons for the conversion, the conversion effective date, and the procedure to be followed, including fully vesting all participants;

(2) a summary of the terms of the newly adopted defined contribution plan;

(3) information about any increase in the benefit level and whether the increase applies to all participants or only active members;

(4) a section tailored to each participant that provides an estimate of the ~~present value of the~~ participant's fully vested accrued benefit and the calculation that resulted in that value;

(5) an estimate of any anticipated surplus and an explanation of the disposition of the surplus, including, as applicable, a description of the method for allocating the surplus among participants' accounts and whether the municipality, each municipality, if more than one municipality operates the fire department pursuant to a joint powers agreement, or firefighting corporation will receive any of the surplus and any conditions on its use; and

(6) contact information for one or more members of the board of trustees who will answer questions and provide a copy of the new defined contribution plan document or a summary, if requested, or directions to a website for viewing and printing the plan document or summary.

Subd. 9. **Notice to municipality and state auditor.** The relief association shall provide notice to the municipality, each municipality, if more than one municipality operates the fire department pursuant to a joint powers agreement, or firefighting corporation affiliated with the relief association and the state auditor at the same time as the notice required under subdivision 8. The notice must include the information required under subdivision 8, except that the individualized information will be provided as a spreadsheet listing the name of each participant and the corresponding accrued benefit amount.

Subd. 10. **Implementation.** (a) A record-keeping account shall be established for each participant under the defined contribution plan to which is recorded the value of the participant's fully vested accrued benefit as determined as of the conversion effective date and the amount of any surplus allocated to the participant's account.

(b) In no event may the value of a participant's account in the defined contribution plan be less as of the day following the conversion effective date than the ~~present~~ value of the participant's accrued benefit as of the day before the conversion effective date.

Office of the State Auditor

Exhibit H
Certifying Unpaid Required Contributions

Meeting Date: October 27, 2026

Below are proposed changes that would modify when a relief association must certify to the county auditor unpaid required municipal contribution amounts for levy. The proposed changes would update the mechanism that triggers a county levy to be the municipality's failure to pay its required municipal contribution, not whether it budgeted to do so in its previous year's levy process.

A question for the Working Group to consider is what effective date should be proposed for these changes. Should the changes be effective January 1, 2028?

Proposed Changes:

424A.092 RELIEF ASSOCIATIONS PAYING LUMP-SUM SERVICE PENSIONS.

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 on or before August 1 of each year. The certification must be made to the entity that is responsible for satisfying the minimum obligation with respect to the special fund of the relief association. If the responsible entity is a joint powers entity, the certification must be made in the manner specified in the joint powers agreement, or if the joint powers agreement is silent on this point, the certification must 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 424A.014. The schedule forms related to the determination of the financial requirements must be filed annually with the state auditor by June 30.

(c) The municipality ~~shall provide for~~ must pay to the relief association 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. If the municipality fails to pay the required minimum obligation to the relief association in a plan year, the officers of the relief association must certify the unpaid amount to the county auditor, who must spread a levy in the certified amount of the unpaid obligation on the taxable property of the municipality.

(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.

~~(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.~~

424A.093 RELIEF ASSOCIATIONS PAYING MONTHLY SERVICE PENSIONS.

Subd. 5. **Minimum municipal obligation.** (a) The officers of the relief association shall determine the minimum obligation of the municipality with respect to the special fund of the relief association for the following calendar year on or before August 1 of each year in accordance with the requirements of this subdivision.

(b) The minimum obligation of the municipality with respect to the special fund is an amount equal to the financial requirements of the special fund of the relief association determined under subdivision 4, reduced by the estimated amount of any fire state aid and police and firefighter retirement supplemental state aid payable under chapter 477B and section 423A.022 reasonably anticipated to be received by the municipality for transmittal to the special fund of the relief association during the following year. A reasonable amount of anticipated fire state aid is an amount that does not exceed the fire state aid actually received in the prior year multiplied by the factor 1.035.

(c) 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 4 and this subdivision by August 1 of each year. The certification must be made to the entity that is responsible for satisfying the minimum obligation with respect to the special fund of the relief association. If the responsible entity is a joint powers entity, the certification must be made in the manner specified in the joint powers agreement, or if the joint powers agreement is silent on this point, the certification must be made to the chair of the joint powers board.

(d) The financial requirements of the relief association and the minimum municipal obligation must be included in the financial report or financial statement under section 424A.014.

(e) The municipality ~~shall provide for~~ must pay to the relief association 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. 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 or charter 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. If the municipality fails to pay the required minimum obligation to the relief association in a plan year, the officers of the relief association must certify the unpaid amount to the county auditor, who must spread a levy in the certified amount of the unpaid obligation on the taxable property of the municipality.

