



Working Group

Meeting Agenda: November 16, 2021

- I. Call to Order**
Chair Auditor Blaha.
- II. Review and Approval of Working Group Meeting Minutes**
Exhibit A. Draft November 3, 2021 Meeting Minutes
- III. Supplemental Benefits for Firefighters who Receive Multiple Distributions**
Exhibit B.
- IV. Audit Threshold**
Exhibit C.
- V. Maximum Benefit Levels**
Exhibit D.
- VI. Distributions to Former Spouses**
Exhibit E.
- VII. Other Business**
- VIII. Next Meeting**
Tuesday, November 30, 2021
11 a.m. to 12:30 p.m.
Virtually via Zoom
- IX. 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 November 14, 2021.



Exhibit A

11-03-21 Approved Minutes

Members Present

Julie Blaha, State Auditor
Eric Bullen, Minnesota State Fire Chiefs Association Representative (defined benefit lump sum plans)
Steve Donney, City of Harmony Mayor
Bruce Hemstad, Bemidji Fire Relief Association Secretary (defined benefit lump sum plans)
Sue Iverson, City of Red Wing Finance & Accounting Manager
Dan Johnson, Mendota Heights Fire Relief Association Trustee (defined contribution plans)
Ron Johnson, Minnesota State Fire Department Association Representative (defined contribution plans)
Aaron Johnston, Coon Rapids Fire Relief Association Treasurer (defined contribution plans)
Michael Kruse, Falcon Heights Fire Relief Association Treasurer (defined contribution plans)
Darrell Pettis, St. Peter Fire Relief Association Treasurer (defined benefit lump sum plans)
Kevin Wall, Lower Saint Croix Valley Fire Relief Association President (defined benefit lump sum plans)
Michael Walstien, Plymouth Fire Relief Association Trustee (defined contribution plans)

Members Excused

Andy Paszak, Proctor Fire Relief Association President (defined benefit lump sum plans)
Thomas Wilson, Eden Prairie Fire Relief Association Secretary (defined benefit monthly/lump sum plans)

Office of the State Auditor and Legislative Support Present

Ramona Advani, Deputy State Auditor and General Counsel
Chad Burkitt, Legislative Commission on Pension and Retirement Analyst
Rose Hennessy Allen, Office of the State Auditor Pension Director
Susan Lenczewski, Legislative Commission on Pension and Retirement Executive Director

I. Call to Order

Auditor Blaha called the meeting to order. She explained that the meeting was being recorded and streamed to the Office of the State Auditor (OSA)'s YouTube channel. The meeting agenda was accepted with no changes.

II. Review and Approval of Working Group Meeting Minutes

The members reviewed the October 12, 2021, meeting minutes that had been provided in advance. Walstien requested a correction to this title. The meeting minutes were accepted as amended.

III. Working Group Topic Rankings

The results of the topic rankings were shared with the Working Group in Exhibit B. Hennessy Allen briefly shared the results, and there were no concerns with the tentative plan for topics to be discussed this year.

IV. Maximum Benefit Levels

At the last meeting, the Working Group members asked for data on the number of relief associations operating at their maximum allowable benefit level and an estimated funding ratio at which a contribution wouldn't be required. A document was shared that showed

required contribution amounts calculated for 2019, and for each relief association with a contribution requirement, its funding ratio. The data showed that some relief associations with healthy funding ratios needed contributions from the affiliated municipality to support the ratified benefit levels. The Working Group was also provided with preliminary data for 2020 with the number of relief associations operating at their statutory maximum benefit levels, or were operating at a benefit level below the maximum by \$100 or less.

The Working Group members discussed options for addressing the topic, including an option raised by Emily Knutson with Van Iwaarden Associations, that would allow benefit level increases so long as the relief association's funding ratio after the benefit level change remained at or above 110 percent. Working Group members agreed that relief association trustees and municipal governing bodies look at a plan's funded status and financial liabilities when considering a benefit level change, rather than the current maximum benefit level formula. The Working Group members were interested in discussing this option further at the next meeting.

