

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director

RE: S.F. 1431 (Wiger); H.F. 1608 (Slawik): Maplewood and Oakdale Volunteer Firefighter Relief Associations; Liability and Asset Transfer for Six Firefighters

DATE: March 29, 2005

Summary of S.F. 1431 (Wiger); H.F. 1608 (Slawik)

S.F. 1431 (Wiger); H.F. 1608 (Slawik) authorizes the Maplewood Volunteer Firefighter Relief Association to transfer to the Oakdale Volunteer Firefighter Relief Association service credit, pension liabilities, and assets for six firefighters who are members of the Oakdale Volunteer Firefighter Relief Association and have prior service and combined service pension eligibility in the Maplewood Volunteer Firefighter Relief Association, with the transfer based on an agreement between the two relief associations and the two applicable cities. The legislation would be subject to local approval by both Maplewood and Oakdale.

Background Information on the Maplewood Volunteer Firefighter Relief Association and the Oakdale Volunteer Firefighter Relief Association

- a. Maplewood Fire Department and Maplewood Volunteer Firefighter Relief Association. The City of Maplewood was initially settled in 1850, with the southern portion of current Maplewood organized as McLean Township sometime after 1852 and with the northern portion of current Maplewood organized as New Canada Township in 1858. The village of Gladstone developed at the junction of the Lake Superior and Mississippi Railroad and the St. Paul and Duluth Railroad in 1886, but the village did not grow after 1917, when the major employers in town ceased operation, until the post-World War II housing boom. After Little Canada broke off from New Canada Township and incorporated in 1953, the township became the village of Maplewood in 1957, centered in the former village of Gladstone. In the early 1970s, Maplewood incorporated as a city.

The predecessor to the current Maplewood Fire Department began in 1908. The Maplewood Fire Department is an aggregation of three prior independent nonprofit firefighting corporations, the East County Line Fire Department, the Gladstone Fire Department, and the Parkside Fire Department. The fire department converted from three independent nonprofit firefighting corporations to a municipal fire department. The fire department has 20 full-time firefighters and 102 paid on-call firefighters. The 20 full-time firefighters consist of the fire chief, two fire crews of nine firefighter/EMTs or firefighter/paramedics, and a part-time Fire Marshal and Building Inspector. The fire department has five fire stations and covers approximately 18 square miles. The fire department responds to approximately 2,900 service calls annually.

The Maplewood Volunteer Firefighter Relief Association pays a \$3,600 per year of service credit lump sum service pension (2002), and its financial condition for the most recent three years for which data is available is as follows:

<u>Maplewood Volunteer Firefighter Relief Association</u>		2000	2001	2002
Membership:	Actives	109	100	102
	Retirees	9	4	0
	Deferred Members	36	38	36
	Inactive Members	9	9	7
Funding:	Actuarial Liability	\$3,853,452	\$4,182,513	\$4,584,950
	Assets	<u>\$4,046,733</u>	<u>\$3,676,952</u>	<u>\$3,224,676</u>
	Unfunded Actuarial Liability	(\$193,281)	\$505,561	\$1,360,274
	Funded Ratio	105.01%	87.91%	70.33%
Financial Requirements:	Normal Cost	\$340,167	\$361,588	\$377,707
	Administrative Expense	\$16,108	\$16,235	\$14,853
	Amortization	\$0	\$0	\$126,030
Resources	Fire State Aid	\$122,682	\$128,454	\$145,662
	Municipal Contribution	\$9,810	\$0	\$41,874

- b. Oakdale Fire Department and Oakdale Volunteer Firefighter Relief Association. The City of Oakdale initially was a township, formed in 1858. The township lost portions of its territory, with the creation of Lake Elmo in 1926, the creation of East Oakdale in 1951, the creation of Landfall in 1959, and the creation of Northdale in 1959. In 1968, Northdale, a portion of East Oakdale, and the remainder of Oakdale Township incorporated as Oakdale and became a city in 1974.

The Oakdale Fire Department, as the Northdale Fire Department, initially was established in 1964. It became the Oakdale Fire Department in 1969. From 1964 to 1997, the Oakdale Fire Department covered the north half of the city, while the East County Line Fire Department (now Maplewood Fire Department) covered the south half of the city. In 1997, the Oakdale Fire Department assumed responsibility for fire, ambulance and rescue services for the south half of the city, causing the fire call volume to triple. The Oakdale Fire Department also serves the City of Pine Springs. The Oakdale Fire Department has four full-time employees, two firefighters (one a fire marshal and deputy chief), a firefighter/paramedic, and a firefighter/EMT, and has 45 on call firefighters. The fire department has two fire stations, covers 10.9 square miles, and responds to 1,400 service calls annually.

