



H.F. 3715
(Nelson)

S.F. 3325
(Betzold)

Executive Summary of Commission Staff Materials

Affected Pension Plan: Volunteer Firefighter Relief Associations
Relevant Provisions of Law: Minnesota Statutes, Section 424A.02, Subdivision 3
General Nature of Proposal: Increasing uppermost lump sum and monthly benefit volunteer firefighter relief association flexible service pension maximum amounts
Date of Summary: March 6, 2008

Specific Proposed Changes

- Amends Minnesota Statutes, Section 424A.02, Subdivision 3, specifying the flexible service pension maximums for volunteer firefighter relief associations and paying lump sum or monthly benefit service pensions, by increasing the uppermost maximum for lump sum volunteer firefighter relief associations from \$7,500 per year of service credit to \$10,000 per year of service credit and by increasing the uppermost maximum for monthly benefit volunteer firefighter relief associations from \$56 per month per year of service credit to \$100 per month per year of service credit.

Policy Issues Raised by the Proposed Legislation

1. Unclear case established for need for change.
2. Consistency of proposed service pension levels with pension plan policy purpose.
3. Likelihood that flexible service pension maximum increases are prompted by excessive fire state aid.
4. Appropriateness of the dedication of fire state aid to relief association funding.
5. Appropriateness of the timing of the flexible service pension maximum increase.
6. Appropriateness of the magnitude of the proposed increase.
7. Appropriate relationship of volunteer fire pension levels to full-time public employee pension levels.

Potential Amendments

H3715-1A phases in the increase over five years for monthly benefit volunteer firefighter relief associations and over three years for lump sum volunteer firefighter relief associations.



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director *LA Martin*

RE: H.F. 3715 (Nelson); S.F. 3325 (Betzold): VFRAs; Increasing Uppermost Lump Sum and Monthly Benefit Volunteer Firefighter Relief Association Flexible Service Pension Maximum Amounts

DATE: March 5, 2008

General Summary of H.F. 3715 (Nelson); S.F. 3325 (Betzold)

H.F. 3715 (Nelson); S.F. 3325 (Betzold) amends Minnesota Statutes, Section 424A.02, Subdivision 3, specifying the flexible service pension maximums for volunteer firefighter relief associations paying lump sum or monthly benefit service pensions, by increasing the uppermost maximum for lump sum volunteer firefighter relief associations from \$7,500 per year of service credit to \$10,000 per year of service credit and by increasing the uppermost maximum for monthly benefit volunteer firefighter relief associations from \$56 per month per year of service credit to \$100 per month per year of service credit.

Background Information

Background information relevant to the proposed legislation is set forth in the following attachments to this memorandum:

- a. Number, Size, Financial Health and Benefit Practices of Volunteer Firefighter Relief Associations 1974-2005. Background information on the number, size, financial health, and benefit practices of volunteer firefighter relief associations over the period 1974-2005 is contained in **Attachment A**.
- b. Volunteer Firefighter Relief Association Service Pension Eligibility and Flexible Service Pension Maximums. Background information on the statutory regulation of volunteer firefighter relief association service pension eligibility and on the statutory flexible service pension maximums is contained in **Attachment B**.
- c. Volunteer Firefighter Relief Association Funding Requirements. Background information on the statutory provisions governing the funding requirements of volunteer firefighter relief associations is contained in **Attachment C**.

Discussion and Analysis

H.F. 3715 (Nelson); S.F. 3325 (Betzold) amends Minnesota Statutes, Section 424A.02, Subdivision 3, to increase the uppermost flexible service pension maximum for monthly benefit defined benefit volunteer firefighter relief associations by 78.57 percent (from \$1,120 per month with 20 years of service credit to \$2,000 per month with 20 years of service credit) and for lump sum defined benefit volunteer firefighter relief associations by 33.33 percent (from \$150,000 with 20 years of service credit to \$200,000 with 20 years of service credit).

The proposed legislation raises several pension and related public policy issues for Commission consideration and potential discussion, as follows:

1. Unclear Case Established For Need For Change. The policy issue is whether or not a sufficient need has been demonstrated to change current law which limits lump sum volunteer fire service pensions to \$7,500 per year of service, and which limits volunteer fire monthly service pensions to a maximum of \$56 per month per year of service. For an individual with 20 years service, the maximum lump sum pension under current law is \$150,000, and the maximum monthly pension is \$1,120 per month. Under the proposed legislation, the maximum lump sum pension for that same individual would be \$200,000, and the maximum monthly pension would be \$2,000 per month. As a publicly funded program, some policy goal for the volunteer firefighter relief association statutory change should be required of the proponents of this

change. In 2005, the last year for which comprehensive data exists, only 68 volunteer firefighter relief associations pay a lump sum service pension greater than \$1,999 per year of service credit:

VFRAs Paying Lump Sum Service Pension Greater Than \$1,999 Per Year of Service Credit	Amount
19	\$2,000-\$2,499
16	\$2,500-\$2,999
8	\$3,000-\$3,499
7	\$3,500-\$3,999
7	\$4,000-\$4,999
7	\$5,000-\$5,999
3	\$6,000-\$6,999
1	over \$7,000

The volunteer firefighter relief association paying the largest lump sum service pension, the Shakopee Volunteer Firefighter Relief Association, is at the current uppermost maximum.

Only 24 volunteer firefighter relief associations (five exclusively and 19 in combination) currently pay monthly service pensions. The most recent compilation of volunteer firefighter relief association data does not provide complete information on the monthly benefit amounts payable, so the distribution of the number of relief associations at the upper end of the current flexible service pension maximums is not readily available.

2. Consistency of Proposed Service Pension Levels with Pension Plan Policy Purpose. The policy issue is the consistency of the proposed service pension levels with the purpose for establishing and operating volunteer firefighter relief associations. Volunteer firefighter service pensions exist to assist municipal fire departments in the recruitment of sufficient new personnel, the retention of existing trained personnel, and the systematic predictable out-transitioning of personnel at the end of a normal career, the historic public policy purposes for establishing pension programs. It is not clear that any shortage of new volunteer firefighters in Golden Valley (\$6,000 per year of service), Hopkins (\$6,000 per year of service), Northfield (\$6,600 per year of service), and Shakopee (\$7,500 per year of service) is due to an inability of that volunteer firefighter relief association to provide a sufficient service pension 20-30 years after the commencement of active firefighting service. Since most volunteer firefighter relief associations do not currently pay anything near the current uppermost level of service pension, there is plenty of room for volunteer firefighter relief associations within the current law for benefit improvements to meet any actual or alleged need to retain volunteer firefighters. For the volunteer firefighter relief associations at or nearing the uppermost flexible service pension maximum, they already have a competitive advantage over all neighboring jurisdictions in recruiting new volunteers at their current service pension levels and, being without current competition, would have no more advantage with an increase. An increase in the uppermost service pension amounts also may impede the outtransitioning function, since more veteran volunteer firefighters may elect to continue their active service longer in hopes of obtaining greater and greater levels of service pensions from benefit improvements yet to come.

3. Likelihood that Flexible Service Pension Maximum Increases Are Prompted by Sizable Fire State Aid. The policy issue is the appropriateness of the proposed increases in the uppermost flexible service pension maximum amounts if the pressure to increase them is a function of disproportionately large fire state aid amounts. While the average amount of fire state aid per active firefighter in 2005 was \$1,390.10, the relief associations providing the largest service pension amounts receive considerably more than the average:

- Golden Valley, 2005 fire state aid per active firefighter average of \$3,480.42
- Hopkins, 2005 per active firefighter average of \$2,725.43
- Northfield, 2005 per active firefighter average of \$4,650.45
- Shakopee, 2005 per active firefighter average of \$3,667.06

If the comparative generosity of the fire state aid program is responsible in whole or in part for generating pressure to increase the uppermost flexible service pension maximums, rather than any demonstrated inability to recruit or retain firefighters, perhaps some measures to moderate the upper end of fire state aid distributions and increase the overall fire state aid per active member averages would be an appropriate refinement of the fire state aid program. The State Auditor, who has

sponsored a working group dealing with volunteer firefighter issues in recent years, could be requested to address the topic through that working group over the 2008-2009 Interim.

