



**S.F. 1001**  
(Betzold)

**H.F. 1129**  
(Murphy, M.)

### **Executive Summary of Commission Staff Materials**

<i>Affected Pension Plan(s):</i>	Volunteer Firefighters' Relief Associations
<i>Relevant Provisions of Law:</i>	Portions of Minnesota Statutes, Chapters 69, 420, 424A, and 424B
<i>General Nature of Proposal:</i>	Proposed legislation implementing the recommendations of the State Auditor's Volunteer Fire Working Group
<i>Date of Summary:</i>	March 2, 2009

### **Specific Proposed Changes**

- Separation out and reorganization of defined contribution plan and defined benefit plan volunteer firefighters' relief association (VFRA) provisions (Art. 1, Sec. 4-5, 14, 16-18).
- Recodification and stylistic revision of the substantive VFRA benefit plan law (Art. 1).
- Separates out prohibition on minors performing firefighting duties for fire departments and moves provision to more appropriate place (Art. 1, Sec. 1, 15).
- Exception to minors firefighting service prohibition for adult supervised youth group or education institution fire department activities (Art. 3, Sec. 1/Art. 4, Sec. 1-2).
- Revises and extends VFRA consolidation authority for various VFRA configurations (Art. 1, Sec. 45-49).
- Permits paying PERA-P&F employer contributions for paid firefighters by municipalities without VFRA's (Art. 3, Sec. 1, 15/Art. 4, Sec. 11).
- Clarifies the VFRA funded condition threshold for implementing benefit increases without municipal approval (Art. 3, Sec. 3, 4, 12/Art. 4, Sec. 8).
- Former or retired firefighters permitted to return to active fire service without penalty (Art. 3, Sec. 7, 17).
- Clarifies the manner for the granting of monthly service credit (Art. 3, Sec. 8, and Art. 4, Sec. 3-4).
- Modifies unspecific exception to a general service pension uniformity requirement to cover service credit maximums solely (Art. 3, Sec. 10/ Art. 4, Sec. 3, 5).
- Permits casualty insurance premiums from a state licensed insurance company other than the Volunteer Firefighters' Benefit Association of Minnesota (Art. 3, Sec. 14/Art. 4, Sec. 10).
- Allows trusts to be designated as beneficiaries for firefighters covered by lump sum service pensions (Art. 3, Sec. 14/Art. 4, Sec. 10).
- Alignment of supplemental lump sum volunteer firefighter benefit survivor definitions with general Minnesota Statutes, Chapter 424A, survivor definitions (Art. 3, Sec. 16/Art. 4, Sec. 12).

### **Policy Issues Raised by the Proposed Legislation**

Appropriateness of:

1. Creating defined contribution volunteer firefighters' relief association (VFRA)-specific regulation.
2. The recodification and stylistic revision of Minnesota Statutes, Chapter 424A.
3. The separation out and new placement of the prohibition on fire departments employing minors as firefighters.
4. The creation of an exception to the prohibition on firefighting by minors.
5. Extending VFRA consolidation provisions to situations other than defined benefit VFRA's.
6. Permitting the payment of PERA-P&F employer contributions from fire state aid for municipalities without VFRA's.
7. The clarification of the threshold for VFRA defined benefit increases without municipal approval.
8. Permitting a return to active service by deferred or retired firefighters.
9. Proposed method for crediting monthly service.
10. Proposed refinement of the general service pension uniformity.
11. Authorizing alternative casualty insurance coverage from VFRA special fund assets.
12. The authorization of trusts as designated beneficiaries.
13. Aligning survivor definitions for VFRA's and the supplemental lump sum volunteer firefighter benefit.

### **Potential Amendments**

#### Technical Amendment

S1001-1A corrects obsolete references to funeral benefits, eliminated in 2008, eliminates a provision moved to a different section, includes inactive members in the account establishment accompanying a consolidation of defined contribution relief associations, and revises a termination of service reference.

#### Substantive Amendments

No Commission staff proposed substantive amendments.



TO: Members of the Legislative Commission on Pensions and Retirement  
FROM: Lawrence A. Martin, Executive Director *Lawrence A. Martin*  
RE: S.F. 1001 (Betzold); H.F. 1129 (Murphy, M.): Volunteer Fire Relief Association Working Group Recommendations  
DATE: March 2, 2009

Summary of S.F. 1001 (Betzold); H.F. 1129 (Murphy, M.)

S.F. 1001 (Betzold); H.F. 1129 (Murphy, M.) amends Minnesota Statutes, Sections 69.031, Subdivision 5; 69.771, Subdivision 3; 69.772, Subdivisions 4 and 6; 69.773, Subdivision 6; 356.219, Subdivision 3; 424B.10; and 424B.21 and Minnesota Statutes, Chapters 420 and 424A, and repeals Minnesota Statutes, Sections 424A.001, Subdivision 7; 424A.02, Subdivisions 4, 6, 8a, 8b, and 9b; and 424A.09, relating to the fire state aid program, the 1971 Volunteer Firefighters Relief Association Financing Guidelines Act, the public pension plan investment performance reporting law, the firefighters civil service commission law, the volunteer firefighters relief association benefit substantive law, and the volunteer firefighters relief association consolidation law, by making the following changes:

1. Separation Out and Reorganization of Defined Contribution Plan and Defined Benefit Plan Volunteer Firefighters' Relief Association Provisions (Art. 1, Sec. 4-5, 14, 16-18). The provisions applicable to all types of volunteer firefighters' relief associations, the provisions applicable to defined contribution volunteer firefighters' relief associations, and the provisions applicable to defined benefit volunteer firefighters' relief associations are separated out and the various provisions are reorganized to more clearly specify the pertinent regulation.
2. Recodification and Stylistic Revision of the Substantive Volunteer Firefighters' Relief Association Benefit Plan Law (Art. 1). The balance of Minnesota Statutes, Chapter 424A, is reconfigured and revised stylistically to conform with current statutory drafting and language usage conventions.
3. Separates Out Prohibition on Minors Performing Firefighting Duties for Fire Departments and Moves Provision to More Appropriate Place (Art. 1, Sec. 1 and 15). The provision that prohibits fire departments from employing minors as firefighters or allowing them to render firefighting service is separated from the prohibition on volunteer firefighters' relief associations from having minors as relief association members and moves the fire department prohibition to a fire department chapter of Minnesota Statutes.
4. Exception to Minors Firefighting Service Prohibition for Adult Supervised Youth Group or Education Institution Fire Department Activities (Art. 3, Sec. 1, and Art. 4, Sec. 1-2). The prohibition on fire departments utilizing minors to perform any fire department activities is modified by an exception for activities by members of a youth group or educational institution that are performed with continuous adult supervision and conform to the applicable federal and state laws.
5. Revises and Extends Volunteer Firefighters' Relief Association Consolidation Authority for Various Volunteer Firefighters' Relief Association Configurations (Art. 1, Sec. 45-49). The existing volunteer firefighters' relief association consolidation future benefit and funding provision is clarified as applicable to defined benefit plan volunteer firefighters' relief associations consolidating with defined benefit plan volunteer firefighters' relief associations and comparable volunteer firefighters' relief association consolidation future benefit and funding provisions are developed for the consolidation of defined contribution plan volunteer firefighters' relief associations with defined contribution plan volunteer firefighters' relief associations or for the consolidation of defined contribution plan volunteer firefighters' relief associations with defined benefit plan volunteer firefighters' relief associations.
6. Permits Paying PERA-P&F Employer Contributions for Paid Firefighters by Municipalities without Volunteer Firefighters' Relief Associations (Art. 3, Sec. 1 and 15, and Art. 4, Sec. 11). In instances where a municipality does not have a fire department with a firefighter relief association, the municipality is permitted to use fire state aid to pay the Public Employees Police and Fire Retirement Plan (PERA-P&F) employer contributions in addition to or instead of the currently permitted uses of fire equipment or fire department building acquisition or maintenance.
7. Clarifies The Volunteer Firefighters' Relief Association Funded Condition Threshold for Implementing Benefit Increases Without Municipal Approval (Art. 3, Sec. 3, 4 and 12, and Art. 4, Sec. 8). The provisions that permit a volunteer firefighters' relief association to increase its service pension if it is fully funded before

the increase and the new funding for the benefit increase does not equal or exceed 90 percent of the overfunding are clarified to indicate that the overfunding amount used as a measure is the preceding year's funded condition.

8. Former or Retired Firefighters Permitted to Return to Active Fire Service Without Penalty (Art. 3, Sec. 7 and 17). Former firefighters or retired firefighters, if the volunteer firefighters' relief association bylaws so permit, could return to active firefighting service without penalty and potentially qualifying for an additional service pension.
9. Clarifies the Manner for the Granting of Monthly Service Credit (Art. 3, Sec. 8, and Art. 4, Sec. 3-4). Permits volunteer firefighters' relief associations to define in their bylaws a month for crediting service monthly, which may not be less than 16 days, and provides an anniversary date basis for crediting service monthly if the bylaws do not address the issue.
10. Modifies Unspecific Exception to a General Service Pension Uniformity Requirement to Cover Service Credit Maximums Solely (Art. 3, Sec. 10, and Art. 4, Sec. 3 and 5). The current uniformity of service pensions provision, which has a current exception for unspecified contrary provisions in Minnesota Statutes, Chapter 424A, is modified to specify that the sole exception is a bylaw limit on creditable service credit.
11. Permits Casualty Insurance Premiums From a State Licensed Insurance Company Other than the Volunteer Firefighters' Benefit Association of Minnesota (Art. 3, Sec. 14, and Art. 4, Sec. 10). As an authorized disbursement from the special fund, a volunteer firefighters' relief association is authorized to pay premiums on casualty insurance from an insurance company licensed to do business in the state instead of the Volunteer Firefighters' Benefit Association of Minnesota.
12. Allows Trusts to be Designated as Beneficiaries for Firefighters Covered by Lump Sum Service Pensions (Art. 3, Sec. 14, and Art. 4, Sec. 10). For firefighters covered by a service pension payable in a single payment, the firefighter can designate a trust created under state law as the beneficiary in the event of the firefighters' death.
13. Alignment of Supplemental Lump Sum Volunteer Firefighter Benefit Survivor Definitions with General Minnesota Statutes, Chapter 424A, Survivor Definitions (Art. 3, Sec. 16, and Art. 4, Sec. 12). The definitions of survivors applicable to the state-mandated lump sum volunteer firefighter supplemental benefit are made more consistent with the survivor definitions generally applicable in Minnesota Statutes, Chapter 424A.