The Oakdale Volunteer Firefighter Relief Association pays a \$3,500 per year of service credit lump sum service pension (2002), and its financial condition for the most recent three years for which data is available is as follows:

<u>Oakdale Volunteer Firefighter Relief Association</u>		2000	2001	2002
Membership:	Actives	50	48	45
	Retirees	1	1	0
	Deferred Members	5	7	8
	Inactive Members	0	3	3
Funding:	Actuarial Liability	\$1,034,682	\$1,070,807	\$1,243,054
	Assets	<u>\$1,160,303</u>	<u>\$1,035,152</u>	<u>\$1,011,508</u>
	Unfunded Actuarial Liability	(\$125,621)	\$35,655	\$231,546
	Funded Ratio	112.14%	96.67%	81.37%
Financial Requirements:	Normal Cost	\$123,954	\$144,119	\$156,012
	Administrative Expense	\$13,673	\$14,074	\$16,023
	Amortization	\$0	\$0	\$9,198
Resources	Fire State Aid	\$72,783	\$86,803	\$99,889
	Municipal Contribution	\$0	\$0	\$26,629

Background Information on the Volunteer Firefighter Relief Association Combined Service Pension

The Principles of Pension Policy of the Commission provide that, to the extent feasible, portability should be extended as broadly as possible. In defined contribution plans, portability is a function of the accumulated contributions and accumulated investment returns, which are fungible and transferable. In defined benefit plans, where service credit is not fungible, portability is more difficult to engineer, but there are two available options, the consolidation of the public pension plans into a single pension plan or the addition of portability mechanisms that allow for a recognition of total service credit and total career compensation in calculating the pension benefits in the various plans providing pension coverage.

The volunteer firefighter relief association combined service pension provision of Minnesota Statutes, Section 424A.02, Subdivision 13, is the portability mechanism that is available to volunteer firefighter relief associations if they elect to use it. Under the volunteer firefighter relief association combined service pension provision, if the volunteer firefighter relief association elects to do so, the relief association can recognize total service rendered for any other participating volunteer firefighter relief association in meeting its vesting requirement and can pay a prorated service pension based on the accrued service rendered in that relief association.

Under Minnesota Statutes, Section 424A.02, Subdivision 13, the portability mechanism must be implemented by both affected volunteer firefighter relief associations by an amendment to its articles of incorporation or bylaws. If only one volunteer firefighter relief association attempts to implement the provision, the portability mechanism is not available to any firefighters who moved from one fire department to another. Although there are no available reliable statistics on its utilization, apparently few or no volunteer firefighter relief associations have utilized the provision.

Also under Minnesota Statutes, Section 424A.02, Subdivision 13, to utilize the portability mechanism, the firefighter must resume firefighter service with the successor volunteer fire department and become a member of the successor volunteer firefighter relief association and give notice of the prior volunteer firefighter relief association service credit within two years of leaving the prior volunteer firefighter relief association. The notice deadline requires the individual firefighter to act within a reasonable time, and the time frame is not too long and does not put an administrative burden on the relief association, since the secretaries of the volunteer firefighter relief associations ought to be able to keep someone's records on file for two years.

Additionally, the mechanism obligates each volunteer firefighter relief association only to pay a prorated portion of the service pension amount in effect when the firefighting services terminated. This requirement is consistent with the funding practices and requirements of volunteer firefighter relief associations, where the cost of adding the mechanism is limited to a reduction in the turnover gain that would otherwise accrue to the volunteer firefighter relief association. The total benefit of a volunteer firefighter who has service with two or more volunteer firefighter relief associations that utilize the volunteer firefighter relief association portability mechanism will likely be less than the benefit would be if the firefighting service had been covered by one relief association, because the benefit would always be limited to a prorated amount, no matter how long the eventual service lasts. Also, the volunteer firefighter relief association portability mechanism requires at least one year of firefighting service in each relief association involved and a total of ten years of service or five years of service cumulatively, depending on the vesting requirement of the volunteer firefighter relief associations, to qualify for a combined service pension. The minimum period may be too short, since a firefighter may be required to simply serve the probationary period on the department in order to gain combined service pension eligibility.