4. Appropriateness of the Dedication of Fire State Aid to Relief Association Funding. The policy issue is the appropriateness of the current practice, initiated in 1943, of dedicating the entirety of fire state aid to volunteer firefighter relief association funding. Fire state aid is a dedicated tax on fire and related insurance premiums. The total premium tax amount raised is then allocated based one-half on relative population and one-half on relative property wealth compared to state-wide totals. The volunteer fire relief associations that would benefit from the proposed legislation are those that have both large populations and very significant property wealth in their service areas. The high fire state aid to these areas is resulting in financing per firefighter that is potentially in excess of that needed to support the highest permissible benefits allowed under current law. This effect was heightened by the 1995 changes in the fire aid law which increased the total amount to be allocated. Permissible volunteer fire pensions are a function in significant part by the dedicated distribution of the dedicated tax. At some point the Commission and the Legislature may wish to consider whether pensions are the most important thing on which state revenue could be expended, rather than fire department equipment or individual firefighter equipment. Similar to the suggestion in Issue #3, the topic could be forwarded to the State Auditor's Volunteer Firefighter Working Group for their input.
5. Appropriateness of the Timing of the Flexible Service Pension Maximum Increase. The policy issue is the appropriateness of increasing the monthly benefit and lump sum flexible service pension maximum uppermost amounts at this time, less than a decade after the last increase was approved. The last increase in the lump sum flexible service pension maximum uppermost amount occurred in 2000 when increases were implemented in phases. The last increase in the monthly benefit flexible service pension maximum uppermost amount also occurred in 2000 and also was phased in. With only four volunteer firefighter relief associations at or anywhere near the current lump sum maximum and with the uppermost flexible service pension maximum amount increase occurring twice in the last 17 years, this proposed increase is arguably premature. If not premature, the increases may be more appropriate if phased in.

Amendment H3715-1A implements a three-year phase in for the smaller lump sum maximum increase and a five-year phase in for the greater monthly benefit maximum increase.

6. Appropriateness of the Magnitude of the Proposed Increase. The policy issue is the appropriateness of the magnitude of the increase proposed in the flexible service pension maximum uppermost amounts. The proposed legislation would increase this uppermost amount almost 80 percent for the monthly benefit volunteer firefighter relief associations and by 33.3 percent for the lump sum volunteer firefighter relief associations. Inflation for the 30 month period since January 2004, the end of the phase-in of the 2000 increase, the most recent increase in both uppermost amounts, has been 13.97 percent compared to the proposed 78.57 and 33.33 percent increase in the uppermost service pension amounts.
7. Appropriate Relationship of Volunteer Fire Pension Levels to Full-Time Public Employee Pension Levels. The policy issue is the appropriate relationship between the service pensions payable to volunteer firefighters for emergency or on call duty and those payable to full-time public employees. There clearly is, and should be, a hierarchy in the amount of public pension coverage provided to employees, with public safety employees differentiated from general employees, with public employees without Social Security coverage differentiated from those with Social Security coverage, and with full-time public employees differentiated from part-time or on-call employees. While the desired ratio between volunteer fire service pensions and the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) or Public Employees Police and Fire Plan (PERA-P&F) retirement annuities is unclear, there undoubtedly is a relationship which, if out of proportion, will cause pressure to increase PERA-General or PERA-P&F benefits. This in turn would lead to pressure to increase benefits in other full-time paid public employee plans. The volunteer fire pension is a pension for volunteer or emergency on-call work. Presumably the individual has other sources of retirement income, including a pension from other full-time paid employment. The pension to a PERA-General or PERA-P&F member represents the pension from the individual's primary, full-time paid employment.

Attachment A

Background Information on the Number, Size, Financial Health, and Benefit Practices of Volunteer Firefighter Relief Associations 1974-2005

The following presents aggregate information on volunteer firefighter relief associations as assembled by the staff of the Legislative Commission on Pensions and Retirement (1974 and 1977) from fire state aid qualification information filed with the Insurance Department and filed with the Office of the State Auditor (1980 through 2005):

	Number of Plans																								
	1974	1977	1980	1982	1984	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<u>Lump Sum</u>																									
Under \$50/yr	134	110	72	28	23	11	12	8	10	10	9	13	12	10	10	8	7	--	--	--	--	--	--	--	--
\$50-\$100/yr	122	116	79	68	60	39	33	28	25	23	19	17	16	16	13	13	10	13	13	10	6	7	4	5	5
\$100-\$200/yr	122	118	131	133	132	99	88	85	62	50	55	60	59	55	49	39	45	36	26	20	19	16	14	11	10
\$200-\$300/yr	5	45	81	83	88	115	123	108	114	108	99	84	79	78	74	67	61	51	42	35	30	24	24	18	16
\$300+/yr	<u>7</u>	<u>57</u>	<u>124</u>	<u>18</u>	<u>237</u>	<u>277</u>	<u>293</u>	<u>331</u>	<u>355</u>	<u>379</u>	<u>396</u>	<u>419</u>	<u>429</u>	<u>439</u>	<u>453</u>	<u>445</u>	<u>470</u>	<u>492</u>	<u>512</u>	<u>530</u>	<u>539</u>	<u>549</u>	<u>535</u>	<u>535</u>	<u>532</u>
Total Lump Sum	390	446	487	330	540	541	549	560	566	570	578	593	595	598	599	572	593	592	593	595	594	596	577	569	563
<u>Monthly Benefit</u>																									
Under \$2/mo/yr	41	16	3	0	6	8	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Over \$1.99/mo/yr	<u>10</u>	<u>32</u>	<u>26</u>	<u>24</u>	<u>23</u>	<u>22</u>	<u>33</u>	<u>30</u>	<u>28</u>	<u>27</u>	<u>26</u>	<u>29</u>	<u>27</u>	<u>12</u>	<u>10</u>	<u>7</u>	<u>8</u>	<u>7</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
Total Monthly	51	48	29	24	29	30	33	30	28	27	26	29	27	12	10	7	8	7	5	5	5	5	5	5	5
<u>Mo/Lump Sum Comb.</u>																									
Total Combined	--	--	--	--	--	--	--	--	--	--	--	--	2	15	15	16	16	16	23	18	18	18	20	18	19
<u>Defined Contribution</u>																									
Total Def. Contrib.	52	54	45	56	68	66	66	72	68	67	66	72	73	74	76	76	80	84	85	87	88	89	84	87	86
<u>No Benefits</u>																									
Total No Benefits	<u>42</u>	<u>27</u>	<u>33</u>	<u>8</u>	<u>5</u>	<u>7</u>	<u>2</u>	<u>1</u>	<u>2</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total	535	575	594	580	642	641	650	663	664	664	671	694	697	699	700	671	697	699	706	705	705	708	686	679	673

The numbers presented depend on filings by the applicable volunteer firefighter relief associations as part of the fire state aid program and, because there is a cut-off publication date for the reports from the Office of the State Auditor, there is some potential slippage in the information over time. There is a significant trend in volunteer firefighter relief association growing from low benefit amounts to higher benefit amounts over the 32-year period, with 62.61 percent of volunteer firefighter relief associations either under \$200 per year of service lump sum or \$40 per month with 20 years of service monthly annuity in 1977 and with 94.49 percent of lump sum volunteer firefighter relief associations providing a service pension over \$300 per year of service and with 100 percent of monthly benefit volunteer firefighter relief associations

providing a service pension in excess of \$40 per month with 20 years of service in 2005. Over the period 1974-2005, the number of volunteer firefighter relief associations providing lump sum service pensions has been reasonable consistent but there has been a significant drop in the number of volunteer firefighter relief associations providing monthly benefit service pensions, there has been the emergence of volunteer firefighter relief associations providing a combination of monthly benefit and lump sum service pensions, there has been a modest growth in the number of volunteer firefighter relief associations providing "split-the-pie" or defined contribution service pensions, and there has been the apparent elimination of volunteer firefighter relief associations which provide no service pension coverage.