### Section-by-Section Summary

A section-by-section summary of S.F. 1001 (Betzold); H.F. 1129 (Murphy, M.) is attached.

### Relevant Background Information

Background information on topics relevant to the proposed legislation is attached, as follows:

- Attachment A: Funded Condition and Financing Requirements of Volunteer Firefighters' Relief Associations Generally. The statewide results are presented for Minnesota volunteer firefighters' relief associations from the most recent (December 31, 2006) compilation of information by the Office of the State Auditor.
- Attachment B: The Regulation of Volunteer Firefighters' Relief Associations. Background information is presented on the state law regulation of volunteer firefighters' relief associations contained in Minnesota Statutes, Chapters 69, 356A, and 424A.
- Attachment C: Volunteer Firefighters' Relief Association Special Fund Disbursements. Background information is presented on the statutory limitations on the authorized disbursements from the special fund of a volunteer firefighters' relief association.
- Attachment D: Authorized Uses of Fire State Aid. Background information is presented on the current authorized expenditures of fire state aid.
- Attachment E: Supplemental Lump Sum Volunteer Firefighter Benefits. Background information is presented on the mandated supplemental benefit payable when a volunteer firefighter retires with a lump sum service pension.
- Attachment F: Volunteer Firefighters' Benefit Association of Minnesota. Background information is set forth on the domestic casualty insurance company primarily serving volunteer firefighters.

2008-2009 Volunteer Fire Relief Association Working Group and Defined Contribution Plan Subgroup

The Office of the State Auditor has utilized working groups of volunteer firefighters and local governmental officials since the 2004-2005 legislative interim as a mechanism for formulating revisions in volunteer firefighters' relief association laws and for providing a vehicle for the provision of information on volunteer firefighter issues to state government.

During the 2008-2009 interim, two committees were active, both chaired by State Auditor Rebecca Otto. The membership of the two entities was as follows:

Defined Contribution Plan Subgroup		Volunteer Fire Relief Association Working Group	
Jim Adams	Secretary, West Metro Fire Relief Association	City Finance Manager:	Tim Simon, Finance Director, City of Elk River
Wayne Anderson	Inspector, Coon Rapids Fire Department	Defined Contribution Plans:	Wayne Anderson, Inspector, Coon Rapids Fire Department
Ron Johnson	Treasurer, Maple Grove Fire Relief Association	Defined Benefit Lump Sum Plans:	Ed Dietz, Treasurer, Maplewood Fire Relief Association
Bruce Roed	Trustee, Mentor Fire Relief Association	Minnesota Area Relief Association Coalition (MARAC) :	Jim Hansen, Vice President of Legislative Advocacy, Spring Lake Park Fire Relief Association
Marty Scheerer	Chief, Edina Fire Department	Minnesota State Fire Chiefs Association/Monthly Plans:	Nyle Zikmund, Chief, Spring Lake Park, Blaine & Mounds View Fire Department
Gordon Skjerven	Treasurer, Mendota Heights Fire Relief Association	Defined Benefit Monthly/Lump Sum Combination Plans:	Dave Ganfield, Administrator, Apple Valley Fire Relief Association
Gene VanOverbeke	Director of Administrative Services, City of Eagan	City Finance Manager:	Steven Wallner, Finance Director, City of Watertown
		Defined Benefit/Lump Sum Plans:	Dave Jaeger, Treasurer, Mahnommen Fire Relief Association
		Defined Contribution Plans:	Trustee, Mentor Fire Relief Association

Technical Amendment S1001-1A

**Amendment S1001-1A** corrects obsolete references to funeral benefits, eliminated in 2008, eliminates a provision moved to a different section, includes inactive members in the account establishment accompanying a consolidation of defined contribution relief associations, and revises a termination of service reference. The technical changes were assembled by the Office of the State Auditor from comments and suggestions forwarded by the Volunteer Fire Relief Association Working Group members who reviewed the proposed legislation as a bill draft, but were received too late to be included in Revisor No. 09-2230, which was introduced as S.F. 1001 (Betzold); H.F. 1129 (Murphy, M.).

Policy Analysis and Discussion

S.F. 1001 (Betzold); H.F. 1129 (Murphy, M.) separates out and reorganizes the regulation of defined contribution volunteer firefighters' relief associations, recodifies and makes stylistic revisions in the volunteer firefighters' relief association statutory chapter, separates out the existing fire department regulation related to the employment of minors and places it into a more appropriate spot, permits limited service as firefighters by some minors, provides regulation for consolidation by two defined contribution volunteer firefighters' relief associations or by a defined contribution volunteer firefighters' relief association and a defined benefit volunteer firefighters' relief association, permits fire state aid to be used to pay Public Employees Police and Fire Retirement Plan (PERA-P&F) employer contributions in cases where no volunteer firefighters' relief association exists, clarifies the basis for defined benefit volunteer firefighters' relief association benefit increases without municipal approval, permits the return to active firefighting service by retired or deferred firefighters without penalty, clarifies the manner of crediting monthly service credit, clarifies the current volunteer firefighters' relief association benefit uniformity provision, permits the use of fire state aid to pay casualty insurance premiums other than the Volunteer Firefighters' Benefit Association, allows the designation of trusts for lump sum volunteer firefighters' relief association benefits, and aligns the supplemental lump sum volunteer firefighter benefit definitions with other volunteer firefighters' relief association definitions.

S.F. 1001 (Betzold); H.F. 1129 (Murphy, M.) raises a number of pension and related public policy issues for consideration and possible discussion by the Legislative Commission on Pensions and Retirement, as follows:

1. Appropriateness of Creating Defined Contribution Volunteer Firefighters' Relief Association-Specific Regulation. The policy issue is the appropriateness of reorganizing Minnesota Statutes, Chapter 424A, to specify the regulation applicable to defined contribution volunteer firefighters' relief associations, separating out the limited number of current statutory provisions and adapting existing defined benefit volunteer firefighters' relief association regulation that is conceptually pertinent or applicable. In 1979, the last major revision of the volunteer firefighters' relief association regulation, the Commission and the Legislature knew very little about defined contribution volunteer firefighters' relief associations, previously known as "split-the-pie" volunteer firefighters' relief associations, which had never previously been authorized by statute, and the 1979 legislation provided only limited regulation. Since 1979, the number of defined contribution volunteer firefighters' relief associations have grown and the lack of specific defined contribution volunteer firefighters' relief association legislation and the limitations of volunteer firefighters' relief association legislation designed primarily for defined benefit volunteer firefighters' relief associations has been cited as a problem by defined contribution volunteer firefighters' relief association officials. The State Auditor concluded that there was a sufficient need to improve the statutory separation of defined contribution volunteer firefighters' relief associations to merit the creation of a special defined contribution volunteer firefighters' relief association subgroup of the volunteer fire relief association working group. That subgroup considered the state of the existing defined contribution volunteer firefighters' relief association regulation and recommended the formulation of the proposed regulation in Articles 1 and 2 as a workable reorganization of the existing provisions and reformulation of defined benefit volunteer firefighters' relief association regulation to make it fit defined contribution volunteer firefighters' relief associations. If the Commission concludes that the 1979 volunteer firefighters' relief association regulation was deficient in handling defined contribution volunteer firefighters' relief associations and is improved by this reorganization of existing defined contribution volunteer firefighters' relief association provisions and adaptation of related defined benefit volunteer firefighters' relief association provisions, it would be appropriate for the Commission to recommend the provisions. Interested volunteer firefighter community representatives should be accorded with an opportunity to present their views on the issue.
2. Appropriateness of the Recodification and Stylistic Revision of Minnesota Statutes, Chapter 424A. The policy issue is the appropriateness of recodifying Minnesota Statutes, Chapter 424A, the volunteer firefighters' relief association benefit plan law, and of its stylistic revision. The recodification and stylistic revision was undertaken because the statutory chapter has not been significantly reworked for 25 years and because a revision of the entire chapter would permit both policymakers and volunteer firefighters to better evaluate the introduction of defined contribution volunteer firefighters' relief association-specific provisions into the balance of the chapter. The revisions make the statutory chapter generally conform with current drafting and language usage conventions.
3. Appropriateness of the Separation Out and New Placement of the Prohibition on Fire Departments Employing Minors as Firefighters (Art. 1, Sec. 1). The policy issue is the appropriateness of moving the current Minnesota Statutes, Section 424A.01, Subdivision 1, from the volunteer firefighters' relief association statutory chapter to a statutory chapter wholly applicable to firefighters. Minnesota Statutes, 424A.01, Subdivision 1, is the sole item of fire department regulation that was included in the volunteer firefighters' relief association statutory chapter. The change would reposition the current law provision prohibiting minors from being employed as or serving as firefighters for a fire department into a different statutory chapter, Minnesota Statutes, Chapter 420, related to firefighter civil service commissions. The prohibition on firefighter employment or service for a fire department by a minor was added to Minnesota Statutes in 1949 (Laws 1949, Chapter 545, Section 3), in legislation that also required municipal clerks to certify that the fire department employed no minors under age 18 as firefighters as a condition of the receipt of fire state aid and that excluded minors under the age of 18 from being considered firefighters for the purpose of Minnesota Statutes, Chapter 69, principally governing fire state aid. When Minnesota Statutes, Chapter 424A, was created in 1979, the various volunteer firefighters' relief association benefit and operational provisions previously contained in Minnesota Statutes, Chapter 69, were moved to the new Minnesota Statutes, Chapter 424A. A provision governing fire departments that is buried away in a volunteer firefighters' relief association chapter provides little notice to the target fire departments, so the change is prompted by a sense that better notice is provided by excising out the provision from Minnesota Statutes, Chapter 424A and moving it to a general firefighting chapter.