There also was agreement that a relief association with a funding ratio below 110 percent should be allowed to increase its benefit level, as long as the change is ratified by the affiliated municipality. The Working Group did not want to hamper a municipality's ability to approve a benefit level increase that the municipality may feel is needed to attract or retain firefighters.

A request was made for a few examples of different sized relief associations and a comparison of their current benefit levels, and the benefit levels they would have if adjusted until reaching a 110 percent funded ratio.

V. Supplemental Benefits for Firefighters who Receive Multiple Distributions

Auditor Blaha explained that the language in Exhibit F was included in the last two Working Group bills. Our understanding is that the provision was removed because there is a small fiscal cost associated with the proposal, which would have required the entire Pension and Retirement Bill to be heard by additional committees. Auditor Blaha wanted to make sure the Working Group members are still in agreement with the proposal. She said that if the members agree, the proposal could either be included in the Working Group bill again next session, or be done as a separate stand-alone bill.

The Working Group members agreed with moving forward with the language as-is, but held over a vote until the November 16 meeting so that Donney could participate in the vote and any final discussion. Auditor Blaha also said she would speak with Senator Rosen, chair of the Legislative Commission on Pensions and Retirement, on if there is a preference for the proposal to be in the Working Group bill or move forward as a stand-alone bill.

VI. Disability Insurance

Auditor Blaha let the Working Group members know that there are legal issues with this topic that need more research before any specific changes could be proposed.

Karl Mork with the Bemidji Fire Relief Association outlined the topic for the Working Group members, which is that his relief association is interested in exploring the purchase of accident or supplemental health coverage for its members. Statute allows for the payment of insurance premiums from a relief association's special fund to an insurance company licensed by the State of Minnesota offering casualty insurance. Mork explained that it seems few insurance companies sell both casualty insurance and supplemental health insurance, and the companies that do sell both don't offer policies to small volunteer groups.



Lenczewski explained that the legal concerns regarding a change that would allow supplemental health insurance premiums to be paid from a relief association's special fund are related to federal law, not state law. Walstien commented on the importance of not making changes that could impact a relief association's status as a qualified plan, or that could jeopardize a retiree's ability to rollover the relief association retirement benefit into an IRA.

The Working Group will revisit this topic after potential legal issues are reviewed, and decide on any next steps.

VII. Next Meeting

Tuesday, November 16, 2021

11 a.m. to 12:30 p.m.

Virtually via Zoom

VIII. Adjournment

The meeting was adjourned at 12:22 p.m.



Exhibit B

Supplemental Benefits

Topic:

When a relief association pays a lump-sum distribution, the relief association is also required to pay a supplemental benefit. The supplemental benefit is intended to help offset taxes that must be paid on the service pension or benefit distribution. For service pensions and disability benefits, the amount of the supplemental benefit is equal to 10 percent of the lump-sum distribution, up to a maximum of \$1,000. For survivor benefits, the amount of the supplemental benefit is equal to 20 percent of the survivor benefit distribution, up to a maximum of \$2,000. Relief associations are eligible to apply for reimbursement from the State of Minnesota for supplemental benefits paid to qualified recipients.

The Department of Revenue has identified several retired firefighters who have or will be receiving more than one lump-sum distribution. These firefighters fall into two categories:

- 1) firefighters who receive multiple distributions from the same entity; and
- 2) firefighters who receive one distribution from multiple entities.

The entities may be relief associations or fire departments that participate in the Public Employees Retirement Association (PERA) Statewide Volunteer Firefighter Plan.

The Working Group approved the below changes and included them in the 2020 and 2021 Working Group bills. The supplemental benefit changes were removed when the bill was heard by the Legislative Commission on Pensions and Retirement due to cost concerns by some legislators, so the changes were not passed. Clarification is still needed on this topic, as the Department of Revenue has pending supplemental benefit reimbursement requests.