Membership

Members	1974	1977	1980	1982	1984	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Actives																									
Lump Sum	9,052	10,915	10,834	12,523	12,980	12,859	13,179	13,406	13,720	14,112	14,049	13,583	14,051	14,187	14,189	13,655	14,022	13,854	12,612	13,244	13,691	13,767	13,638	13,545	13,406
Monthly	1,549	1,592	745	812	1,092	1,125	1,305	1,252	1,178	1,174	1,200	1,210	1,218	525	464	307	313	324	208	208	206	159	188	197	199
Combination	--	--	--	--	--	--	--	--	--	--	--	--	100	735	726	807	775	746	879	840	790	847	898	824	866
Defined Contrib.	1,042	1,256	401	1,207	1,449	1,345	1,411	1,520	1,460	1,434	1,407	1,594	1,565	1,647	1,721	1,727	1,972	2,033	2,039	2,106	2,182	2,222	2,136	2,201	2,202
No Benefits	820	558	278	114	63	83	35	20	37	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Actives	12,463	14,321	12,258	14,656	15,584	15,412	15,930	16,198	16,395	16,720	16,656	16,387	16,934	17,094	17,100	16,496	17,082	16,957	15,738	16,398	16,869	16,995	16,860	16,767	16,673
Deferreds																									
Lump Sum		139	170	296	381	451	609	520	558	639	718	841	945	1,074	1,222	1,333	1,538	1,640	1,660	1,801	1,948	2,042	2,041	2,021	2,001
Monthly		117	68	32	39	50	61	67	76	92	78	88	100	62	57	45	44	56	34	29	31	19	30	29	24
Combination		--	--	--	--	--	--	--	--	--	--	--	1	64	80	89	79	90	114	157	196	216	243	242	240
Defined Contrib.,		12	3	9	18	29	26	29	36	68	39	122	150	171	188	166	508	266	528	666	722	738	781	775	762
No Benefits		--	8	0	0	0	0	0	0	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Deferreds		268	249	337	438	530	696	616	670	799	835	1,051	1,196	1,371	1,547	1,633	2,169	2,052	2,336	2,653	2,897	3,015	3,095	3,067	3,027
Retirees																									
Lump Sum		--	527	363	410	177	124	177	173	165	214	148	173	187	184	90	76	56	36	316	538	507	515	539	473
Monthly		400	249	302	413	444	547	493	483	472	494	527	566	312	261	198	207	206	153	164	178	149	188	197	208
Combination		--	--	--	--	--	--	--	--	--	--	--	26	271	267	312	349	344	424	413	400	392	439	417	417
Defined Contrib.		--	38	3	20	1	1	18	19	23	23	14	8	6	7	5	5	11	17	62	58	64	67	68	87
No Benefits		--	67	0	0	0	0	0	0	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Retirees		400	881	668	843	622	672	688	675	660	731	689	773	776	719	605	637	617	630	955	1,174	1,112	1,209	1,221	1,185
Total Members																									
Lump Sum		11,054	11,531	13,182	13,771	13,487	13,912	14,103	16,395	14,916	14,981	14,572	15,169	15,448	15,595	15,078	15,636	15,550	14,308	15,361	16,177	16,316	16,194	16,105	15,880
Monthly		2,109	1,062	1,146	1,544	1,619	1,913	1,812	1,737	1,738	1,772	1,825	1,884	899	782	550	564	586	395	401	415	327	406	423	431
Combination		--	--	--	--	--	--	--	--	--	--	--	127	1,070	1,073	1,208	1,203	1,180	1,417	1,410	1,386	1,455	1,580	1,483	1,523
Defined Contrib.		1,268	442	1,219	1,487	1,375	1,438	1,567	1,515	1,525	1,469	1,730	1,723	1,824	1,916	1,898	2,485	2,310	2,584	2,834	2,962	3,024	2,984	3,044	3,051
No Benefits		558	353	114	63	83	0	20	37	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Total Members		14,989	13,388	15,661	16,865	16,564	17,263	17,502	19,684	18,179	18,222	18,127	18,903	19,241	19,366	18,734	19,888	19,626	18,704	20,006	20,940	21,122	21,164	21,055	20,885

Over the period 1977-2005, there has been considerable consistency in the share of the total volunteer firefighter relief association active membership covered by lump sum relief associations (76.22 percent in 1977 as compared to 80.41 percent in 2005), but a huge decline in the share of the total volunteer firefighter relief association active membership covered by a monthly benefit relief association (11.11 percent in 1977 as compared to 1.19 percent without considering combination relief associations or to 6.39 percent with the inclusion of combination relief associations), and a rough doubling the share of the total volunteer firefighter relief association active membership covered by a defined contribution relief association. There has been a huge growth in the number of deferred volunteer firefighter relief association members over the period 1977-2002, especially between 1996-1997, 2000-2001, and 2001-

2002, and with the biggest growth in the number of deferred members in defined contribution volunteer firefighter relief associations. The small number of total deferred volunteer firefighter relief association members in 1977 is consistent with the modest attention shown to deferred volunteer firefighter issues in the 1979 recodification of volunteer firefighter relief association laws (see Laws 1979, Chapter 201), but the growth in the number of deferred volunteer firefighters correlates with the greater recent demands for changes in the regulation of deferred volunteer firefighter relief association service pensions. Because retired members in volunteer firefighter relief association providing lump sum service pensions are generally not tracked beyond the year of retirement, the retired membership and total membership results are not wholly reliable.

Liabilities, Assets, Fire State Aid, and Municipal Contributions

	1977	1980	1982	1984	1986	1987	1988	1989	1990	1991	1992	1993
Accrued Liabilities												
Lump Sum	14,278,898	29,501,934	40,937,006	52,985,939	59,057,471	60,643,988	68,071,179	78,070,344	86,588,461	92,771,460	94,145,127	102,546,702
Monthly	9,041,863	7,547,661	10,621,672	46,490,469	25,044,975	34,347,349	35,320,800	37,432,078	39,749,215	44,543,835	47,327,072	52,161,236
Combination	--	--	--	--	--	--	--	--	--	--	--	2,454,593
Defined Contrib.	<u>1,444,286</u>	<u>1,219,645</u>	<u>2,094,808</u>	<u>4,417,375</u>	<u>5,927,094</u>	<u>6,449,852</u>	<u>8,704,595</u>	<u>9,581,000</u>	<u>10,434,995</u>	<u>11,349,299</u>	<u>16,586,370</u>	<u>18,095,687</u>
Total Accr. Liab.	24,765,047	38,269,240	53,653,486	103,893,783	90,029,540	101,441,189	112,096,574	125,083,422	136,772,671	148,664,594	158,058,569	175,258,218
Assets												
Lump Sum	15,054,337	29,791,110	40,565,620	51,654,774	61,032,069	62,395,065	69,774,320	80,004,613	86,825,688	95,265,007	95,375,295	105,920,681
Monthly	8,211,852	7,250,784	9,900,259	31,055,648	23,220,944	31,624,291	32,759,213	34,603,998	36,463,717	40,225,667	46,002,578	47,765,817
Combination	--	--	--	--	--	--	--	--	--	--	--	2,196,505
Defined Contrib.	<u>1,444,286</u>	<u>1,219,645</u>	<u>2,094,808</u>	<u>4,417,375</u>	<u>5,927,094</u>	<u>6,449,852</u>	<u>8,704,595</u>	<u>9,581,000</u>	<u>10,434,995</u>	<u>11,349,299</u>	<u>16,586,370</u>	<u>18,095,687</u>
Total Assets	24,710,475	38,261,539	52,560,687	87,127,797	90,180,107	100,469,208	111,238,128	124,189,611	133,724,400	146,839,973	157,964,243	173,978,690
Normal Cost												
Lump Sum	1,470,015	498,536	3,926,658	5,212,341	5,058,195	5,273,113	4,994,302	5,964,120	8,224,582	9,004,068	8,965,833	9,921,518
Monthly	463,651	337,988	515,211	1,503,450	934,147	957,484	859,673	755,699	1,355,894	1,575,915	1,600,109	1,625,173
Combination	--	--	--	--	--	--	--	--	--	--	--	120,725
Defined Contrib.	<u>151,019</u>	<u>500</u>	<u>8,769</u>	<u>32,776</u>	<u>504,008</u>	<u>539,181</u>	<u>632,067</u>	<u>616,205</u>	<u>611,359</u>	<u>603,678</u>	<u>919,866</u>	<u>855,696</u>
Total Normal Cost	2,084,685	837,024	4,450,638	6,748,567	6,496,350	6,769,778	6,486,042	7,336,024	10,191,835	11,183,661	11,485,808	12,523,112
Fire State Aid												
Lump Sum	1,419,035	2,912,095	3,690,695	4,047,173	4,512,805	4,552,052	4,733,327	4,881,199	4,805,462	4,929,212	4,739,140	4,242,494
Monthly	602,368	581,600	693,007	1,276,954	1,320,346	1,700,437	1,684,158	1,609,808	1,620,559	1,667,813	1,801,399	1,548,161
Combination	--	--	--	--	--	--	--	--	--	--	--	154,328
Defined Contrib.	<u>143,460</u>	<u>166,375</u>	<u>205,638</u>	<u>334,357</u>	<u>430,992</u>	<u>436,382</u>	<u>550,993</u>	<u>533,395</u>	<u>517,789</u>	<u>504,419</u>	<u>774,684</u>	<u>707,024</u>
Total Fire State Aid	2,164,863	3,660,070	4,589,340	5,658,484	6,264,143	6,688,871	6,968,478	7,024,402	6,943,810	7,101,444	7,315,223	6,652,007
Municipal Contribution												
Lump Sum	357,973	664,700	834,832	1,197,277	1,299,731	1,176,333	1,246,509	1,557,416	1,842,447	1,858,245	2,281,421	2,613,573
Monthly	277,370	164,259	284,988	2,434,045	441,115	751,488	620,926	633,533	739,970	849,286	1,085,807	1,223,934
Combination	--	--	--	--	--	--	--	--	--	--	--	37,957
Defined Contrib.	<u>21,569</u>	<u>11,296</u>	<u>26,879</u>	<u>36,797</u>	<u>73,016</u>	<u>102,799</u>	<u>81,074</u>	<u>82,810</u>	<u>93,570</u>	<u>99,259</u>	<u>145,182</u>	<u>148,672</u>
Total Mun. Contr.	656,912	840,255	1,146,699	3,668,119	1,813,862	2,030,620	1,948,509	2,273,759	2,675,987	2,806,790	3,512,410	4,024,136