4. Appropriateness of the Creation of an Exception to the Prohibition on Firefighting by Minors (Art. 3, Sec. 6, and Art. 4, Sec. 1). The policy issue is the appropriateness of the creation of an exception to the prohibition on firefighters being employed by fire departments as firefighters or serving fire departments as firefighters for members of youth, civic, or educational organizations or programs participating in fire department activities with uninterrupted adult supervision and if permitted by state and federal law. The members of the State Auditor's volunteer fire relief association working group previously were generally unaware of the current statutory prohibition on firefighting activities by minors and were concerned that strict enforcement the prohibition would eliminate the practice of fire departments sponsoring Boy Scouts of America Explorer Posts or being involved with Minnesota State Colleges and Universities System (MnSCU) firefighting training that could include minors. The proposed exception is intended to grandparent in current practice without expanding it beyond current parameters. Although the issue may be more appropriate an issue for the public safety or governmental operations committees, if the Commission has reservations about the proposed exception, members of the volunteer firefighter community could be requested to testify on its application and appropriateness.
5. Appropriateness of Extending Volunteer Firefighters' Relief Association Consolidation Provisions to Situations Other Than Defined Benefit Volunteer Firefighters' Relief Associations (Art. 1, Sec. 48-49). The policy issue is the appropriateness of including in the volunteer firefighters' relief association consolidation chapter, Minnesota Statutes, Chapter 424B, provisions specifically designed to handle the consolidation of two or more defined contribution volunteer firefighters' relief associations or to handle the consolidation of a defined contribution volunteer firefighters' relief association and a defined benefit volunteer firefighters' relief association. The current volunteer firefighters' relief association consolidation chapter, Minnesota Statutes, Chapter 424B, was developed out of special consolidation legislation for the Crystal Volunteer Firefighters' Relief Association and the New Hope Volunteer Firefighters' Relief Association and for the Young America Volunteer Firefighters' Relief Association and Norwood Volunteer Firefighters' Relief Association, which were all defined benefit volunteer firefighters' relief associations. Because there has not been any special legislation requested for the consolidation of defined contribution volunteer firefighters' relief associations and has not been any apparent attempt to apply it to a consolidation of two defined contribution volunteer firefighters' relief associations or to apply it to a consolidation of a mixture of plan types, no immediate need has arisen to date to augment the current statutory design to cover these types of consolidations. The proposed consolidation provision expansion is an attempt to proactively anticipate these future situations.
6. Appropriateness of Permitting the Payment of PERA-P&F Employer Contributions from Fire State Aid For Municipalities without Volunteer Firefighters' Relief Associations (Art. 3, Sec. 1 and 15; Art. 4, Sec. 11). The policy issue is the appropriateness of allowing municipalities where there is no volunteer firefighters' relief association or paid firefighters' relief association to use fire state aid to pay all or a portion of the employer contributions to the Public Employees Police and Fire Retirement Plan (PERA-P&F) rather than solely using the fire state aid for fire department equipment and building purposes. Historically (i.e., before the mid-1970s), most municipalities with paid firefighters provided retirement coverage to paid firefighters through local paid firefighters' relief associations, with few (less than 100) firefighters covered by PERA-P&F. With the consolidation of some small paid fire relief associations in the early 1970s (i.e., Cloquet and Fridley), the phase-out of paid fire relief associations by special legislation in the mid- and late-1970s, and the general phase-out of paid fire relief associations by statute (Minnesota Statutes, Section 423A.01) in 1980, the number of paid firefighters covered by PERA-P&F has increased, with a further expansion of the number by a growing trend of partially paid and partially volunteer fire departments and in 1985 (consolidation of the Moorhead Fire Relief Association) and in 1987 and 1999 (the local police and fire relief association consolidation law and the local police and paid fire consolidation account merger into PERA-P&F). With the growth in the number of PERA-P&F-covered firefighters, the current statutory absence of authority to use fire state aid to pay PERA-P&F employer contributions for paid firefighters covered by that plan seems to be a function of a factual situation of a prior era. The working group was supportive of allowing fire state aid to be used to defray PERA-P&F employer contributions where no volunteer firefighters' relief association or paid firefighters' relief association exists, but was uncomfortable of allowing fire state aid to be used to defray PERA-P&F employer contributions where there are partially paid and partially volunteer fire departments, since there is no guarantee that the same level of financial support will be provided to the local relief associations if fire state aid is not fully dedicated to the relief association.
7. Appropriateness of the Clarification of the Threshold for Volunteer Firefighters' Relief Association Defined Benefit Increases without Municipal Approval (Art. 3, Sec. 3-4 and 12, and Art. 4, Sec. 12).

The policy issue is the appropriateness of the continued practice of permitting defined benefit volunteer firefighters' relief associations to increase service pensions without municipal approval, and if the practice remains appropriate, the appropriateness of clarifying the threshold for triggering that authority. The authority of a defined benefit volunteer firefighters' relief association to approve a benefit increase without municipal approval was added to the significant volunteer firefighters' relief association law revision that occurred in 1979 (Laws 1979, Chapter 201). The practice can occur if a volunteer firefighters' relief association is more than fully funded before and after the benefit increase and if the benefit increase does not consume more than 90 percent of the funding surplus. If a volunteer firefighters' relief association approved a benefit increase without municipal approval and the plan subsequently loses its fully funded position, the benefit level of the volunteer firefighters' relief association reverts to the last benefit level with municipal approval. The practice reflects a situation in some municipalities and with some volunteer firefighters' relief associations where there is a substantial difference of opinion over benefit levels or significant personality disagreements over time. With the economic declines that have occurred after September 11, 2001, and after Fall 2008, the fragility of the practice of revocable benefit increases without municipal approval probably has become clear to the volunteer firefighters' relief associations and municipalities and may have led to a diminution in the practice. If volunteer firefighters' relief association benefit levels are truly a major factor in the attraction and retention of firefighters, instability in benefit levels from fluid funding levels and past benefit increases without municipal approval will have negative impacts on firefighter morale and firefighting staffing levels. If the practice of benefit increases without municipal approval is to be retained in statute and followed by fire departments in the future, the proposed threshold clarification appears to be appropriate.

8. Appropriateness of Permitting a Return to Active Service by Deferred or Retired Firefighters (Art. 3, Sec. 7 and 17). The policy issue is the appropriateness of permitting deferred or retired firefighters to return to active firefighting service. The proposed legislation would reverse a total prohibition on retired firefighters returning to firefighting service, with an actual penalty if the former firefighter returns to active service, and would clarify when deferred firefighters who return to active service would again become eligible for additional service credit, become eligible for additional service pension amounts, and become eligible to have pre-break service credit accruing service pension amounts at a post-break accrual rate. The working group indicated that the end of the prohibition is proposed in order to meet current firefighter staffing needs, where younger volunteer firefighters are becoming more difficult to attract and returning retired members may supply the needed staffing levels. Most volunteer firefighters' relief associations pay a lump sum service pension and that service pension is not intended to supply all or any significant portion of the maintenance of the person's standard of living in retirement. Volunteer firefighters' relief association lump sum service pensions typically provide resources to fund late working career or early retirement major expenditure items and the level of those service pensions, which are currently capped at \$8,300 per year of service credit (\$166,000 at 20 years of service credit) for the most significantly resourced relief associations and for service pensions, may provide a significant temptation for senior firefighters to retire at or soon after reaching the normal retirement age, usually age 50, but before their capacity to render firefighting service ends and before their desire to provide those services concludes. If it is not determined to be appropriate to explore other alternatives, such as later normal retirement ages, and if essentially sham terminations of firefighting services are acceptable, the proposed change could permit this source of potential additional firefighters after an initial short-duration termination of firefighting services.
9. Appropriateness of Proposed Method for Crediting Monthly Service (Art. 3, Sec. 8, and Art. 4, Sec. 4). The policy issue is the appropriateness of permitting each volunteer firefighters' relief association to define in its bylaws a month of service credit of not less than 16 days and of specifying a default definition. Volunteer firefighters' relief associations have had longstanding authority to credit service monthly on a prorated basis. The proposed language was suggested by the Pension Division of the Office of the State Auditor in order to provide some greater consistency in the definitions of a "month," with any month credited as service credit requiring at least 16 days. The working group indicated support for the change. If the Commission has concerns about the definition parameters or the default definition, the Commission should consider taking testimony from the volunteer firefighter community about current definition practices and the impact of the definition revision.
10. Appropriateness of Proposed Refinement of the General Service Pension Uniformity Provision (Art. 3, Sec. 10, and Art. 4, Sec. 3 and 5). The policy issue is the appropriateness of replacing the current unspecific exception to the general service pension uniformity requirement ("except as otherwise provided in this section") with a sole exception for bylaw imposed caps on service credit. The current uniformity requirement is identical language as was part of the former Minnesota Statutes, Section 69.06, dating back to at least 1945. Minnesota Statutes 1978, Section 69.06, enacted in 1905 (Revised

Laws of 1905, Section 1655), was substantively replaced in 1979 by Minnesota Statutes, Section 424A.02, in setting the vesting and age requirements for a volunteer firefighter service pension, setting the maximum volunteer firefighters' relief association pension payable, setting a 30-year service credit maximum or monthly benefit volunteer firefighters' relief association service pensions, requiring a separation from active firefighting before qualifying for a volunteer firefighters' relief association service pension, and disallowing garnishment, execution, legal process, attachment, or assignment of a volunteer firefighters' relief association service pension. The statutory cap on monthly benefit volunteer firefighters' relief association service pensions was repealed a few years ago, so the only service credit maximum currently applicable would be imposed by relief association bylaws. The proposed specific exception appears consistent with the legal effect of the provision recodified from the former Minnesota Statutes, Section 69.06 into Minnesota Statutes, Section 424A.02, Subdivision 6, that occurred in 1979.