Does the Working Group want to move forward with the statute changes below, which authorize a supplemental benefit payment with each lump-sum distribution, and each supplemental benefit is equal to 10 percent of the distribution up to a maximum of \$1,000 (or \$2,000 if the final distribution is a survivor benefit)?

Proposed Changes:

424A.10 STATE SUPPLEMENTAL BENEFIT; VOLUNTEER FIREFIGHTERS.

Subdivision 1. **Definitions.** For purposes of this section:

(1) "qualified recipient" means a volunteer firefighter who receives a lump-sum distribution of pension or retirement benefits from a volunteer firefighters relief association or from the voluntary statewide lump-sum volunteer firefighter retirement plan;

(2) "survivor of a deceased active or deferred volunteer firefighter" means the surviving spouse of a deceased active or deferred volunteer firefighter or, if none, the surviving child or children of a deceased active or deferred volunteer firefighter, or, if none, the designated beneficiary of the deceased active or deferred volunteer firefighter, or, if no beneficiary has been designated, the estate of the deceased active or deferred volunteer firefighter;

(3) "active volunteer firefighter" means a person who:

(i) regularly renders fire suppression service, the performance or supervision of authorized fire prevention duties, or the performance or supervision of authorized emergency medical response activities for a fire department;

(ii) has met the statutory and other requirements for relief association membership; and

(iii) is deemed by the relief association under law and its bylaws to be a fully qualified member of the relief association or from the voluntary statewide lump-sum volunteer firefighter retirement plan for at least one month;

(4) "deferred volunteer firefighter" means a former active volunteer firefighter who:

(i) terminated active firefighting service, the performance or supervision of authorized fire prevention duties, or the performance or supervision of authorized emergency medical response activities; and

(ii) has sufficient service credit from the applicable relief association or from the voluntary statewide lump-sum volunteer firefighter retirement plan to be entitled to a service pension under the bylaws of the relief association, but has not applied for or has not received the service pension; and

(5) "volunteer firefighter" includes an individual whose services were utilized to perform or supervise fire prevention duties if authorized under section 424A.01, subdivision 5, and individuals whose services were used to perform emergency medical response duties or supervise emergency medical response activities if authorized under section 424A.01, subdivision 5a.

Subd. 2. **Payment of supplemental benefit.** (a) Upon the payment by a volunteer firefighters relief association or by the voluntary statewide lump-sum volunteer firefighter retirement plan of a lump-sum distribution to a qualified recipient, the association must pay a supplemental benefit to the qualified recipient. Notwithstanding any law to the contrary, the relief association must pay the supplemental benefit out of its special fund and the voluntary statewide lump-sum volunteer firefighter retirement plan must pay the supplemental benefit out of the voluntary statewide lump-sum volunteer firefighter retirement plan. This benefit is an amount equal to ten percent of the regular lump-sum distribution that is paid on the basis of the recipient's service as a volunteer firefighter. In no case may the amount of the supplemental benefit exceed \$1,000. A supplemental benefit under this paragraph may not be paid to a survivor of a deceased active or deferred volunteer firefighter in that capacity.

(b) Upon the payment by a relief association or the retirement plan of a lump-sum survivor benefit to a survivor of a deceased active volunteer firefighter or of a deceased deferred volunteer firefighter, the association must pay a supplemental survivor benefit to the survivor of the deceased active or deferred volunteer firefighter from the special fund of the relief association and the retirement plan must pay a supplemental survivor benefit to the survivor of the deceased active or deferred volunteer firefighter from the retirement fund if chapter 353G so provides. The amount of the supplemental survivor benefit is 20 percent of the survivor benefit, but not to exceed \$2,000.



(c) For purposes of this section, the term "regular lump-sum distribution" means the pretax lump-sum distribution excluding any interest that may have been credited during a volunteer firefighter's period of deferral.

(d) An individual may receive a supplemental benefit under paragraph (a) or under paragraph (b), but not under both paragraphs with respect to one lump-sum volunteer firefighter benefit.