Year:	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Accrued Liabilities												
Lump Sum	107,486,014	113,855,616	119,936,745	130,642,738	145,966,781	150,761,568	171,611,378	186,795,976	192,569,597	194,794,196	203,853,989	213,118,264
Monthly	28,830,599	24,678,407	14,839,392	17,085,291	20,340,226	14,338,052	15,008,219	16,915,086	12,923,387	17,273,137	17,553,960	17,955,395
Combination	27,615,459	28,819,704	38,743,123	39,644,188	42,204,240	54,526,028	54,173,717	57,952,711	62,876,598	64,965,158	66,391,848	71,303,719
Defined Contrib.	<u>17,590,749</u>	<u>25,919,681</u>	<u>28,832,841</u>	<u>38,390,049</u>	<u>44,757,368</u>	<u>50,606,325</u>	<u>47,427,772</u>	<u>47,259,294</u>	<u>43,432,178</u>	<u>52,255,072</u>	<u>59,427,576</u>	<u>63,913,404</u>
Total Accr. Liab.	181,522,821	193,273,408	202,352,101	225,762,266	253,268,615	270,231,973	288,221,086	308,923,067	311,801,760	329,287,563	347,227,373	366,290,782
Assets												
Lump Sum	105,073,259	122,226,938	133,172,234	153,037,774	172,113,829	179,343,843	183,279,497	179,424,046	165,317,015	191,684,693	212,747,877	225,090,170
Monthly	27,362,519	22,953,953	13,813,247	16,602,144	20,504,773	14,132,149	13,960,203	13,385,232	9,532,988	14,070,080	15,517,757	16,703,427
Combination	21,609,884	25,008,817	37,619,149	40,851,421	43,579,741	59,072,419	55,443,773	51,172,825	47,442,209	58,629,038	63,251,682	68,547,108
Defined Contrib.	<u>17,590,749</u>	<u>25,919,681</u>	<u>28,832,841</u>	<u>38,390,049</u>	<u>44,757,368</u>	<u>50,606,325</u>	<u>47,427,772</u>	<u>47,259,294</u>	<u>43,432,178</u>	<u>52,255,072</u>	<u>59,427,576</u>	<u>63,913,404</u>
Total Assets	171,636,411	196,109,389	213,437,471	248,881,388	280,955,711	303,154,736	300,111,245	291,241,397	265,724,390	316,638,883	350,944,892	374,254,109
Normal Cost												
Lump Sum	10,211,254	10,869,651	11,214,171	12,219,929	13,311,487	13,514,162	15,189,092	16,483,865	16,892,504	17,049,848	17,789,289	18,575,701
Monthly	875,806	686,563	346,433	358,792	470,770	284,860	312,019	340,067	261,434	306,217	328,271	363,133
Combination	939,552	981,755	1,322,315	1,269,951	1,307,322	1,515,019	1,662,901	1,674,601	1,844,560	1,949,341	1,868,049	1,966,756
Defined Contrib.	<u>928,280</u>	<u>1,411,551</u>	<u>2,098,195</u>	<u>2,684,271</u>	<u>2,553,138</u>	<u>2,640,890</u>	<u>2,753,206</u>	<u>3,004,038</u>	<u>3,288,331</u>	<u>3,759,743</u>	<u>4,644,018</u>	<u>4,655,090</u>
Total Normal Cost	12,954,892	13,949,520	14,981,114	16,532,943	17,642,717	17,954,931	19,917,218	21,502,571	22,286,829	23,065,149	24,629,627	25,560,680
Fire State Aid												
Lump Sum	4,950,397	5,211,582	8,060,595	7,140,394	7,731,336	7,391,107	7,937,916	8,644,841	9,378,276	11,297,078	14,484,884	14,064,593
Monthly	858,681	689,483	512,496	554,859	643,057	379,802	395,685	426,640	418,469	611,511	800,985	756,976
Combination	934,346	995,205	1,486,949	1,434,117	1,386,971	1,765,592	1,753,859	1,789,869	2,148,174	2,656,437	3,370,816	3,260,210
Defined Contrib.	<u>782,147</u>	<u>1,172,687</u>	<u>1,536,620</u>	<u>1,855,313</u>	<u>2,038,308</u>	<u>2,091,608</u>	<u>2,212,814</u>	<u>2,385,099</u>	<u>2,639,147</u>	<u>3,206,483</u>	<u>4,111,912</u>	<u>3,993,034</u>
Total Fire State Aid	7,525,571	8,068,957	11,596,660	10,984,683	11,799,672	11,628,109	12,300,274	13,246,449	14,584,066	17,771,509	22,768,597	22,074,813
Municipal Contribution												
Lump Sum	2,691,177	2,803,095	3,276,302	2,680,940	2,442,795	2,360,961	2,375,285	2,732,044	4,202,331	4,806,194	5,562,093	4,140,141
Monthly	613,418	724,911	341,465	305,466	353,220	273,287	279,476	309,149	176,255	307,461	386,110	511,574
Combination	680,895	870,130	1,029,153	1,010,042	1,029,535	1,113,773	1,069,335	1,106,226	1,351,792	1,553,591	1,331,760	1,239,171
Defined Contrib.	<u>146,133</u>	<u>238,864</u>	<u>561,575</u>	<u>828,958</u>	<u>514,830</u>	<u>549,282</u>	<u>540,392</u>	<u>618,939</u>	<u>649,184</u>	<u>553,260</u>	<u>532,106</u>	<u>662,056</u>
Total Mun. Contr.	4,131,623	4,637,000	5,208,495	4,825,406	4,340,380	4,297,303	4,264,488	4,766,358	6,379,562	7,220,506	7,812,069	6,552,942

Over the period 1977-2005, there has been a significant increase in volunteer firefighter relief association accrued liabilities, with a 9.6 percent annual compound increase rate for lump sum volunteer firefighter relief associations, an 8.2 percent annual compound increase rate for monthly benefit/combination volunteer firefighter relief associations, and a 16.00 percent annual compound increase rate for defined contribution volunteer firefighter relief associations. For defined contribution volunteer firefighter relief associations, the relief association accrued liability is, by definition, equal to the relief association assets.

There has been a general growth in volunteer firefighter relief association assets over the period 1977-2005, until 2000-2001, when there was a general decline in the size of volunteer firefighter relief association assets, with a rebound after 2002.

There also has been a significant increase in the normal cost of volunteer firefighter relief associations, especially in lump sum volunteer firefighter relief associations. For defined contribution volunteer firefighter relief associations, the normal cost figure is the sum of the relief association's fire state aid and municipal contributions.