11. Appropriateness of Authorizing Alternative Casualty Insurance Coverage from Volunteer Firefighters' Relief Association Special Fund Assets (Art. 3, Sec. 14, and Art. 4, Sec. 10). The policy issue is the appropriateness of authorizing volunteer firefighters' relief associations to purchase from their special funds casualty insurance for their members from any licensed insurance company in lieu of the currently authorized coverage of the Volunteer Firefighters' Benefit Association of Minnesota. The Volunteer Firefighters' Benefit Association of Minnesota was incorporated in 1927 and was added as an authorized disbursement from a special fund of a volunteer firefighters' relief association in 1929 (Laws 1929, Chapter 166). The language of that disbursement inclusion has remained unchanged since 1929. The proposal for alternative casualty insurance coverage forwarded by the working group was wholly or largely prompted by the differential in rates charged on paid firefighters in combination paid-firefighter/volunteer-firefighter fire departments, currently \$121 per paid firefighter (\$128 for a paid firefighter and \$7 for a volunteer firefighter). Presumably, the rate differential reflects and actuarial judgment by the Volunteer Firefighters' Benefit Association of Minnesota about the increased injury or mortality risk for those firefighters, either because of the frequency of the fires fought by paid firefighters compared to volunteer firefighters in fire departments with a combination fire force or of the nature of firefighting duties generally assigned to paid firefighters compared to volunteer firefighters in those combination fire departments, although the most recent available examination (2004) for the Minnesota Department of Commerce did not focus on any membership risk differentials. Alternatively, the rate differentials could represent a preference by the Volunteer Firefighters' Benefit Association of Minnesota for volunteer firefighters and a bias by the company against paid firefighters in combination fire departments. The Volunteer Firefighters' Benefit Association of Minnesota has a competitive advantage over any other casualty insurer because its membership dues are payable from a volunteer firefighters' relief association special fund when no other insurance premiums are similarly treated. The Commission may wish to take testimony from the volunteer firefighter community to ascertain whether or not the proposed change is inappropriately disruptive for volunteer firefighters' relief associations.
12. Appropriateness of the Authorization of Trusts as Designated Beneficiaries (Art. 3, Sec. 14, and Art. 4, Sec. 10). The policy issue is the appropriateness of permitting a trust to be designated as a beneficiary for a volunteer firefighters' relief association survivor/death benefit other than from a monthly benefit volunteer firefighters' relief association. Other than supplemental needs trusts (see Minnesota Statutes, Section 356.465), no trust is authorized to be designated as a beneficiary by a Minnesota public pension plan because, unlike a supplemental needs trust, which is utilized to provide long-term support for a disabled family member and is measured by the life of that family member, trusts are potentially perpetual and could thereby extend the pension plan's liability. The working group recommends authorizing trusts as designated beneficiaries for volunteer firefighters' relief associations other than monthly benefit volunteer firefighters' relief associations because the trust is a useful device for handling survivor benefits for minor children of a firefighter and, for benefits paid in a lump sum, does not extend the pension plan's liability. Because the trust authorization proposal does not function to extend pension plan liability and applies to simple pension plans that lack any mortality risk, the situation can be readily and convincingly differentiated from the situation of all other Minnesota public pension plans and is unlikely to constitute a precedent for those other Minnesota public pension plans.
13. Appropriateness of Aligning Survivor Definitions for Volunteer Firefighters' Relief Associations and the Supplemental Lump Sum Volunteer Firefighter Benefit (Art. 3, Sec. 16, and Art. 4, Sec. 12). The policy issue is the appropriateness of revising the survivor definitions applicable to the supplemental lump sum volunteer firefighter benefit mandated by statute with the survivor definitions applicable to the balance of Minnesota Statutes, Chapter 424A. Before 2007, the Legislature was unaware that the supplemental lump sum volunteer firefighter benefit under Minnesota Statutes, Section 424A.10, was



payable on survivor benefits from volunteer firefighters' relief associations and the statute lacked any survivor-related disabilities. In 2007, an enhanced supplemental lump sum volunteer firefighter benefit was enacted for survivors of a deceased active or deferred volunteer firefighter and definitions of survivors were added to Minnesota Statutes, Section 424A.10. The 2007 supplemental benefit survivor definitions did not fully align with the other survivor definitions in Minnesota Statutes, Section 424A.001, was modified in 2008, further misaligning the definitions. An alignment of definitions will likely ease the task of volunteer firefighters' relief association officials in administering their relief association benefit plan and the state-mandated supplemental lump sum volunteer firefighter benefit.

Section-by-Section Summary of S.F. 1001 (Betzold); H.F. 1129 (Murphy, M.)

<u>Sec.</u>	<u>Pg.Ln-Pg.Ln</u>	<u>Stat. Provision</u>	<u>Summary</u>
<b><u>Article 1: Reorganization and Recodification of Volunteer Firefighter Retirement Provisions</u></b>			
1	1.19-1.23	New 420.20	Moves the fire department minor employment permit to serve as firefighter prohibition to a more appropriate statutory chapter.
2	1.24-1.26	424A.001, Subd. 1	Adds a common general exception to definitions introduction that definition does not apply if the context clearly indicates otherwise.
3	2.1-2.4	424A.001, Subd. 1a	Clarifies that the definition of “ancillary benefit,” applicable for a later limitation, only applies to non-service pensions payable from the special fund.
4	2.5-2.10	424A.001, New Subd. 1b	Adds a definition of “defined benefit relief association,” meaning a relief association that pays a lump sum service pension, a monthly benefit service pension, or both alternatively.
5	2.11-2.16	424A.001, New Subd. 1c	Adds a definition of “defined contribution relief association,” meaning a relief association that pays a service pension based solely on an individual account balance.
6	2.17-2.19	424A.001, Subd. 2	Adds appropriate articles before references to “municipal fire department” or “independent nonprofit firefighting corporations” in definition of “fire department.”
7	2.20-2.24	424A.001, Subd. 3	Adds establishment or contract execution references in definition of “municipality.”
8	2.25-3.6	424A.001, Subd. 4	Modifies “relief association” definition stylistically to replace lettered divisions with numbered divisions and improves language usage by replacing gerunds with appropriate verb form.
9	3.7-3.10	424A.001, Subd. 5	Adds the appropriate article before a reference to “special fund” in the definition of “special fund.”
10	3.11-3.15	424A.001, Subd. 6	Modifies the “surviving spouse” definition to eliminate an unnecessary comma and an unnecessary reference to “the term,” repositions the reference to “governing” and clarifies that the time of death confirming status is the death of the member.
11	3.16-3.21	424A.001, Subd. 8	Modifies the definition of “firefighting service” by adding a reference to “applicable” to the municipal approval requirement for independent nonprofit firefighting corporations and by adding a reference to “fire department” for fire prevention service.
12	3.22-3.27	424A.001, Subd. 9	Modifies the definition of “separation from active service” by adding “firefighter” as the subject of the sentence and replacing the string of infinitives with active tense verbs.
13	3.27-4.13	424A.001, Subd. 10	Modifies the definition of “volunteer firefighter” by clarifying that the membership requirements are alternative requirements and by adding “independent nonprofit” references to “firefighting corporation” references.
14	4.14-4.24	New 424A.002	Authorizes the creation of new volunteer firefighters’ relief associations or the continuation of existing volunteer firefighters’ relief associations, and requires that volunteer firefighters’ relief association bylaws or articles of incorporation specify whether the relief association is a defined benefit relief association or a defined contribution relief association.
15	4.25-5.33	424A.01	Revises subdivision to prohibit minors from being volunteer firefighters’ relief association members, to conform with the relocation of the restriction on minors as firefighters. Modifies the restrictions on volunteer firefighters and volunteer firefighters’ relief association membership by adding some explicit parallel verb references and by eliminating obsolete words and phrases to conform with current drafting and language usage conventions.
16	5.34-7.3	New 424A.015	Adds a section that sets forth the provisions that are generally applicable to volunteer firefighters’ relief associations and that are moved from current M.S., Sec. 424A.02, Subd. 1, Para. (d), and Subd. 6 (required separation from active service and exception and restriction on assignment or garnishment), Subd. 8a (purchase of annuity contract), and Subd.8b (transfer to an individual retirement account).

<u>Sec.</u>	<u>Pg.Ln-Pg.Ln</u>	<u>Stat. Provision</u>	<u>Summary</u>
17	7.4-10.35	New 424A.016	<p>Adds a section that:</p> <ol style="list-style-type: none"> <li>1. Specifically authorizes defined contribution lump sum service pension relief associations (Subd. 1);</li> <li>2. Repeats the service pension eligibility requirements from the current Sec. 424A.02, Subd. 1, that are applicable to defined contribution relief associations (Subd. 2);</li> <li>3. Transfers the defined contribution relief association vesting schedule from the last portion of current Sec. 424A.02, Subd. 2 (Subd. 3);</li> <li>4. Transfers the defined contribution relief association individual account provisions from the current Sec. 424A.02, Subd. 4 (Subd. 4);</li> <li>5. Adapts for defined contribution relief associations the installment payment authority of the current Sec. 424A.02, Subd. 8 (Subd. 5);</li> <li>6. Transfers the defined contribution relief association deferred service pension provision from the current Sec. 424A.02, Subd. 7 (Subd. 6);</li> <li>7. Adapts the limitation on ancillary benefits of the current Sec. 424A.02m, Subd. 9, for defined contribution relief associations (Subd. 7);</li> <li>8. Adapts the penalty for the payment of service pension without actual active service separation of the current Sec. 424A.02, Subd. 9b, for defined contribution relief associations (Subd. 8); and</li> <li>9. Adapts the bylaw amendment filing requirement of the current Sec. 424A.02, Subd. 10, for defined contribution relief associations (Subd. 9)</li> </ol>
18	11.1-12.9	424A.02, Subd. 1	Amends the defined benefit service pension authorization provision by clarifying that the entire section and the subdivision apply solely to defined benefit relief associations, clarifies that defined benefit service pensions must be earned under M.S., Chapter 424A, under the relief association articles of incorporation, and under the relief association bylaws, and clarifies the time test on inactive relief association membership for recently established relief associations.
19	12.10-13.13	424A.02, Subd. 2	Amends the vesting requirement provision by clarifying that the provision applies to defined benefit relief associations and by striking the defined contribution vesting provision transferred to new Sec. 424A.16.
20	13.14-20.21	424A.02, Subd. 3	Amends the flexible service pension maximums by clarifying that the provision applies to defined benefit relief associations and updates the provision to conform to the current language usage conventions. Incorporates the uniformity previously included in M.S., Sec.424A.02, Subd. 6, repealed to be divided into other sections in the article.
21	20.22-21.14	424A.02, Subd. 3a	Amends the excess service pension payment penalty by clarifying that the provision applies to defined benefit relief associations.
22	21.15-22.27	424A.02, Subd. 7	Amends the deferred service pension provision by clarifying that the provision applies to defined benefit relief associations, clarified that the specified qualifying service periods were alternative provisions and re-letters later paragraphs with the elimination of the defined contribution relief association provision moved to new Sec. 424A.016.
23	22.28-23.13	424A.02, Subd. 8	Amends the lump sum service pension installment payment provision by clarifying that the provision applies to defined benefit relief associations, updates the provision to conform to the current language usage conventions, and replaces outdated references to the Commissioner of Commerce with references to the State Auditor with respect to promulgating installment payment liability calculation procedures and tables.
24	23.14-24.7	424A.02, Subd. 9	Amends the ancillary benefit limitation provision by clarifying that the provision applies to defined benefit relief associations.
25	24.8-24.19	424A.02, Subd. 9a	Amends the postretirement increase provision by clarifying that the provision applies to defined benefit relief associations and updates the provision to conform to the current language usage conventions.
26	24.20-24.27	424A.02, Subd. 9b	Amends the service pension repayment provision by clarifying that the provision applies to defined benefit relief associations and updates the provision to conform to current language usage conventions.
27	24.28-25.36	424A.02, Subd. 10	Amends the bylaw amendment local approval and filing requirement by clarifying that the provision applies to defined benefit relief associations and updates the provision to conform to current language usage conventions.
28	26.1-26.11	424A.02, Subd. 12	Amends the new fire district service credit transfer provision by clarifying that the provision applies to defined benefit relief associations and updates the provision to conform to current language usage conventions.