(e) If a qualified recipient receives more than one lump-sum distribution, the qualified recipient is eligible to receive a supplemental benefit or supplemental survivor benefit, whichever is applicable, with each lump-sum distribution. Each supplemental benefit shall be calculated pursuant to paragraph (a) or paragraph (b), as applicable, and shall be subject to a separate limit.

(f) Qualified recipients who elect to receive their lump-sum distribution in installments under section 424A.016, subdivision 5, or 424A.02, subdivision 8, are eligible to receive one supplemental benefit calculated on the total lump-sum distribution amount under paragraph (a) or paragraph (b), as applicable.

Subd. 3. **State reimbursement.** (a) Each year, to be eligible for state reimbursement of the amount of supplemental benefits paid under subdivision 2 during the preceding calendar year, the volunteer firefighters relief association or the voluntary statewide lump-sum volunteer firefighter retirement plan shall apply to the commissioner of revenue by February 15. By March 15, the commissioner shall reimburse the relief association for the amount of the supplemental benefits paid by the relief association to qualified recipients and to survivors of deceased active or deferred volunteer firefighters.

(b) The commissioner of revenue shall prescribe the form of and supporting information that must be supplied as part of the application for state reimbursement. The commissioner of revenue shall reimburse the relief association by paying the reimbursement amount to the treasurer of the municipality where the association is located and shall reimburse the retirement plan by paying the reimbursement amount to the executive director of the Public Employees Retirement Association. Within 30 days after receipt, the municipal treasurer shall transmit the state reimbursement to the treasurer of the association if the association has filed a financial report with the municipality. If the relief association has not filed a financial report with the municipality, the municipal treasurer shall delay transmission of the reimbursement payment to the association until the complete financial report is filed. If the association has dissolved or has been removed as a trustee of state aid, the treasurer shall deposit the money in a special account in the municipal treasury, and the money may be disbursed only for the purposes and in the manner provided in section 424A.08. When paid to the association, the reimbursement payment must be deposited in the special fund of the relief association and when paid to the retirement plan, the reimbursement payment must be deposited in the retirement fund of the plan.

(c) A sum sufficient to make the payments is appropriated from the general fund to the commissioner of revenue.

Subd. 4. **In lieu of income tax exclusion.** (a) The supplemental benefit provided by this section is in lieu of the state income tax exclusion for lump-sum distributions of retirement benefits paid to volunteer firefighters.

(b) If the law is modified to exclude or exempt volunteer firefighters' lump-sum distributions from state income taxation, the supplemental benefits under this section are no longer payable, beginning with the first calendar year in which the exclusion or exemption is effective. This subdivision does not apply to exemption of all or part of a lump-sum distribution under section 290.032 or 290.0802.

EFFECTIVE DATE: This section is effective retroactively for supplemental benefits paid in 2018 and thereafter.



Exhibit C

Audit Threshold

Topic:

In 1986, an audit threshold of \$200,000 for relief associations was set in statute. A relief association that exceeded \$200,000 in either special fund assets or liabilities was required to file with the Office of the State Auditor (OSA) audited financial statements. Relief associations with assets and liabilities both below the threshold were required to file a financial report with the OSA that had been certified by a CPA.

In 2013, the threshold was increased to \$500,000 in either special fund assets or liabilities.

The question the Working Group has been asked to consider is whether the \$500,000 threshold is still appropriate, or whether it should be changed. If the threshold was changed annually based on inflation, for example, it would be at \$558,424 for 2020.

Background:

Information is provided below that shows the number and percent of relief associations above and below the audit threshold for the current reporting year, and for the reporting years before and after the last threshold change. The percent of relief associations that filed their annual reporting forms with the OSA on time for both categories of relief associations is also provided.

The percentage of relief associations with the annual audit requirement decreased substantially after the threshold change. The percentage has been increasing each year, but is still 20 percent lower than the number with a required audit in 2012. Relief associations with the audit requirement are more likely to file their annual reporting forms on time, while those without the audit requirement have been filing later, on average, each year.