Fire state aid for volunteer firefighter relief associations has grown considerably over the period 1977-2005, at an 8.2 percent annual compound increase rate. However, the fire state aid pays a smaller portion of the normal cost of volunteer firefighter relief association in 2005 than it did in 1977.

The average amount of fire state aid per active member in 2005 was \$1,323.99, with:

- monthly benefit volunteer firefighter relief associations receiving an average of \$3,803.90 in fire state aid per active member in 2005;
- combination volunteer firefighter relief associations having an average of \$3,764.68 in fire state aid per active member in 2005;
- lump sum volunteer firefighter relief associations receiving an average of \$1,049.13 in fire state aid per active member in 2005; and
- defined contribution volunteer firefighter relief associations receiving an average of \$1,813.37 in fire state aid per active member in 2005.

The average per active member fire state aid amounts in 1977 were \$378.37 for monthly benefit volunteer firefighter relief associations, \$130.01 for lump sum volunteer firefighter relief associations, and \$114.22 for defined contribution volunteer firefighter relief associations.

Although total municipal contributions to volunteer firefighter relief associations also grew at an 8.2 percent annual compound increase rate over the period 1977-2005, the portion of the volunteer firefighter relief association normal cost paid by the municipal contribution has dropped from 31.5 percent of the normal cost in 1977 to 25.6 percent of normal cost in 2005.

The average amount of municipal contribution per active firefighter in 2005 varies, following essentially the same pattern as with the average amount of fire state aid, with combination volunteer firefighter relief associations receiving an average of \$1,430.91 in municipal contributions, with:

- monthly benefit volunteer firefighter relief associations receiving an average of \$2,570.72 in municipal contributions;
- combination volunteer firefighter relief associations receiving an average of \$1,430.91 in municipal contributions;
- lump sum volunteer firefighter relief associations receiving an average of \$308.83 in municipal contributions; and
- defined contribution volunteer firefighter relief associations receiving an average of \$300.66 in municipal contributions.

Attachment B

Background Information on Volunteer Firefighter Relief Association Service Pension Eligibility and Flexible Service Pension Maximums

1. In General. Volunteer firefighter relief associations principally provide service pensions to volunteer firefighters at or after the conclusion of active service. State law sets minimum age and service requirements for eligibility for a volunteer firefighter relief association service pension and sets a sliding scale maximum on service pension amounts payable based on the relief association's historical annual level of funding.
2. Service Pension Eligibility Requirements. Minnesota Statutes, Section 424A.02, Subdivision 1, authorizes a volunteer firefighter relief association to provide a service pension to a member of the relief association if certain conditions are met by the volunteer firefighter. The volunteer firefighter must meet the following conditions:
 - a. Terminate Active Service. The person must separate from active service as a firefighter with the fire department, defined as the cessation of the performance of fire suppression duties and the cessation of the supervision of fire suppression activities. In 2002, certain retirees were authorized to receive and retain a volunteer firefighter pension although subsequently employed full-time within the fire department by the applicable city or independent nonprofit firefighting corporation, providing that the employer determines the position would be difficult to fill with another similarly qualified applicant, and providing the relief association bylaws permit it. If a firefighter resumes service, no additional service pension accrues and the individual must repay any previously received service pension.
 - b. Attain at Least Age 50. The person must reach at least age 50.
 - c. Have Credit for at Least Five Years Fire Department Service. The person must have credit for at least five years of service as an active member of the fire department with which the relief association is associated.
 - d. Have Credit for at Least Five Years Relief Association Membership. The person must have credit for at least five years of active membership in the relief association before separating from service (open to modification for a new relief association covering an existing volunteer fire department, with firefighters having prior service).
 - e. Compliance with Additional Conditions. The person must comply with any additional age, service or membership conditions prescribed in the relief association bylaws.
3. Partial Vesting with Less Than 20 Years Service Credit. A vesting requirement is a requirement for a public pension plan member or beneficiary to obtain an enforceable entitlement to a pension benefit, typically the acquisition of credit for a specific minimum period of allowable service. Vesting requirements exist in defined benefit plans to provide a minimum threshold to be achieved before the pension plan member gains a non-forfeitable entitlement to an eventual retirement benefit. Vesting requirements can contribute significantly to the actuarial turnover gain that funds the retirement benefits payable to other public pension plan members.

Vesting requirements also reflect the contribution that public pension plan coverage is intended to provide to the public employing unit's personnel system. The minimum vesting requirement for any retirement benefit and the minimum vesting requirement for a full retirement benefit will generally induce many public employees to continue in public employment for at least one of those periods of time.

The volunteer firefighter personnel system varies considerably in the 700+ localities in Minnesota with volunteer fire department coverage, with some localities providing a considerable compensation package to volunteer firefighters and other localities providing no compensation beyond the volunteer firefighter relief association service pension. A vesting period for the volunteer firefighters relief association service pension will allow a locality to recover any resources that it expended in training a volunteer firefighter and will reduce the turnover of firefighters which consequentially demands efforts to recruit new firefighters.

Volunteer firefighter relief associations have traditionally required 20 years of service for a person to become eligible to receive a service pension. Before 1977, the minimum vesting period permitted by

statute was 20 years of firefighting service. A shorter vesting period that was not necessarily supported by the volunteer fire community (as represented by the League of Minnesota Cities) was added in 1977, at the instigation of the then Pension Commission chair, but it was not widely implemented. As part of the 1979 revision of volunteer firefighter relief association laws assembled jointly by the Pension Commission staff, the Minnesota Fire Department Association, and the League of Minnesota Cities, the current vesting provision replaced the 1977 early vesting provision. Between 1979 and 1989, ten years of service were required as the minimum service requirement for entitlement to a partial service pension. In 1989, the ten years service requirement was reduced to five years. Under state law, the maximum service pension payable with less than 20 years of service is limited to a portion of the service pension earned or accrued. The applicable statutory provision is Minnesota Statutes, Section 424A.02, Subdivision 2. The percentage of the accrued or earned benefit must be set forth in the articles of incorporation or the bylaws of the relief association. The 2004 Legislature permitted defined contribution volunteer firefighter relief associations to utilize a different vesting schedule than the vesting schedule applicable to lump sum volunteer firefighter relief associations.

The vesting schedule for lump sum volunteer firefighter relief associations and monthly benefit volunteer firefighter relief associations is as follows:

Completed Years of Service	Non-Forfeitable Percentage of Pension Amount
5	40 percent
6	44 percent
7	48 percent
8	52 percent
9	56 percent
10	60 percent
11	64 percent
12	68 percent
13	72 percent
14	76 percent
15	80 percent
16	84 percent
17	88 percent
18	92 percent
19	96 percent
20 and thereafter	100 percent

The vesting schedule for defined contribution volunteer firefighter relief associations authorized by the 2004 Legislative Session is as follows:

Completed Years of Service	Non-Forfeitable Percentage of Pension Amount
5	40 percent
6	52 percent
7	64 percent
8	76 percent
9	88 percent
10 and thereafter	100 percent

Five volunteer firefighter relief associations have special laws from before 1979 that provide vesting earlier than 20 years (Brooklyn Park (1975), Caledonia (1963), Dassel (1969), Golden Valley (1973), and Rockford (1976)). Only two volunteer firefighter relief associations have had special legislation enacted to provide early vesting since 1979, Minnetonka (Laws 1989, Chapter 319, Article 11, Section 5) and Eden Prairie (Laws 1995, Chapter 262, Article 10, Section 5).

The Minnetonka Volunteer Firefighters Relief Association early vesting was full proportional vesting at five years of service (i.e., for a \$500 pension, a pension of \$2,500 with five years and \$5,000 with ten years). The Eden Prairie Volunteer Firefighters Relief Association early vesting was 40 percent of the accrued amount at five years up to 100 percent of the accrued amount at ten years (i.e., for a \$500 pension, \$1,000 at five years and \$5,000 at ten years).