Sec.	Pg.Ln-Pg.Ln	Stat. Provision	Summary
29	26.12-26.30	424A.02, Subd. 13	Amends the combined service pension provision by clarifying that the provision applies to defined benefit relief associations and updates the provision to conform to current language usage conventions.
30	26.31-27.20	424A.021	Amends the uniformed service break-in-service provision by clarifying that defined contribution relief associations providing break-in-service coverage is special fund revenue allocation and not solely special fund investment return allocation.
31	27.21-28.8	424A.03	Amends the partially paid and partially volunteer firefighters' relief association uniformity provision by updating the provision to conform to current language usage conventions.
32	28.9-30.23	424A.04	Amends the volunteer firefighters' relief association board of trustees provision by updating the provision to conform to current language usage conventions and transfers the former prohibited transaction restriction of the current M.S., Sec. 424A.001, Subd. 7, to this section.
33	30.24-30.26	424A.05, Subd. 1	Amends the volunteer firefighters' relief association special fund provision establishment provision by adding a reference to "volunteer firefighters" to a relief association reference.
34	30.27-31.7	424A.05, Subd. 2	Amends the volunteer firefighters' relief association special fund asset and revenue provision by updating the provision to conform to current language usage conventions.
35	31.8-31.28	424A.05, Subd. 3	Amends the volunteer firefighters' relief association special fund disbursement provision by updating the provision to conform to current language usage conventions.
36	31.29-31.31	424A.05, Subd. 4	Amends the volunteer firefighters' relief association special fund investment provision by updating the provision to conform to current language usage conventions.
37	31.32-32.19	424A.06	Amends the volunteer firefighters' relief association general fund provision by updating the provision to conform to current language usage conventions.
38	32.20-32.27	424A.07	Amends the nonprofit firefighting corporation relief association establishment provision by updating the provision to conform to current language usage conventions.
39	32.2833.9	424A.08	Amends the provision governing the use of fire state aid by municipalities without relief associations to update the provision to conform to current language usage conventions.
40	33.10-33.26	424A.10, Subd. 1	Amends the state volunteer firefighters' lump sum supplemental benefit definitions provision by updating the provision to conform to current language usage conventions.
41	33.27-34.12	424A.10, Subd. 2	Amends the state volunteer firefighters' lump sum supplemental benefit payment of supplement benefit provision by updating the provision to conform to current language usage conventions.
42	34.13-34.34	424A.10, Subd. 3	Amends the state volunteer firefighters' lump sum supplemental benefit state reimbursement provision by updating the provision to conform to current language usage conventions.
43	35.1-35.9	424A.10, Subd. 4	Amends the state volunteer firefighters' lump sum supplemental benefit in lieu of income tax exclusion provision by updating the provision to conform to current language usage conventions.
44	35.10-35.15	424A.10, Subd. 5	Amends the state volunteer firefighters' lump sum supplemental benefit retroactive reimbursement provision by updating the provision to conform to current language usage conventions.
45	35.16-35.20	424B.10, New Subd. 1a	Amends the consolidating volunteer firefighters' relief association benefits and funding provision to clarify that the provision applies to situations where all relief associations are defined benefit relief associations.
46	35.21-36.10	424B.10 New Subd. 1b	Replicates existing M.S., Sec. 424B.10, Subd. 1, repealed in Sec. 50, as new subdivisions with a specification a consolidation of two defined benefit relief associations must produce a defined benefit relief association as a successor.
47	36.11-36.24	424B.10, Subd. 2	Updates the provision to conform with current language usage conventions.

Sec.	Pg.Ln-Pg.Ln	Stat. Provision	Summary
48	36.25-37.11	New 424B.11	Adds a benefits and funding provision for consolidations where all relief associations are defined contribution relief associations, adapting the regulation contained in the current M.S., Sec. 424B.10.
49	37.12-37.29	New 424B.12	Adds a benefits and funding provision for consolidations where the relief associations include both defined benefit and defined contribution relief associations, adapting the regulation contained in the current M.S., Sec. 424B.10
50	37.30-38.2	Repealer	Six current statutory provisions are repealed for purposes of transfer to a different position as part of the recodification and one current statutory provision is repealed as an obsolete transition provision from 1979. The recodification provisions are M.S., Sections: 424A.001, Subd. 7; Prohibited Transactions, moved to Sec. 424A.04 424A.02, Subd. 4; Defined Contribution Service Pensions, moved to new Sec. 424A.017 424A.02, Subd. 6; Service Pension Payment and Nonassignability, moved to new Sec. 424A.015 and 424A.017 424A.02, Subd. 8a; Annuity Contract Purchase, moved to new Sec. 424A.015 424A.02, Subd. 8b; Individual Retirement Account Transfer, moved to new Sec. 424A.015 424B.10 Subd. 1 Post-Consolidation Benefits, replicated in new Sec. 424B.10, Subd. 1b The obsolete provision is M.S., Sec. 424A.09
51		Effective Date	Generally effective July 1, 2009.

**Article 2: Conforming Changes**

1	38.11-40.15	69.771, Subd. 3	Amends volunteer firefighters' relief association compliance requirements for fire state aid qualification to add defined benefit relief associations with respect to municipal approval by bylaw amendments requirement and to correct cross-reference to prohibited transaction provision.
2	40.16-40.27	424B.21	Amends volunteer firefighters' relief association dissolution annuity purchase authority provision by correcting cross-references for annuity contract authority and minimum retirement age provisions.

**Article 3: Volunteer Firefighter Relief Association General Changes**

1	40.31-42.33	69.031, Subd. 5	Permits the payment of Public Employees Police and Fire Retirement Plan (PERA-P&F) employer contributions for paid firefighters from fire state aid allocations if the municipality has no volunteer firefighters' relief association.
2	42.34-43.33	69.772, Subd. 4	Sets a March 31 or June 30 due date for lump sum volunteer firefighters' relief association schedules and forms filed with the Office of the State Auditor.
3	43.34-44.34	69.772, Subd. 6	Clarifies that the trigger for lump sum volunteer firefighters' relief associations to exercise their power to implement a service pension increase without municipal approval is based on the special fund funded ratio reported in the prior year.
4	44.35-45.31	69.773, Subd. 6	Clarifies that the trigger for a monthly benefit volunteer firefighters' relief association to exercise its power to implement a service pension increase without municipal approval is based on the special fund funded ratio reported in the prior year.
5	45.32-47.30	356.219, Subd. 3	Corrects a reference to the name of the CFA (Chartered Financial Analyst) Institute in a pension plan investment reporting provision.
6	47.31-48.7	424A.01, Subd. 1	Creates an exception to the prohibition for minors participating in fire department activities for activities with uninterrupted adult supervision as part of a youth, civic, or educational organization or program.
7	48.8-49.28	424A.01, New Subd. 6	Allows volunteer firefighters' relief associations, if their bylaws so provide, to permit retired firefighters to return to active membership, to credit post-retirement firefighting service if the firefighter meets any minimum resumed service credit period specified in the bylaws, to receive an additional service credit if the returning firefighter vests based on the resumed service, and, if the firefighter has sufficient service as provided in the bylaws of a lump sum volunteer firefighters' relief association, have the most recent service pension amount apply to both pre-resumption and post-resumption service credit in lieu of any deferred service pension interest, if applicable.

