

S.F. 259

(Betzold)

H.F. 1706

(Smith)

Executive Summary of Commission Staff Materials

<i>Affected Pension Plan(s):</i>	Volunteer Firefighter Relief Associations
<i>Relevant Provisions of Law:</i>	Minnesota Statutes, Chapter 424A
<i>General Nature of Proposal:</i>	Implementation Legislation of the Recommendations of the State Auditor's Volunteer Fire Working Group
<i>Date of Summary:</i>	March 30, 2005

Specific Proposed Changes

- Refines the trigger for the required filing of financial reports by volunteer firefighter relief associations (VFRAs);
- Specifically enumerates the reporting, funding and investment requirements for compliance determination by the State Auditor;
- Requires the amortization of experience losses in volunteer firefighter relief associations;
- Requires disclosure of relief association financial requirements and minimum obligation in relief association financial reporting and authorizes the State Auditor to obtain 1971 Guidelines Act funding certifications upon the determination of insufficient funding;
- Clarification of deduction of reasonably anticipated fire state aid;
- Relaxes the 75 percent maximum on volunteer firefighter relief association mutual fund investments;
- Clarifies the corporate stock and exchange-traded funds as authorized VFRA investments;
- Average financial support per firefighter required for monthly benefit VFRAs service pension maximum adjusted;
- Accommodates defined contribution VFRAs deferred service pension investment return crediting procedure;
- Revises defined benefit VFRA fixed rate deferred service pension interest crediting option;
- Requires volunteer firefighter relief association service credit for military service break-in-service; and
- Revises the municipal representation on volunteer firefighter relief association boards of trustees.

Policy Issues Raised by the Proposed Legislation

1. Financing reporting trigger (Sections 1 and 2).
 - Appropriate liability or asset breakpoint for requiring annual financial reports and audits.
 - Impact of reporting requirements on the reviews by the Office of the State Auditor for fire state aid qualifications.
 - Appropriateness of pursuing a collective approach for improved volunteer firefighter relief association financial reporting.
2. Collected enumeration of fire state aid eligibility requirements (Section 3).
 - Appropriateness of specifically enumerating fire state aid qualification requirements.
 - Appropriateness of evaluating monthly benefit volunteer firefighter relief association funding in gross.
3. Appropriateness of requiring the filing of 1971 volunteer firefighter relief association Financing Guidelines Act certification upon insufficient funding (Sections 5 and 7).
4. Lump sum volunteer firefighter relief association experience loss amortization requirements (Sections 4 and 6).
 - Appropriateness of clarifying the lump sum volunteer firefighter relief association amortization procedure.
 - Appropriateness of amortizing experience losses.
 - Appropriateness of ten-year amortization period for both lump sum and monthly benefit VFRAs.
 - Appropriateness of setting an annual limit on the lump sum VFRA amortization contribution.
5. Deduction of reasonably anticipated fire state aid amounts.
 - Appropriateness of a statutory requirement of including "reasonably anticipated" fire state aid in VFRA funding determination.
 - Appropriateness of the proposed definition of the maximum amount of reasonably anticipated fire state aid.
6. Volunteer firefighter relief association mutual fund investment maximum.
 - Appropriateness of the 75 percent mutual fund investment limitation.
 - Appropriateness of the exception for money market mutual fund investments.
 - Appropriateness of providing an incentive for money market mutual fund investments beyond liquidity needs.
7. Expanded volunteer firefighter relief association investment security authorization.
 - Appropriateness of the potential corporate stock expansion.
 - Appropriateness of the specific authorization of exchange-traded funds.
 - Need to consider other 2000 State Board of Investment recommended changes.
 - 20 percent limit on closed-end mutual fund shares
 - Venture capital investments
 - Regional and mutual funds
 - Resource investments

- Appropriate extent of volunteer firefighter relief association “other investments.”
 - Appropriateness of a specific prohibition of volunteer firefighter relief association investments in junk bonds.
8. Monthly benefit service pension average financing per firefighter modification.
 - Appropriateness of a reduction in the required funding for monthly service pensions.
 - Appropriateness of encouraging monthly benefit volunteer firefighter relief association benefit increases.
 - Appropriate timing for implementation.
 - Appropriateness of grandparenting the immediately prior service pensions amount as a maximum service pension amount.
 9. Defined contribution volunteer firefighter relief association deferred service pension.
 - Appropriateness of special defined contribution VFRA deferred service pension interest rule.
 - Need for a clarification of the timing of interest return crediting.
 10. Deferred service pension interest.
 - Appropriate role of deferred service pensions and the extent of relief association encouragement of deferrals.
 - Appropriateness of eliminating the flat five percent interest option.
 - Appropriateness of setting deferred service pension interest at a board-established rate.
 - Appropriateness of potentially fluctuating deferred service pension interest rates.
 11. Military service credit.
 - Need to address defined contribution volunteer firefighter relief associations.
 - Proper effective date for provision.
 12. Volunteer firefighter relief association municipal representation.
 - Appropriateness of the shift from ex-officio municipal representation to city council-appointed municipal representation.
 - Appropriateness of one-year terms for municipal representatives on VFRA boards of trustees.
 - Appropriateness of a reduction in the municipal representation for VFRAs associated with nonprofit firefighting corporations.
 - Appropriateness of proposed joint powers entity and township representation on VFRAs.

Potential Amendments

Substantive Amendments:

- Amendment LCPR05-016 requires money market mutual fund investments to those required for liquidity needs.
- Amendment LCPR05-017 adds additional expansion to investment authority based on the 2000 State Board of Investment authority changes.
- Amendment LCPR05-018 prohibits future volunteer firefighter relief association investments in “other” category of investment securities.
- Amendment LCPR05-019 (alternative to LCPR05-018) prohibits future volunteer firefighter relief association investments in “other” category of investment securities except through the Minnesota Supplemental Investment Fund.
- Amendment LCPR05-020 clarifies that the minimum number of unrelated investors on “other investments” are investors other than the State Board of Investment or the Minnesota retirement funds.
- Amendment LCPR05-021 Bans volunteer firefighter relief associations investing in junk bonds.
- Amendment LCPR05-022 (alternative to LCPR05-021) bans junk bond investments for all retirement funds that are not invested by the State Board of Investment.
- Amendment LCPR05-023 disallows volunteer firefighter relief association investments that are not specifically authorized by Minnesota Statutes, Section 356A.06.
- Amendment LCPR05-024 (alternative to LCPR05-023) disallows investments by all non-State Board of Investment-invested retirement funds unless specifically authorized by Minnesota Statutes, Section 356A.06.
- Amendment LCPR05-025 reincorporates pre-1993 language on maximum service pension amount that sets prior service pension rate as grandparented amount.
- Amendment LCPR05-026 adds 50 defined contribution volunteer firefighter relief associations to the new mandatory military leave service credit provision.
- Amendment LCPR05-027 extends the retroactivity of the new mandatory military leave service credit provision.