4. Flexible Service Pension Maximums

- a. Service Pension Maximums Before 1979. Volunteer firefighter service pensions have always been subject to a benefit maximum, either under Minnesota Statutes, Section 69.06 (1905-1979) or Minnesota Statutes, Section 424A.02, Subdivision 3 (1979 to present). In the system used before 1979, a single-benefit maximum was stated in law, but without any mention of the financing needed to support that benefit level, and without any guidance for reasonable benefit levels that

could be supported in municipalities where funding support was low. Prior to 1957, the maximum service pension payable to a retiring volunteer firefighter was a \$40 monthly benefit (plus two dollars per month per year of service beyond 20 years to a maximum of \$60 per month) or \$100 per year of service credit lump sum benefit. In 1957, the lump sum benefit maximum was increased to \$200 per year of service credit. In 1973, the lump sum benefit maximum was increased to \$300 per year of service credit. In 1976, the monthly benefit maximum was increased to \$80 per month (plus four dollars per month per year of service beyond 20 years to a maximum of \$120 per month) or \$600 per year of service credit lump sum benefit.

- b. Service Pension Maximums 1979 and After. In 1979, with the passage of Minnesota Statutes, Chapter 424A, recodifying the law governing volunteer fire pension coverage, the single dollar amount service pension maximums were eliminated in favor of flexible service pension maximums. The flexible service pension maximums established a sliding scale of benefit maximums based on the level of funding per firefighter for the previous three-year period, with the greatest monthly benefit service pension of \$15 per month per year of service up to 30 years of service if the funding per firefighter was at least \$744 per year and with the greatest lump sum benefit service pension of \$2,000 per year of service if the funding per firefighter was at least \$960 per year. In 1983, the upper end of the monthly benefit service pension flexible maximum sliding scale was increased to \$22.50 per year of service credit up to 30 years of service with at least \$1,678 funding per firefighter per year, and the upper end of the lump sum service pension flexible maximum sliding scale was increased to \$3,000 per year of service credit with at least \$1,440 funding per firefighter per year. In 1990, the monthly benefit service pension flexible maximum sliding scale was increased from \$22.50 per month per year of service to \$30.00 per month per year of service credit. In 1993, the maximum permitted lump sum pension was increased from \$3,000 per year of service to \$4,000 per year of service, to be phased in by 1996.

In 1997, the maximum permitted service pension was increased from \$30 per month per year of service to \$40 per month per year of service and from \$4,000 per year of service lump sum to \$5,500 per year of service lump sum.

The flexible service pension maximums were again increased by the 2000 Legislature. The 2000 Session changes increased the maximum monthly pension from \$40 per month per year of service to \$56, to be phased in by the end of calendar 2003. The maximum lump sum pension was increased from \$5,500 to \$7,500 per year of service, with a similar phase-in.

- c. Current Service Pension Maximums. Minnesota Statutes, Section 424A.02, Subdivision 3, establishes a maximum service pension payable to a retiring former volunteer firefighter. Before 1979, the predecessor provision (Minnesota Statutes 1978, Section 69.06) set a single dollar amount maximum on volunteer fire service pensions. With the enactment of Minnesota Statutes, Section 424A.02, Subdivision 3, the service pension maximum has been a sliding scale depending on the financial resources of the relief association on a per firefighter basis. If a volunteer firefighter relief association has a substantial portion of the funding required to support a given level of service pension under the 1971 Volunteer Firefighter Relief Association Guidelines Act, Minnesota Statutes, Sections 69.771 through 69.776, the relief association is allowed to provide in its articles of incorporation or bylaws that service pension level.

The service pension can be a monthly benefit service pension (a specified dollar level per month per year of service credit, payable for life) or a lump sum service pension (a specified dollar level per year of service credit, payable in a lump sum or in a number of installment payments). If a relief association provides both a monthly benefit service pension and a lump sum service pension as an alternative, the amount of each type of service pension must comply with the flexible service pension maximum. The funding amount on which the flexible service pension maximum scale is based is the amount of funding available per firefighter, computed on a three-year average. The funding used in the computation is the amount of fire state aid received, the amount of any municipal funding provided, and one-tenth of the amount of any funding surplus (assets in excess of actuarial accrued liability).

Attachment C

Background Information on Volunteer Firefighter Relief Association
Funding Requirements

- 1. Volunteer Firefighter Relief Association Financing Guidelines Act of 1971. Minnesota Statutes, Sections 69.771 through 69.776, the Volunteer Firefighter Relief Association Financing Guidelines Act of 1971, governs the calculation of the actuarial accrued liability and annual funding requirement of volunteer firefighter relief associations, the determination of the financial requirements of municipalities or independent nonprofit firefighting corporations toward the volunteer firefighter relief association, the requirement for municipal ratification of volunteer firefighter relief association plan amendments, and the investment of volunteer firefighter relief association special fund assets.
- 2. Calculation of Volunteer Firefighter Relief Association Actuarial Accrued Liability and Annual Funding Requirement. State law differentiates in the calculation of volunteer firefighter relief association actuarial accrued liabilities or its equivalent and the annual funding requirements. For volunteer firefighter relief associations providing monthly benefit service pensions, because there is a mortality risk and the need for making complicated computations, the relief association is required by Minnesota Statutes, Section 69.773, to utilize an approved actuary and have a quadrennial actuarial valuation prepared. For volunteer firefighter relief associations providing lump sum service pensions, because there is no mortality risk and the liability and funding calculations are less complicated, the relief association officers are required by Minnesota Statutes, Section 69.772, to estimate the association's actuarial liabilities and its annual funding requirement by using a simplified statutory valuation procedure.

The monthly benefit volunteer firefighter relief association actuarial work is governed essentially by the same requirements applicable for other Minnesota public pension plans, Minnesota Statutes, Sections 356.215, and 356.216. The actuarial valuations will disclose the relief association's actuarial accrued liability, the assets, unfunded actuarial accrued liability, normal cost, and amortization of the unfunded actuarial accrued liability (typically using a 20-year amortization period.) The financial requirement of the monthly benefit relief association is the combination of four items:

- a. the normal cost;
- b. the amortization requirement if the relief association has an unfunded actuarial accrued liability;
- c. the prior year's administrative expenses, multiplied by a factor of 1.035; and
- d. one-tenth of the relief association's funding surplus, if the relief association has assets in excess of its actuarial accrued liability.

The lump sum volunteer firefighter relief association computations are required to follow simplified calculation procedures set forth in Minnesota Statutes, Section 69.772, Subdivision 2. The table and related provisions in Minnesota Statutes, Section 69.772, Subdivision 2, were developed by the Commission and its consulting actuary in 1970-1971. The statutory table is basically a present value table assuming a lump sum benefit payable immediately after 20 years of service, based on a three percent interest assumption, and assuming no pre-retirement turnover or mortality. The following is the statutory pension liability table, applicable for a \$100 per year of service lump sum benefit:

Cumulative Year	Accrued Liability	Cumulative Year	Accrued Liability
1	\$60	12	962
2	124	13	1070
3	190	14	1184
4	260	15	1304
5	334	16	1428
6	410	17	1560
7	492	18	1698
8	576	19	1844
9	666	20	2000
10	760	21 and thereafter	100 additional per year
11	858		

The relief association's accrued liability is calculated annually using the table, after being multiplied by a factor to adjust the \$100 lump sum per year of service table to the actual lump sum service pension amount provided by the volunteer firefighter relief association. Thus, for a volunteer firefighter relief association paying a \$1,000 per year of service lump sum service pension, the factor

would be 10 (\$1,000 divided by \$100.) The calculated accrued liability is compared to the special fund assets to determine whether or not the relief association has an unfunded accrued liability. The following year's projected accrued liability is then calculated, based on an additional year of service per member, and the increase in the accrued liability over the current year's accrued liability is the annual accruing liability of the relief association, which is the functional equivalent of the normal cost calculation in an actuarial valuation prepared by an actuary under Minnesota Statutes, Section 356.215. The financial requirements of the relief association are the combination of three or four items:

- a. the computed annual accruing liability;
- b. one-tenth of the computed current year's unfunded accrued liability, if the relief association has an unfunded accrued liability;
- c. the prior year's administrative expense, multiplied by a factor of 1.035; and
- d. one-tenth of the relief association's funding surplus, if the relief association has assets in excess of the accrued liability.

3. Calculation of the Minimum Municipal Obligation. Prior to the enactment of the 1971 Volunteer Firefighter Relief Association Financing Guidelines Act, under Minnesota Statutes 1969, Section 424.30, various municipalities were required to provide funding to its associated volunteer firefighter relief association equal to one-tenth of one mill on all taxable property in the municipality and were authorized to provide additional volunteer firefighter relief association funding to a maximum of one and nine-tenths mill on all taxable property of the municipality. If the municipality failed to make the required levy, the volunteer firefighter relief association board of trustees was authorized to certify the levy to the county auditor.