Sec.	Pg.Ln-Pg.Ln	Stat. Provision	Summary
8	49.2951.5	424A.02, Subd. 1	Volunteer firefighters' relief associations are permitted to define, in their bylaws, a "month" for monthly service crediting programs, with a minimum of 16 days to constitute a month and a default definition of month as a completed calendar month measured from the entry anniversary date to the same day of the next month.
9	51.6-52.1	424A.02, Subd. 3a	Transfers the onus for the collection of overpaid deferred benefit service pension amounts from the Office of the State Auditor to the volunteer firefighters' relief association treasurer upon receipt of an order from the State Auditor.
10	52.2-52.17	424A.02, Subd. 6	Modifies the service pension uniformity requirement to clarify that the exception to uniformity related to any relief association bylaw service credit maximums.
11	52.18-53.7	424A.02, Subd. 8	Extends the authority to make installment payments from service pensions to include survivor benefits and simplifies the manner in which installment payments are to be calculated.
12	53.8-54.16	424A.02, Subd. 10	Clarifies that the trigger for volunteer firefighters' relief associations to exercise their power to implement a service pension increase without municipal approval is based on the special fund funded ratio reported in the prior year.
13	54.17-55.35	424A.04, Subd. 1	Clarifies the municipal representatives on the board of a volunteer firefighters' relief association associated with a joint powers board, a township, or an unorganized territory.
14	56.1-56.34	424A.05, Subd. 3	Separates out the Minnesota State Fire Department Association (MSFDA) or Minnesota Area Relief Association Coalition (MARAC) dues from state Volunteer Firefighters' Benefit Association premiums, permits the purchase of casualty insurance from a licensed insurance company instead of the Volunteer Firefighters' Benefit Association, and limits the current restriction on designated beneficiaries to natural persons to monthly benefit volunteer firefighter relief associations and permits trusts under M.S., Chapter 501B, to be a designated beneficiary for defined contribution volunteer fire relief associations, lump sum volunteer fire relief associations, and combination volunteer fire relief associations where a lump sum service pension or benefit is payable
15	57.1-57.23	424A.08	Permits municipalities with a volunteer firefighters' relief association to use fire state aid to pay the employer contributions to the Public Employees Police and Fire Retirement Plan (PERA-P&F) for any paid firefighters.
16	57.24-58.8	424A.10, Subd. 1	Aligns the definition of surviving spouse or surviving child for the mandated supplemental lump sum volunteer firefighter benefit with the definitions for the balance of M.S., Chapter 424A.
17	58.9-58.11	Repealer	M.S., Sec. 424A.02, Subd. 9b, requiring the repayment of a service pension by a retired volunteer firefighter who resumes active firefighting service, is repealed.

**Article 4: Accommodating Changes**

1	58.14-58.24	New 420.20	If Art. 1, Sec. 1, and Art. 3, Sec. 6, are enacted, the section conforms the placement change of Art. 1, Sec. 1, with the substantive change of Art. 3, Sec. 6.
2	58.25-59.8	424A.01, Subd. 1	If Art. 1, Sec. 15, and Art. 3, Sec. 6, are enacted, the section conforms the recodification change of Art. 1, Sec. 15, with the substantive change of Art. 3, Sec. 6.
3	59.9-63.2	New 424A.016	If Art. 1, Sec. 17, and Art. 3, Sec. 8 and 10, are enacted, the section conforms the recodification change of Art. 1, Sec. 17, with the substantive change of Art. 3, Sec. 8 and 10.
4	63.3-64.18	424A.02, Subd. 1	If Art. 1, Sec. 18, and Art. 3, Sec. 8, are enacted, the section integrates the stylistic and related changes from recodification and the substantive changes permitting volunteer firefighters' relief association bylaw definitions of monthly service crediting.
5	64.19-71.28	424A.02, Subd. 3	If Art. 1, Sec. 20, and Art. 3, Sec. 10, are enacted, the section adds the clarification of the exception to the service pension uniformity requirement in the recodification.
6	71.29-72.25	424A.02, Subd. 3a	If Art. 1, Sec. 21, and Art. 3, Sec. 9, are enacted, the section adds the stylistic and related changes from recodification and the substantive change shifting the onus for collecting service pension payments in excess of the flexible service pension maximum from the State Auditor to the relief association treasurer.
7	72.26-73.15	424A.02, Subd. 8	If Art. 1, Sec. 23, and Art. 3, Sec. 11, are enacted, the section integrates the stylistic and related changes from recodification and the substantive changes easing the installment lump sum service pension payment procedures.

<u>Sec.</u>	<u>Pg.Ln-Pg.Ln</u>	<u>Stat. Provision</u>	<u>Summary</u>
8	73.16-74.25	424A.02, Subd. 10	If Art. 1, Sec. 27, and Art. 3, Sec. 12, are enacted, the section integrates the stylistic and related changes from recodification and the substantive change clarifying the threshold determination for a volunteer firefighters' relief association benefit increase without municipal approval.
9	74.26-76.10	424A.04, Subd. 1	If Art. 1, Sec. 32, and Art. 3, Sec. 13, are enacted, the section integrates the stylistic and related changes from recodification and the substantive changes clarifying the municipal representatives for joint powers fire departments, for township fire departments, and for unorganized territory fire departments.
10	76.11-77.11	424A.05, Subd. 3	If Art. 1, Sec. 35, and Art. 3, Sec. 14, are enacted, the section integrates the stylistic and related changes from recodification and the substantive changes of permitting disbursements for premiums from a casualty insurer other than the Volunteer Firefighters' Benefit Association of Minnesota and permitting the designation of a trust as the beneficiary of a volunteer firefighter with a lump sum benefit.
11	77.12-78.2	424A.08	If Art. 1, Sec. 39, and Art. 3, Sec. 15, are enacted, the section conforms the language style and usage changes of Art. 1, Sec. 39, with the substantive change of Art. 3, Sec. 15.
12	78.3-78.22	424A.10, Subd. 1	If Art. 1, Sec. 40, and Art. 3, Sec. 16, are enacted, the section integrates the stylistic and related changes from recodification and the substantive change of aligning the supplemental lump sum volunteer firefighter benefit survivor definitions with the other M.S., Chapter 424A, survivor definition.
13	78.23-78.26	Repealer	If Art. 1, Sec. 26, and Art. 3, Sec. 16, are enacted, the amended version of M.S., Sec. 424A.02, Subd. 9b, would be repealed.

**Attachment A**

**Funded Condition and Financing Requirements of Minnesota  
Volunteer Firefighters' Relief Associations 1974-2006**

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 obtained by the Insurance Department and by the Office of the State Auditor (1980 through 2006):

		<b>Number of Plans</b>												
Year:		1974	1977	1980	1982	1984	1986	1987	1988	1989	1990	1991	1992	1993
<u>Lump Sum</u>														
Under \$50/yr		134	110	72	28	23	11	12	8	10	10	9	13	12
\$50-\$100/yr		122	116	79	68	60	39	33	28	25	23	19	17	16
\$100-\$200/yr		122	118	131	133	132	99	88	85	62	50	55	60	59
\$200-\$300/yr		5	45	81	83	88	115	123	108	114	108	99	84	79
\$300+/yr		7	57	124	18	237	277	293	331	355	379	396	419	429
Total Lump Sum		390	446	487	330	540	541	549	560	566	570	578	593	595
<u>Monthly Benefit</u>														
Under \$2/mo/yr		41	16	3	0	6	8	--	--	--	--	--	--	--
Over \$1.99/mo/yr		10	32	26	24	23	22	33	30	28	27	26	29	27
Total Monthly		51	48	29	24	29	30	33	30	28	27	26	29	27
Mo/Lump Sum Comb.		--	--	--	--	--	--	--	--	--	--	--	--	2
Defined Contribution		52	54	45	56	68	66	66	72	68	67	66	72	73
No Benefits		42	27	33	8	5	7	2	1	2	--	--	--	--
Total		535	575	594	580	642	641	650	663	664	664	671	694	697
Year:		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<u>Lump Sum</u>														
Under \$50/yr		10	10	8	7	--	--	--	--	--	1	3	3	5
\$50-\$100/yr		16	13	13	10	13	13	10	6	7	3	6	6	4
\$100-\$200/yr		55	49	39	45	36	26	20	19	16	14	13	12	4
\$200-\$300/yr		78	74	67	61	51	42	35	30	24	24	21	14	13
\$300+/yr		439	453	445	470	492	512	530	539	549	535	526	528	564
Total Lump Sum		598	599	572	593	592	593	595	594	596	577	569	563	590
<u>Monthly Benefit</u>														
Under \$2/mo/yr		--	--	--	--	--	--	--	--	--	--	--	--	--
Over \$1.99/mo/yr		12	10	7	8	7	5	5	5	5	5	5	5	5
Total Monthly		12	10	7	8	7	5	5	5	5	5	5	5	5
Mo/Lump Sum Comb.		15	15	16	16	16	23	18	18	18	20	18	19	18
Defined Contribution		74	76	76	80	84	85	87	88	89	84	87	86	87
No Benefits		--	--	--	--	--	--	--	--	--	--	--	--	--
Total		699	700	671	697	699	706	705	705	708	686	679	673	700

The numbers presented above and below 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 95.59 percent of lump sum volunteer firefighter relief associations currently 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. Over the period 1974-2006, the number of volunteer firefighter relief associations providing lump sum service pensions has been reasonably consistent but there has been a significant drop in the number of volunteer firefighter relief associations providing monthly benefit service pensions, an emergence of volunteer firefighter relief associations providing a combination of monthly benefit and lump sum service pensions, a modest growth in the number of volunteer firefighter relief associations providing "split-the-pie" or defined contribution service pensions, and the apparent elimination of volunteer firefighter relief associations which provide no service pension coverage.