Discussion and Analysis of S.F. 1431 (Wiger); H.F. 1608 (Slawik)

S.F. 1431 (Wiger); H.F. 1608 (Slawik) authorizes the Maplewood Volunteer Firefighter Relief Association, the City of Maplewood, the Oakdale Volunteer Firefighter Relief Association, and the City of Oakdale to enter into an agreement to provide service pension portability to six former Maplewood/ current Oakdale firefighters by transferring the appropriate service credit, pension liabilities, and pension assets from the Maplewood Volunteer Firefighter Relief Association to the Oakdale Volunteer Firefighter Relief Association.

The proposed legislation raises several pension and related public policy issues that may be appropriate for Commission consideration and discussion, as follows:

1. Appropriateness of Service Credit, Liability and Asset Transfer Rather than the Combined Service Pension Provision. The policy issue is the appropriateness of utilizing a transfer of service credit, the liability, and assets for the affected volunteer firefighters rather than the Combined Service Pension provision of Minnesota Statutes, Section 424A.02, Subdivision 13. The most difficult way to provide pension portability is by transferring service credit, liabilities, and applicable asset amounts, although the transfer process may be the only way to provide the full beneficial impact of multiple service in a system as fragmented and varied as the Minnesota volunteer firefighter relief association system. Representatives of the Maplewood Volunteer Firefighter Relief Association and of the Oakdale Volunteer Firefighter Relief Association should be requested to provide testimony on whether or not they each have implemented the current volunteer fire combined service pension portability mechanism and why the portability mechanism is an inappropriate solution.
2. Appropriateness of the Complexity of Requiring Relief Association and Municipal Portability Agreements. The policy issue is the appropriateness of the complexity involved in this attempt to provide portability by requiring negotiations between and agreements by the two volunteer firefighter relief associations and the two municipalities. Four-way negotiations are always fraught with practical difficulties. The proposed legislation also is unclear as to who at the volunteer firefighter relief association or municipal level is to undertake the negotiations, simply specifying "relief associations" or "cities." The proposed legislation could avoid this problem by restructuring the manner in which the negotiation and agreement process is conducted. Amendment LCPR05-145 provides an alternative negotiation and agreement process, requiring the secretaries of the two volunteer firefighter relief associations to initially negotiate a single transfer agreement document, which would be submitted for ratification by the two city councils if approved by the boards of the two volunteer firefighter relief associations. The amendment also would require any agreement to also be filed with the State Auditor and the Secretary of State, the state officials with responsibilities with respect to volunteer firefighter relief associations.

3. Adequacy of the Definition of the Affected Six Volunteer Firefighters. The policy issue is the adequacy of the definition in the proposed legislation of the six volunteer firefighters who would be eligible to have liabilities, assets, and service credit transferred from the Maplewood Volunteer Firefighter Relief Association to the Oakdale Volunteer Firefighter Relief Association. Under the current proposed legislation, there is no requirement for the agreement or agreements between the City of Maplewood, the City of Oakdale, the Maplewood Volunteer Firefighter Relief Association, and the Oakdale Volunteer Firefighter Relief Association to name the affected volunteer firefighters or to describe the class of affected volunteer firefighters with specificity, leaving the potential special law minimal definition as the only specification of the six firefighters. The potential special law should either define the six firefighters with specificity or require the transfer agreement to contain that specificity. Amendment LCPR05-188 requires that the transfer agreement either name the affected firefighters or identify them by an appropriate alternative means
4. Extent of Support by the Cities of Maplewood and Oakdale. The policy issue is the extent of support for the proposed legislation by the City of Maplewood and the City of Oakdale. It is not a good practice for the Commission or the Legislature to spend valuable legislative time considering potential local legislation that lacks support by the applicable locality or localities. The Commission should consider demanding some official expression of support from the Maplewood and Oakdale city councils before taking up or recommending this proposed local legislation.

Clarification Amendments

Amendment LCPR05-144, drafted by the Commission staff, attempts to clarify the proposed legislation and its language usage and style in a manner consistent with its apparent intent. The amendment makes the grant of transfer authority contingent on the relief associations and cities reaching the transfer agreement and adds a local approval provision with the correct statutory reference and in the current legislative style.

Amendment LCPR05-187 corrects the name of the Oakdale fire pension plan, from the “Oakdale Firefighters Relief Association” to the “Oakdale Fire Department Relief Association,” its correct corporate name. The amendment also removes the specific references to “six firefighters,” leaving it somewhat more fluid because the actual number of firefighters involved in the liability, service credit, and asset transfer may not be six.