In 1971 (Laws 1971, Chapter 261), the Volunteer Firefighter Relief Association Financing Guidelines Act was enacted and was deemed to implicitly repeal Minnesota Statutes 1969, Section 424.30. Minnesota Statutes 1978, Section 424.30, was formally repealed by Laws 1979, Chapter 201. The 1971 Volunteer Firefighter Relief Association Financing Guidelines Act requires that municipalities fund their associated volunteer firefighter relief association based on the actuarial requirements of the relief association and establishes a procedure for determining the annual financial requirements of the special fund of the volunteer firefighter relief association and the minimum municipal obligation to the relief association. For relief associations providing monthly defined benefit service pensions, the relief association financial requirements are based on periodic actuarial valuations (required quadrennially under statute, more frequently under generally accepted accounting principles (GAAP)). For relief associations providing lump sum defined benefit service pensions, the financial relief association financial requirements are based on a statutory liability table that had been developed by Dr. Franklin Smith, the consulting actuary then retained by the Legislative Commission on Pensions and Retirement. The minimum municipal obligation is the annual financial requirements of the relief association reduced by the anticipated amount of fire state aid, one-tenth of any funding surplus (assets in excess of calculated accrued liability), and, for lump sum volunteer firefighter relief associations, an amount equal to five percent of the current assets of the special fund.

The officers of the volunteer firefighter relief association are required under the 1971 Volunteer Firefighter Relief Association Financing Guidelines Act to certify their calculations of the financial requirements of the relief association and the minimum municipal obligation each August. The municipality, after verifying those calculations, is required to include the minimum municipal obligation in the municipal budget and if the municipality fails to budget for the minimum municipal obligation, the volunteer firefighter relief association officers are obligated to certify the minimum municipal obligation as a tax levy to the applicable county auditor, who is required to spread the levy over the taxable property of the municipality.

The Volunteer Firefighter Relief Association Financing Guidelines Act of 1971, Minnesota Statutes, Sections 69.771 through 69.776, requires municipal support of a relief association if the main other revenue source, the fire state aid program under Minnesota Statutes, Sections 69.011 through 69.051, is insufficient. Specifically, Minnesota Statutes, Section 69.772, Subdivision 3, for lump sum volunteer firefighter relief associations, and Minnesota Statutes, Section 69.773, Subdivision 5, for monthly benefit volunteer firefighter relief associations, require that the municipality include in its budget, levy for, and pay over to the relief association the amount of the financial requirements of the relief association, reduced by the amount of the fire state aid anticipated to be received in the following year. For lump sum volunteer firefighter relief associations, the relief association financial requirement also are reduced by an amount equal to five percent of the assets of the relief association, to adjust for the next year's future expected interest earnings. The determination of the minimum

municipal obligation must be made by the officers of the relief association, and must be certified to the municipality as part of the municipal budget preparation process.

4. Compliance with Municipal Funding Requirement. If the municipality fails to include the minimum municipal obligation in its budget or fails to spread the obligation in its property tax levy, Minnesota Statutes, Section 69.772, Subdivision 4, for lump sum volunteer firefighter relief associations, and Minnesota Statutes, Section 69.773, Subdivision 5, for monthly benefit volunteer firefighter relief associations, require that the relief association officers certify the required municipal obligation amount to the county auditor, who is required to levy that amount as part of the property taxes of that municipality
5. Applicable Actuarial Funding and Procedures, Relief Association Discontinuing Monthly Pensions, or Purchasing Annuities to Finance Monthly Pensions. If a volunteer fire relief association discontinues providing monthly pensions or purchases annuities to cover the monthly pensions, the funding procedures and minimum municipal obligation requirements applicable to lump sum plans apply, rather than those applicable to monthly benefit plans.

1.1 moves to amend H.F. No. 3715; S.F. No. 3325, as follows:

1.2 Page 3, after line 31, insert:

1.3 "Effective beginning December 31, 2008"

1.4 Page 3, after line 40, insert:

1.5 "Effective beginning December 31, 2009"

1.6 Page 4, after line 6, insert:

1.7 "Effective beginning December 31, 2010"

1.8 Page 4, after line 15, insert:

1.9 "Effective beginning December 31, 2011"

1.10 Page 4, after line 24, insert:

1.11 "Effective beginning December 31, 2012"

1.12 Page 4, after line 32, insert:

1.13 "any amount in excess
1.14 of 8100 100.00"

1.15 Page 7, after line 14, insert:

1.16 "Effective beginning December 31, 2008"

1.17 Page 7, after line 22, insert:

1.18 "Effective beginning December 31, 2009"

1.19 Page 7, after line 30, insert:

1.20 "Effective beginning December 31, 2010"

1.21 Page 7, after line 39, insert:

1.22 "any amount in excess
1.23 of 5397 10,000"

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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH
SESSION

HOUSE FILE No. **3715**

March 3, 2008

Authored by Nelson

The bill was read for the first time and referred to the Committee on Governmental Operations, Reform, Technology and Elections

1.1 A bill for an act
1.2 relating to retirement; volunteer firefighter relief associations; allowing for an
1.3 increase in the maximum service pension amounts; amending Minnesota Statutes
1.4 2006, section 424A.02, subdivision 3.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. Minnesota Statutes 2006, section 424A.02, subdivision 3, is amended to
1.7 read:

1.8 Subd. 3. **Flexible service pension maximums.** (a) Annually on or before August
1.9 1 as part of the certification of the financial requirements and minimum municipal
1.10 obligation determined under section 69.772, subdivision 4, or 69.773, subdivision 5, as
1.11 applicable, the secretary or some other official of the relief association designated in
1.12 the bylaws of each relief association shall calculate and certify to the governing body
1.13 of the applicable qualified municipality the average amount of available financing per
1.14 active covered firefighter for the most recent three-year period. The amount of available
1.15 financing shall include any amounts of fire state aid received or receivable by the relief
1.16 association, any amounts of municipal contributions to the relief association raised from
1.17 levies on real estate or from other available revenue sources exclusive of fire state aid,
1.18 and one-tenth of the amount of assets in excess of the accrued liabilities of the relief
1.19 association calculated under section 69.772, subdivision 2; 69.773, subdivisions 2 and 4;
1.20 or 69.774, subdivision 2, if any.

1.21 (b) The maximum service pension which the relief association has authority to
1.22 provide for in its bylaws for payment to a member retiring after the calculation date when
1.23 the minimum age and service requirements specified in subdivision 1 are met must be
1.24 determined using the table in paragraph (c) or (d), whichever applies.

(c) For a relief association where the governing bylaws provide for a monthly service pension to a retiring member, the maximum monthly service pension amount per month for each year of service credited that may be provided for in the bylaws is the greater of the service pension amount provided for in the bylaws on the date of the calculation of the average amount of the available financing per active covered firefighter or the maximum service pension figure corresponding to the average amount of available financing per active covered firefighter:

Minimum Average Amount of Available Financing per Firefighter	Maximum Service Pension Amount Payable per Month for Each Year of Service
\$...	\$.25
41	.50
81	1.00
122	1.50
162	2.00
203	2.50
243	3.00
284	3.50
324	4.00
365	4.50
405	5.00
486	6.00
567	7.00
648	8.00
729	9.00
810	10.00
891	11.00
972	12.00
1053	13.00
1134	14.00
1215	15.00
1296	16.00
1377	17.00
1458	18.00
1539	19.00
1620	20.00
1701	21.00
1782	22.00
1823	22.50
1863	23.00
1944	24.00
2025	25.00