### Membership

<b>Members</b>	<b>1974</b>	<b>1977</b>	<b>1980</b>	<b>1982</b>	<b>1984</b>	<b>1986</b>	<b>1987</b>	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>
<b>Actives</b>													
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
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
Combination	--	--	--	--	--	--	--	--	--	--	--	--	100
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
No Benefits	820	558	278	114	63	83	35	20	37	--	--	--	--
<b>Total Actives</b>	<b>12,463</b>	<b>14,321</b>	<b>12,258</b>	<b>14,656</b>	<b>15,584</b>	<b>15,412</b>	<b>15,930</b>	<b>16,198</b>	<b>16,395</b>	<b>16,720</b>	<b>16,656</b>	<b>16,387</b>	<b>16,934</b>
<b>Deferreds</b>													
Lump Sum		139	170	296	381	451	609	520	558	639	718	841	945
Monthly		117	68	32	39	50	61	67	76	92	78	88	100
Combination		--	--	--	--	--	--	--	--	--	--	--	1
Defined Contrib.		12	3	9	18	29	26	29	36	68	39	122	150
No Benefits		--	8	0	0	0	0	0	0	--	--	--	--
<b>Total Deferreds</b>		<b>268</b>	<b>249</b>	<b>337</b>	<b>438</b>	<b>530</b>	<b>696</b>	<b>616</b>	<b>670</b>	<b>799</b>	<b>835</b>	<b>1,051</b>	<b>1,196</b>
<b>Retirees</b>													
Lump Sum		--	527	363	410	177	124	177	173	165	214	148	173
Monthly		400	249	302	413	444	547	493	483	472	494	527	566
Combination		--	--	--	--	--	--	--	--	--	--	--	26
Defined Contrib.		--	38	3	20	1	1	18	19	23	23	14	8
No Benefits		--	67	0	0	0	0	0	0	--	--	--	--
<b>Total Retirees</b>		<b>400</b>	<b>881</b>	<b>668</b>	<b>843</b>	<b>622</b>	<b>672</b>	<b>688</b>	<b>675</b>	<b>660</b>	<b>731</b>	<b>689</b>	<b>773</b>
<b>Total Members</b>													
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
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
Combination		--	--	--	--	--	--	--	--	--	--	--	127
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
No Benefits		558	353	114	63	83	0	20	37	--	--	--	--
<b>Total Members</b>		<b>14,989</b>	<b>13,388</b>	<b>15,661</b>	<b>16,865</b>	<b>16,564</b>	<b>17,263</b>	<b>17,502</b>	<b>19,684</b>	<b>18,179</b>	<b>18,222</b>	<b>18,127</b>	<b>18,903</b>

<b>Members</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Actives</b>													
Lump Sum	14,187	14,189	13,655	14,022	13,854	12,612	13,244	13,691	13,767	13,638	13,545	13,406	13,943
Monthly	525	464	307	313	324	208	208	206	159	188	197	199	183
Combination	735	726	807	775	746	879	840	790	847	898	824	866	861
Defined Contrib.	1,647	1,721	1,727	1,972	2,033	2,039	2,106	2,182	2,222	2,136	2,201	2,202	2,249
No Benefits	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Total Actives</b>	<b>17,094</b>	<b>17,100</b>	<b>16,496</b>	<b>17,082</b>	<b>16,957</b>	<b>15,738</b>	<b>16,398</b>	<b>16,869</b>	<b>16,995</b>	<b>16,860</b>	<b>16,767</b>	<b>16,673</b>	<b>17,236</b>
<b>Deferreds</b>													
Lump Sum	1,074	1,222	1,333	1,538	1,640	1,660	1,801	1,948	2,042	2,041	2,021	2,001	2,135
Monthly	62	57	45	44	56	34	29	31	19	30	29	24	31
Combination	64	80	89	79	90	114	157	196	216	243	242	240	215
Defined Contrib.	171	188	166	508	266	528	666	722	738	781	775	762	721
No Benefits	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Total Deferreds</b>	<b>1,371</b>	<b>1,547</b>	<b>1,633</b>	<b>2,169</b>	<b>2,052</b>	<b>2,336</b>	<b>2,653</b>	<b>2,897</b>	<b>3,015</b>	<b>3,095</b>	<b>3,067</b>	<b>3,027</b>	<b>3,102</b>
<b>Retirees</b>													
Lump Sum	187	184	90	76	56	36	316	538	507	515	539	473	568
Monthly	312	261	198	207	206	153	164	178	149	188	197	208	208
Combination	271	267	312	349	344	424	413	400	392	439	417	417	412
Defined Contrib.	6	7	5	5	11	17	62	58	64	67	68	87	70
No Benefits	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Total Retirees</b>	<b>776</b>	<b>719</b>	<b>605</b>	<b>637</b>	<b>617</b>	<b>630</b>	<b>955</b>	<b>1,174</b>	<b>1,112</b>	<b>1,209</b>	<b>1,221</b>	<b>1,185</b>	<b>1,258</b>
<b>Total Members</b>													
Lump Sum	15,448	15,595	15,078	15,636	15,550	14,308	15,361	16,177	16,316	16,194	16,105	15,880	16,656
Monthly	899	782	550	564	586	395	401	415	327	406	423	431	422
Combination	1,070	1,073	1,208	1,203	1,180	1,417	1,410	1,386	1,455	1,580	1,483	1,523	1,488
Defined Contrib.	1,824	1,916	1,898	2,485	2,310	2,584	2,834	2,962	3,024	2,984	3,044	3,051	3,040
No Benefits	--	--	--	--	--	--	--	--	--	--	--	--	--
<b>Total Members</b>	<b>19,241</b>	<b>19,366</b>	<b>18,734</b>	<b>19,888</b>	<b>19,626</b>	<b>18,704</b>	<b>20,006</b>	<b>20,940</b>	<b>21,122</b>	<b>21,164</b>	<b>21,055</b>	<b>20,885</b>	<b>21,606</b>

Over the period 1977-2006, 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 80.89 percent in 2006), 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 1.06 percent in 2006 without considering combination relief associations or to 6.06 percent with the inclusion of combination relief associations in 2006), and a rough doubling from 1977 to 2006 in 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, 2001-2002, and 2005-2006, 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 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 not always tracked, the retired membership and total membership results are not wholly reliable.

### Liabilities, Assets, Fire State Aid, and Municipal Contributions

Year:	1977	1980	1982	1984	1986	1987	1988	1989	1990
<u>Accrued Liabilities</u>									
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
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
Combination	--	--	--	--	--	--	--	--	--
Defined Contrib.	1,444,286	1,219,645	2,094,808	4,417,375	5,927,094	6,449,852	8,704,595	9,581,000	10,434,995
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
<u>Assets</u>									
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
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
Combination	--	--	--	--	--	--	--	--	--
Defined Contrib.	1,444,286	1,219,645	2,094,808	4,417,375	5,927,094	6,449,852	8,704,595	9,581,000	10,434,995
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
<u>Normal Cost</u>									
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
Monthly	463,651	337,988	515,211	1,503,450	934,147	957,484	859,673	755,699	1,355,894
Combination	--	--	--	--	--	--	--	--	--
Defined Contrib.	151,019	500	8,769	32,776	504,008	539,181	632,067	616,205	611,359
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
<u>Fire State Aid</u>									
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
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
Combination	--	--	--	--	--	--	--	--	--
Defined Contrib.	143,460	166,375	205,638	334,357	430,992	436,382	550,993	533,395	517,789
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
<u>Municipal Contribution</u>									
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
Monthly	277,370	164,259	284,988	2,434,045	441,115	751,488	620,926	633,533	739,970
Combination	--	--	--	--	--	--	--	--	--
Defined Contrib.	21,569	11,296	26,879	36,797	73,016	102,799	81,074	82,810	93,570
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

Year:	1991	1992	1993	1994	1995	1996	1997	1998
<u>Accrued Liabilities</u>								
Lump Sum	92,771,460	94,145,127	102,546,702	107,486,014	113,855,616	119,936,745	130,642,738	145,966,781
Monthly	44,543,835	47,327,072	52,161,236	28,830,599	24,678,407	14,839,392	17,085,291	20,340,226
Combination	--	--	2,454,593	27,615,459	28,819,704	38,743,123	39,644,188	42,204,240
Defined Contrib.	11,349,299	16,586,370	18,095,687	17,590,749	25,919,681	28,832,841	38,390,049	44,757,368
Total Accr. Liab.	148,664,594	158,058,569	175,258,218	181,522,821	193,273,408	202,352,101	225,762,266	253,268,615
<u>Assets</u>								
Lump Sum	95,265,007	95,375,295	105,920,681	105,073,259	122,226,938	133,172,234	153,037,774	172,113,829
Monthly	40,225,667	46,002,578	47,765,817	27,362,519	22,953,953	13,813,247	16,602,144	20,504,773
Combination	--	--	2,196,505	21,609,884	25,008,817	37,619,149	40,851,421	43,579,741
Defined Contrib.	11,349,299	16,586,370	18,095,687	17,590,749	25,919,681	28,832,841	38,390,049	44,757,368
Total Assets	146,839,973	157,964,243	173,978,690	171,636,411	196,109,389	213,437,471	248,881,388	280,955,711
<u>Normal Cost</u>								
Lump Sum	9,004,068	8,965,833	9,921,518	10,211,254	10,869,651	11,214,171	12,219,929	13,311,487
Monthly	1,575,915	1,600,109	1,625,173	875,806	686,563	346,433	358,792	470,770
Combination	--	--	120,725	939,552	981,755	1,322,315	1,269,951	1,307,322
Defined Contrib.	603,678	919,866	855,696	928,280	1,411,551	2,098,195	2,684,271	2,553,138
Total Normal Cost	11,183,661	11,485,808	12,523,112	12,954,892	13,949,520	14,981,114	16,532,943	17,642,717
<u>Fire State Aid</u>								
Lump Sum	4,929,212	4,739,140	4,242,494	4,950,397	5,211,582	8,060,595	7,140,394	7,731,336
Monthly	1,667,813	1,801,399	1,548,161	858,681	689,483	512,496	554,859	643,057
Combination	--	--	154,328	934,346	995,205	1,486,949	1,434,117	1,386,971
Defined Contrib.	504,419	774,684	707,024	782,147	1,172,687	1,536,620	1,855,313	2,038,308
Total Fire State Aid	7,101,444	7,315,223	6,652,007	7,525,571	8,068,957	11,596,660	10,984,683	11,799,672
<u>Municipal Contribution</u>								
Lump Sum	1,858,245	2,281,421	2,613,573	2,691,177	2,803,095	3,276,302	2,680,940	2,442,795
Monthly	849,286	1,085,807	1,223,934	613,418	724,911	341,465	305,466	353,220
Combination	--	--	37,957	680,895	870,130	1,029,153	1,010,042	1,029,535
Defined Contrib.	99,259	145,182	148,672	146,133	238,864	561,575	828,958	514,830
Total Mun. Contr.	2,806,790	3,512,410	4,024,136	4,131,623	4,637,000	5,208,495	4,825,406	4,340,380