Reporting Year	Total Relief Associations	# With Audit	% With Audit	% Filed On Time	Average Days Late	# Without Audit	% Without Audit	% Filed On Time	Average Days Late
2012	684	487	71%	50%	50	197	29%	18%	99
2014	643	223	35%	53%	48	420	65%	27%	105
2020	535	274	51%	54%	67*	261	49%	31%	115*

*There are 17 relief associations with the audit requirement and 42 without the requirement that have not yet filed their 2020 reports.

For comparison purposes, audit requirements for Minnesota cities and towns is summarized below.

Cities - A city with a population over 2,500 must have an annual audit performed.

Cities with Combined Clerk/Treasurers - A city with a population of 2,500 or less and a combined clerk/treasurer must have an annual audit for 2020 if its annual revenue is more than \$233,000. A city with a combined clerk/treasurer and annual revenue of \$233,000 or less must have an Agreed-Upon Procedures engagement once every five years.

Towns - A town with a population over 2,500 and 2020 annual revenue of \$1,040,000 or more must have an annual audit.

Towns with Combined Clerk/Treasurers - A town with a combined clerk/treasurer must have an annual audit for 2020 if its annual revenue was more than \$233,000. A town with a combined clerk/treasurer and annual revenue of \$233,000 or less must have an Agreed-Upon Procedures engagement once every five years.

Options:

1. Make no change.
2. Increase the threshold on a going-forward basis so that the \$500,000 amount is adjusted each year, based on inflation.
3. Increase the threshold to the current inflation-adjusted value, with adjustments for inflation made each year going forward.
4. Make a change so that audits are required if certain risk factors exist (e.g., fundraising activities, non-SBI expanded list investments, etc.) rather than if an assets/liability threshold is met.
5. Others?



Exhibit D

Maximum Benefit Levels

Topic:

Statute requires relief associations with defined-benefit plans (lump-sum, monthly, and monthly/lump-sum combination plans) to calculate annually the maximum allowable benefit level. The Office of the State Auditor (OSA) provides relief associations with a form called the Maximum Benefit Worksheet (MBW) for performing the calculation.

The calculation is an average of a relief association's non-investment primary revenue sources for the prior three years on a per-member basis. The primary revenue sources included in the calculation are the amounts of state aid and municipal contributions received, and ten percent of the relief association's surplus.

If a relief association pays a service pension using a benefit level that exceeds the maximum allowable benefit level, statute requires that penalties be imposed. The penalties are disqualification from receiving fire state aid and a requirement that the relief association treasurer recover the amount of the overpaid service pension from any retired firefighter who received an overpayment. In 2015, a Working Group change provided the OSA with discretion when a good faith error occurs to exempt a relief association from the penalty.

Issue:

Relief associations have questioned the appropriateness of the calculation used to determine the maximum allowable benefit level. In years when investment markets are performing poorly and a relief association has a deficit, the relief association may receive large required contributions from the municipality. These large municipal contributions increase the maximum allowable benefit level. Conversely, a relief association with a surplus may not be authorized to increase its benefit level, even though sufficient funds are available, because the association is limited by the calculated maximum.

In recent years, following the creation of the supplemental state aid program and strong market returns, the OSA has seen an increase in the number of relief associations with large surpluses that are unable to increase their benefit levels because they are operating at their statutory maximums.

At the last meeting, there was a request that for a sample of relief associations a comparison be made of current benefit levels and benefit levels that could be set while keeping a funding ratio of 110% (see Option #5 below). The chart below provides the requested information for several relief associations with varying asset and membership sizes.