3.1	2106	26.00
3.2	2187	27.00
3.3	2268	28.00
3.4	2349	29.00
3.5	2430	30.00
3.6	2511	31.00
3.7	2592	32.00
3.8	2673	33.00
3.9	2754	34.00
3.10	2834	35.00
3.11	2916	36.00
3.12	2997	37.00
3.13	3078	38.00
3.14	3159	39.00
3.15	3240	40.00
3.16	3321	41.00
3.17	3402	42.00
3.18	3483	43.00
3.19	3564	44.00
3.20	3645	45.00
3.21	3726	46.00
3.22	3807	47.00
3.23	3888	48.00
3.24	3969	49.00
3.25	4050	50.00
3.26	4131	51.00
3.27	4212	52.00
3.28	4293	53.00
3.29	4374	54.00
3.30	4455	55.00
3.31	4536	56.00
3.32	<u>4617</u>	<u>57.00</u>
3.33	<u>4698</u>	<u>58.00</u>
3.34	<u>4779</u>	<u>59.00</u>
3.35	<u>4860</u>	<u>60.00</u>
3.36	<u>4941</u>	<u>61.00</u>
3.37	<u>5022</u>	<u>62.00</u>
3.38	<u>5103</u>	<u>63.00</u>
3.39	<u>5184</u>	<u>64.00</u>
3.40	<u>5265</u>	<u>65.00</u>
3.41	<u>5346</u>	<u>66.00</u>
3.42	<u>5427</u>	<u>67.00</u>
3.43	<u>5508</u>	<u>68.00</u>

4.1	<u>5589</u>	<u>69.00</u>
4.2	<u>5670</u>	<u>70.00</u>
4.3	<u>5751</u>	<u>71.00</u>
4.4	<u>5832</u>	<u>72.00</u>
4.5	<u>5913</u>	<u>73.00</u>
4.6	<u>5994</u>	<u>74.00</u>
4.7	<u>6075</u>	<u>75.00</u>
4.8	<u>6156</u>	<u>76.00</u>
4.9	<u>6237</u>	<u>77.00</u>
4.10	<u>6318</u>	<u>78.00</u>
4.11	<u>6399</u>	<u>79.00</u>
4.12	<u>6480</u>	<u>80.00</u>
4.13	<u>6561</u>	<u>81.00</u>
4.14	<u>6642</u>	<u>82.00</u>
4.15	<u>6723</u>	<u>83.00</u>
4.16	<u>6804</u>	<u>84.00</u>
4.17	<u>6885</u>	<u>85.00</u>
4.18	<u>6966</u>	<u>86.00</u>
4.19	<u>7047</u>	<u>87.00</u>
4.20	<u>7128</u>	<u>88.00</u>
4.21	<u>7209</u>	<u>89.00</u>
4.22	<u>7290</u>	<u>90.00</u>
4.23	<u>7371</u>	<u>91.00</u>
4.24	<u>7452</u>	<u>92.00</u>
4.25	<u>7533</u>	<u>93.00</u>
4.26	<u>7614</u>	<u>94.00</u>
4.27	<u>7695</u>	<u>95.00</u>
4.28	<u>7776</u>	<u>96.00</u>
4.29	<u>7857</u>	<u>97.00</u>
4.30	<u>7938</u>	<u>98.00</u>
4.31	<u>8019</u>	<u>99.00</u>
4.32	<u>8100</u>	<u>100.00</u>

4.33 (d) For a relief association in which the governing bylaws provide for a lump sum
 4.34 service pension to a retiring member, the maximum lump sum service pension amount for
 4.35 each year of service credited that may be provided for in the bylaws is the greater of the
 4.36 service pension amount provided for in the bylaws on the date of the calculation of the
 4.37 average amount of the available financing per active covered firefighter or the maximum
 4.38 service pension figure corresponding to the average amount of available financing per
 4.39 active covered firefighter for the applicable specified period:

	Minimum Average Amount of Available Financing per Firefighter	Maximum Lump Sum Service Pension Amount Payable for Each Year of Service
5.1		
5.2		
5.3		
5.4	\$...	\$ 10
5.5	11	20
5.6	16	30
5.7	23	40
5.8	27	50
5.9	32	60
5.10	43	80
5.11	54	100
5.12	65	120
5.13	77	140
5.14	86	160
5.15	97	180
5.16	108	200
5.17	131	240
5.18	151	280
5.19	173	320
5.20	194	360
5.21	216	400
5.22	239	440
5.23	259	480
5.24	281	520
5.25	302	560
5.26	324	600
5.27	347	640
5.28	367	680
5.29	389	720
5.30	410	760
5.31	432	800
5.32	486	900
5.33	540	1000
5.34	594	1100
5.35	648	1200
5.36	702	1300
5.37	756	1400
5.38	810	1500
5.39	864	1600
5.40	918	1700
5.41	972	1800
5.42	1026	1900
5.43	1080	2000
5.44	1134	2100

6.1	1188	2200
6.2	1242	2300
6.3	1296	2400
6.4	1350	2500
6.5	1404	2600
6.6	1458	2700
6.7	1512	2800
6.8	1566	2900
6.9	1620	3000
6.10	1672	3100
6.11	1726	3200
6.12	1753	3250
6.13	1780	3300
6.14	1820	3375
6.15	1834	3400
6.16	1888	3500
6.17	1942	3600
6.18	1996	3700
6.19	2023	3750
6.20	2050	3800
6.21	2104	3900
6.22	2158	4000
6.23	2212	4100
6.24	2265	4200
6.25	2319	4300
6.26	2373	4400
6.27	2427	4500
6.28	2481	4600
6.29	2535	4700
6.30	2589	4800
6.31	2643	4900
6.32	2697	5000
6.33	2751	5100
6.34	2805	5200
6.35	2859	5300
6.36	2913	5400
6.37	2967	5500
6.38	3021	5600
6.39	3075	5700
6.40	3129	5800
6.41	3183	5900
6.42	3237	6000
6.43	3291	6100

7.1	3345	6200
7.2	3399	6300
7.3	3453	6400
7.4	3507	6500
7.5	3561	6600
7.6	3615	6700
7.7	3669	6800
7.8	3723	6900
7.9	3777	7000
7.10	3831	7100
7.11	3885	7200
7.12	3939	7300
7.13	3993	7400
7.14	4047	7500
7.15	<u>4101</u>	<u>7600</u>
7.16	<u>4155</u>	<u>7700</u>
7.17	<u>4209</u>	<u>7800</u>
7.18	<u>4263</u>	<u>7900</u>
7.19	<u>4317</u>	<u>8000</u>
7.20	<u>4371</u>	<u>8100</u>
7.21	<u>4425</u>	<u>8200</u>
7.22	<u>4479</u>	<u>8300</u>
7.23	<u>4533</u>	<u>8400</u>
7.24	<u>4587</u>	<u>8500</u>
7.25	<u>4641</u>	<u>8600</u>
7.26	<u>4695</u>	<u>8700</u>
7.27	<u>4749</u>	<u>8800</u>
7.28	<u>4803</u>	<u>8900</u>
7.29	<u>4857</u>	<u>9000</u>
7.30	<u>4911</u>	<u>9100</u>
7.31	<u>4965</u>	<u>9200</u>
7.32	<u>5019</u>	<u>9300</u>
7.33	<u>5073</u>	<u>9400</u>
7.34	<u>5127</u>	<u>9500</u>
7.35	<u>5181</u>	<u>9600</u>
7.36	<u>5235</u>	<u>9700</u>
7.37	<u>5289</u>	<u>9800</u>
7.38	<u>5343</u>	<u>9900</u>
7.39	<u>5397</u>	<u>10,000</u>

7.40 (e) For a relief association in which the governing bylaws provide for a monthly
7.41 benefit service pension as an alternative form of service pension payment to a lump sum
7.42 service pension, the maximum service pension amount for each pension payment type
7.43 must be determined using the applicable table contained in this subdivision.

8.1 (f) If a relief association establishes a service pension in compliance with the
8.2 applicable maximum contained in paragraph (c) or (d) and the minimum average amount
8.3 of available financing per active covered firefighter is subsequently reduced because of a
8.4 reduction in fire state aid or because of an increase in the number of active firefighters, the
8.5 relief association may continue to provide the prior service pension amount specified in
8.6 its bylaws, but may not increase the service pension amount until the minimum average
8.7 amount of available financing per firefighter under the table in paragraph (c) or (d),
8.8 whichever applies, permits.

8.9 (g) No relief association is authorized to provide a service pension in an amount
8.10 greater than the largest applicable flexible service pension maximum amount even if
8.11 the amount of available financing per firefighter is greater than the financing amount
8.12 associated with the largest applicable flexible service pension maximum.

8.13 Sec. 2. **EFFECTIVE DATE.**

8.14 Section 1 is effective January 1, 2009.