(f) ~~If the municipality does not include the full amount of the minimum municipal obligation 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 minimum municipal obligation on the taxable property of the municipality.~~

~~(g)~~ If the state auditor determines that a municipal contribution actually made in a plan year was insufficient under section 424A.091, subdivision 3, paragraph (c), clause (5), the state auditor may request from the relief association or from the city a copy of the certifications under this subdivision. 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.

Office of the State Auditor

Exhibit I
Return to Service Bylaw Requirement

Meeting Date: October 27, 2026

Below are proposed changes that would remove the requirement that a relief association's bylaws authorize a firefighter's eligibility to resume active association membership upon a resumption of active fire department service following a break in service. The changes would make resumption of relief association membership automatic upon a firefighter's return to active service, unless precluded by an association's bylaws.

A question for the Working Group to consider is what effective date should be proposed for these changes. Should the changes be effective January 1, 2028?

Proposed Changes:

424A.012 RETURN TO ACTIVE FIREFIGHTING SERVICE.

Subdivision 1. **Return to active firefighting without prior receipt of pension or benefit.** (a) This subdivision governs the service pension calculation requirements of a firefighter who returns to active service after a break in service and who has not previously been paid a service pension or disability benefit from the relief association. This subdivision applies to all breaks in service, except that the resumption service requirements of this subdivision do not apply to leaves of absence made available by federal or state statute.

(b) If a firefighter who has a break in service of any duration resumes performing active firefighting with the fire department associated with the relief association ~~and if permitted in the bylaws of the relief association~~, the firefighter may again become an active member of the relief association, subject to the requirements of this subdivision, ~~and~~ the service pension calculation requirements under this section~~.~~, and any membership eligibility criteria defined in the relief association's bylaws.

Office of the State Auditor

Exhibit J
Fire State Aid Reduction Changes

Meeting Date: October 27, 2026

Reductions in Fire State Aid:

Statute requires that a 10% penalty be deducted from fire state aid for each week or fraction of a week that a community's certification to the Department of Revenue is filed late. See Section 477B.02, subd. 10. Similarly, a fire relief association forfeits eligibility for its fire state aid if required reports are not filed with the Office of the State Auditor by November 30. See Section 424A.014, subd. 3.

Below are penalty and forfeiture amounts for the most recent 10-year period, and the amount of fire state aid distributed after the reductions. Note that supplemental state aid and supplemental benefit reimbursements are not included in the fire state aid totals.

State Fiscal Year (July 1-June 30)	Reductions for Late or Non-filing with DOR	Forfeitures for Non-filing with OSA	Reductions as % of Fire State Aid	Total Fire State Aid After Reductions
2025	225,199.71	0	0.5%	41,111,316.12
2024	99,005.72	0	0.2%	48,199,690.07
2023	26,466.85	0	0.1%	41,751,215.30
2022	77,646.13	0	0.2%	36,931,133.45
2021	27,785.57	19,351.29	0.1%	34,191,472.10
2020	31,264.67	0	0.1%	32,500,360.57
2019	41,290.98	23,460.13	0.2%	30,444,955.41
2018	17,482.58	6,589.52	0.1%	29,572,433.67
2017	44,540.04	22,006.96	0.2%	28,741,060.87
2016	15,488.72	6,680.46	0.1%	28,651,274.52

Options for Proceeding:

Since the last Working Group meeting, we've gotten some helpful information from an Executive Budget Officer with Minnesota Management and Budget on how the fire state aid program operates. The program is an "open appropriation," which means that "an amount necessary to make the payments…" is statutorily appropriated. Money neither "cancels" nor "carries forward" in open appropriations.

Two options for modifying the fire state aid program that would provide the results desired by the Working Group are:

1. Amend the calculation so the amount appropriated for aid payments each year is the current formula plus the amount reduced in the prior year. The underlined new text in the apportionment provision below is a rough draft of how this could be done. Note that this approach would increase the work of Department of Revenue staff to administer the program.
2. Increase the percent of premium taxes used to fund the program by an amount roughly equal to the amount of reductions. For example, the highlighted 107 percent below could be changed to 107.5 or 108 percent. This would be an easier approach to administer, but additional outreach would need to be done to understand the impact of changing the percent.

477B.03 CALCULATION OF FIRE STATE AID; APPEAL.

Subd. 2. **Apportionment of fire state aid.** (a) The amount of fire state aid available for apportionment, before the addition of the minimum fire state aid allocation amount under subdivision 5, is equal to 107 percent of the amount of premium taxes paid to the state upon the fire, lightning, sprinkler leakage, and extended coverage premiums reported to the commissioner by companies or insurance companies on the Minnesota Fire Premium Report, plus amounts not paid in the prior fiscal year under section 477B.02, subdivisions 7 and 10, except that credits claimed under section 297I.20, subdivisions 3, 4, 5, and 6, do not affect the calculation of the amount of fire state aid available for apportionment. This amount must be reduced by the amount required to pay the state auditor's costs and expenses of the audits or exams of the firefighters' relief associations.