2020 Benefit Level Comparison		
Relief Association	Current Benefit Level	Benefit Level at 110% Funded
A	\$ 750	\$ 790
B	\$ 1,450	\$ 2,330
C	\$ 7,500	\$ 11,300
D	\$ 8,624	\$ 15,000
E	\$ 2,800	\$ 4,700
F	\$ 650	\$ 875

Options:

1. Leave the calculation as it is, and work to provide additional education to relief associations and municipalities.
2. Change the calculation so that municipal contributions are not included, or perhaps just voluntary contributions.
3. Eliminate the flexible service pension maximums, and go back to one maximum lump sum benefit level and one maximum monthly benefit level.
4. Eliminate the flexible service pension maximums for relief associations that obtain municipal ratification of their benefit levels, but leave the requirement for relief associations that increase their benefit levels without obtaining ratification.
5. Eliminate the flexible service pension maximums and allow relief associations to increase their benefit levels, so long as the funding ratio after the benefit level change remains at or above 110%. Provide an exception for relief associations with funding ratios below that threshold, if the municipality ratifies the benefit level change.
6. Others?

Considerations:

At the last meeting, the Working Group was leaning toward Option #5 above. The following are some questions for the Working Group to consider, that would need to be resolved to draft a legislative change.

1. Is the 110% based on the Schedule Form (lump-sum plans)/actuarial valuation (monthly plans), or based on the actual year-end funded ratio?

- a. Note that the Schedule Form is not due to the OSA until the year after it's due to the municipality. (The 2021 Schedule Form is due to the OSA in 2022.)
 - b. What happens if a benefit level is increased but the Schedule Form hasn't been completed yet, or been filed with the OSA yet?
 - c. What happens if a benefit level increase results in the funding ratio to fall below 110% after the auditor or the OSA has reviewed and made revisions to the form?
 - d. What happens if the funding ratio is above 110% in the year of the benefit level change, but falls below 110% in a subsequent year?
2. Is municipal ratification required for the benefit level change, or only required if needed based on current statutory requirements (i.e., the "90% rule")?
 3. If municipal ratification of a benefit level permits increases regardless of the funding ratio, then should limits on increases pertain just to those relief associations that increase their benefit levels without ratification?
 - a. This would reduce administrative issues related to the 110% funding ratio measurement.
 - b. A limit already exists for those that increase their benefit level without municipal ratification: the increase in accrued liabilities due to the benefit level change cannot exceed 90% of the prior-year surplus, and the benefit level cannot result in a contribution requirement from the municipality.
 4. A variation of Option #5 was proposed, which would allow relief associations to increase their benefit levels so long as their funding ratio remains above 105% on a three-year rolling average.
 - a. Same questions apply about when and how to measure the 105%.

Relief Association Municipal Contribution Information

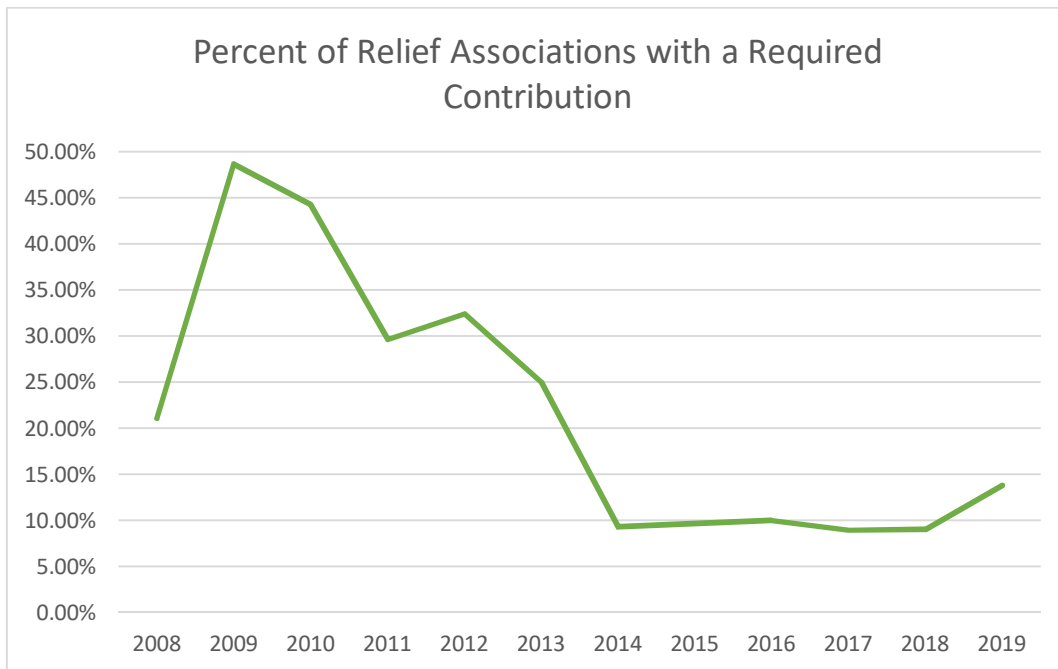
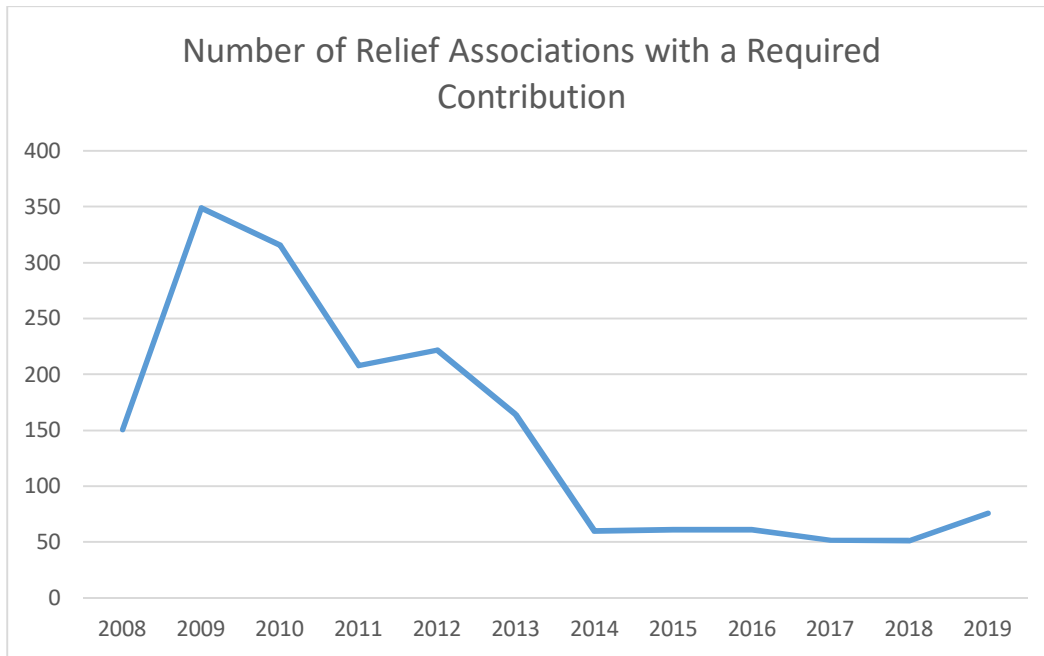




Exhibit E

Distributions to Former Spouses

Topic:

Questions have arisen about when distributions can be made to former spouses following the divorce of a relief association member. The statutes specific to relief associations do not address the division of marital property. There are statutes that apply generally to the division of marital property, and address when payment of a defined benefit public pension plan benefit may commence. For these plans, payment may occur after the plan member submits a valid application for the pension and the benefit becomes payable. Defined contribution plans may have the ability to make distributions to the former spouse before the member becomes eligible and applies for his or her distribution.

Options:

1. Make no change.
2. Make a change (if federal law would permit) so that defined contribution plans could pay the former spouse as soon as practicable following finalization of the divorce.
3. Make a change (if federal law would permit) so that all plans could pay the former spouse as soon as practicable following finalization of the divorce.
4. Others?