<u>Year:</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Accrued Liabilities</u>								
Lump Sum	150,761,568	171,611,378	186,795,976	192,569,597	194,794,196	203,853,989	213,118,264	231,926,073
Monthly	14,338,052	15,008,219	16,915,086	12,923,387	17,273,137	17,553,960	17,955,395	19,099,696
Combination	54,526,028	54,173,717	57,952,711	62,876,598	64,965,158	66,391,848	71,303,719	72,001,594
Defined Contrib.	50,606,325	47,427,772	47,259,294	43,432,178	52,255,072	59,427,576	63,913,404	72,770,246
Total Accr. Liab.	270,231,973	288,221,086	308,923,067	311,801,760	329,287,563	347,227,373	366,290,782	395,797,609
<u>Assets</u>								
Lump Sum	179,343,843	183,279,497	179,424,046	165,317,015	191,684,693	212,747,877	225,090,170	259,293,564
Monthly	14,132,149	13,960,203	13,385,232	9,532,988	14,070,080	15,517,757	16,703,427	18,847,441
Combination	59,072,419	55,443,773	51,172,825	47,442,209	58,629,038	63,251,682	68,547,108	71,325,838
Defined Contrib.	50,606,325	47,427,772	47,259,294	43,432,178	52,255,072	59,427,576	63,913,404	72,770,246
Total Assets	303,154,736	300,111,245	291,241,397	265,724,390	316,638,883	350,944,892	374,254,109	422,237,089
<u>Normal Cost</u>								
Lump Sum	13,514,162	15,189,092	16,483,865	16,892,504	17,049,848	17,789,289	18,575,701	20,032,670
Monthly	284,860	312,019	340,067	261,434	306,217	328,271	363,133	357,569
Combination	1,515,019	1,662,901	1,674,601	1,844,560	1,949,341	1,868,049	1,966,756	1,865,294
Defined Contrib.	2,640,890	2,753,206	3,004,038	3,288,331	3,759,743	4,644,018	4,655,090	5,068,303
Total Normal Cost	17,954,931	19,917,218	21,502,571	22,286,829	23,065,149	24,629,627	25,560,680	27,323,836
<u>Fire State Aid</u>								
Lump Sum	7,391,107	7,937,916	8,644,841	9,378,276	11,297,078	14,484,884	14,064,593	15,456,748
Monthly	379,802	395,685	426,640	418,469	611,511	800,985	756,976	806,357
Combination	1,765,592	1,753,859	1,789,869	2,148,174	2,656,437	3,370,816	3,260,210	3,186,403
Defined Contrib.	2,091,608	2,212,814	2,385,099	2,639,147	3,206,483	4,111,912	3,993,034	4,228,956
Total Fire State Aid	11,628,109	12,300,274	13,246,449	14,584,066	17,771,509	22,768,597	22,074,813	23,678,464
<u>Municipal Contribution</u>								
Lump Sum	2,360,961	2,375,285	2,732,044	4,202,331	4,806,194	5,562,093	4,140,141	4,036,956
Monthly	273,287	279,476	309,149	176,255	307,461	386,110	511,574	488,211
Combination	1,113,773	1,069,335	1,106,226	1,351,792	1,553,591	1,331,760	1,239,171	1,238,386
Defined Contrib.	549,282	540,392	618,939	649,184	553,260	532,106	662,056	839,347
Total Mun. Contr.	4,297,303	4,264,488	4,766,358	6,379,562	7,220,506	7,812,069	6,552,942	6,602,900

Over the period 1977-2006, there has been a significant increase in volunteer firefighter relief association accrued liabilities. For defined contribution volunteer firefighter relief associations, the relief association accrued liability is equal to the relief association assets. There has been a general growth in volunteer firefighter relief association assets over the 29-year period, until 2000-2001, when there was a general decline in the size of volunteer firefighter relief association assets and a resumption of growth after 2002 until 2006. 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 1977-2006, but fire state aid pays a smaller portion of the normal cost of volunteer firefighter relief association in 2002 than it did in 1977, 55.5 percent of the total normal cost in 2006 as compared to 96.5 percent of the total normal cost in 1977. The average amount of fire state aid per active member in 2006, with combination volunteer firefighter relief associations an average of \$2,536.21 in fire state aid per active member in 2002, with lump sum volunteer firefighter relief associations receiving an average of \$1,109 in fire state aid per active member in 2006, and with defined contribution volunteer firefighter relief associations receiving an average of \$1,880 in fire state aid per active member in 2006. The average per active member fire state aid amounts in 1977 were \$378 for monthly benefit volunteer firefighter relief associations, \$130.01 for lump sum volunteer firefighter relief associations, and \$114 for defined contribution volunteer firefighter relief associations. Although total municipal contributions to volunteer firefighter relief associations also grew at over the period 1977-2006, 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 24.2 percent of normal cost in 2006. The average amount of municipal contribution per active firefighter in 2006 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 \$1,438 in municipal contributions, with monthly benefit volunteer firefighter relief associations receiving an average of \$1,157 in municipal contributions, with lump sum volunteer firefighter relief associations receiving an average of \$290 in municipal contributions, and with defined contribution volunteer firefighter relief associations receiving an average of \$373 in municipal contributions.

## Attachment B

### Background Information on the Regulation of Volunteer Firefighter Relief Associations

- A. In General. Fire coverage in Minnesota is provided through approximately 800 firetowns. Pension coverage for paid firefighters is provided by the Public Employees Police and Fire Plan (PERA-P&F), three paid firefighter relief associations (Bloomington, Minneapolis, and Virginia), and 18 former paid firefighter consolidation accounts that were merged into PERA-P&F in 1999 (Albert Lea, Austin, Chisholm, Columbia Heights, Crookston, Duluth, Faribault, Hibbing, Mankato, Red Wing, Richfield, Rochester, St. Cloud, St. Louis Park, St. Paul, South St. Paul, West St. Paul, and Winona).

Coverage for volunteer firefighters in the state's roughly 800 firetowns is provided by approximately 700 volunteer firefighter relief associations. Although the Bloomington Firefighters Relief Association provides retirement coverage to firefighters in what the municipality and others consider to be a volunteer fire department, the retirement coverage is based on the salary of a salaried (police) position and is thus considered to be a paid firefighters relief association for statutory pension plan regulation purposes.

In Minnesota, volunteer firefighters typically have pension coverage as part of their compensation package and that pension coverage is provided by the various local volunteer firefighter relief associations located in the state. These volunteer firefighter relief associations are creatures of state law and are subject to various statutory regulations.

- B. Legal Status and Structure. Under Minnesota Statutes, Section 424A.001, Subdivision 4, volunteer firefighter relief associations are required to be nonprofit corporations organized under Minnesota Statutes, Chapter 317A, the Minnesota Nonprofit Corporation Act. Minnesota Statutes, Chapter 317A, applies to all Minnesota nonprofit corporations and contains numerous requirements on the manner of incorporation, general powers, scope of bylaws, function of the board and officers, rights and obligations of members, processes of consolidation, merger, or dissolution, and corporate registration. In several areas, Minnesota Statutes, Chapter 424A, contains additional regulation or conflicting regulation, and the more particularized regulatory provisions of that chapter apply. For instance, Minnesota Statutes, Section 317A.203, provides for a board of directors of at least three individuals, but Minnesota Statutes, Section 424A.04, Subdivision 1, provides for a board of trustees generally comprised of nine members. Also, Minnesota Statutes, Sections 317A.701 through 317A.791, generally governs the dissolution of a nonprofit corporation, but Minnesota Statutes, Section 424A.02, Subdivision 11, specifically governs the dissolution of a volunteer firefighter relief association.

A volunteer firefighter relief association under Minnesota Statutes, Chapter 424A, can exist in one of three ways:

1. Separate Corporation. As a separate nonprofit corporation directly associated with a municipal fire department established by municipal ordinance;
2. Division of Another Relief Association. As a volunteer division or account of a part paid and part volunteer firefighter relief association directly associated with a municipal fire department established by municipal ordinance; or
3. Subsidiary Corporation. As a separate nonprofit corporation subsidiary to an independent nonprofit firefighting corporation also organized under Minnesota Statutes, Chapter 317A, and operating exclusively for firefighting purposes.

A volunteer firefighter relief association, under Minnesota Statutes, Section 424A.001, Subdivision 4, has the status of a governmental entity, receiving public money, and providing benefit coverage for individuals providing the governmental services of firefighting and emergency first response.

- C. Volunteer Firefighter Relief Association Governance. Minnesota Statutes, Section 424A.04, Subdivision 1, requires a nine-member board of trustees. The board composition differs depending on whether the relief association is associated with a municipal fire department or is subsidiary to an independent nonprofit firefighting corporation, as follows:

Relief Association Associated With Municipal Fire Department	Relief Association Subsidiary to Independent Nonprofit Firefighting Corporation
Six trustees elected from the relief association membership (one can be a retiree receiving a monthly benefit, at relief association's discretion).	Six trustees elected from the relief association membership (one can be retiree receiving a monthly benefit, at relief association's discretion).
One trustee who is an elected municipal official, designated annually.	Two trustees who are elected or appointed municipal officials, designated annually (if one municipality is served, the officials are designated by that municipality; if two or more municipalities are served, the two officials are from the two largest municipalities).
One trustee who is either an elected or an appointed municipal official, designated annually.	
One trustee who is the municipal fire chief.	One trustee who is the fire chief of the independent nonprofit firefighting corporation.

If a fire department is not located in or associated with an organized municipality, the County Board of Commissioners must appoint the ex-officio board members from the fire department service area. If a fire department is operated by a joint powers entity, the board of the joint powers entity must appoint the ex-officio board members. If the fire department is associated with a township, the township board must appoint the ex-officio board members.

Ex-officio trustees have the same rights and duties as elected trustees, except that ex-officio trustees may not serve as an officer of the board of trustees. Elected trustees have a term length as specified in the relief association bylaws, but it may not be longer than three years and it must be staggered if it is more than one year in length.

Minnesota Statutes, Section 424A.04, Subdivision 1, provides for at least three officers of a volunteer firefighter relief association. The three officers must include a president, a secretary, and a treasurer. The officers must be drawn from the relief association board of trustees, from the elected board membership. The officers can be elected by the board of trustees or by the relief association membership as the bylaws specify. No person is allowed to occupy more than one officer position at one time. Officers have a term length as specified in the relief association bylaws, but the term may not be longer than three years.

- D. Volunteer Firefighter Relief Association Fund Structure. Minnesota Statutes, Section 424A.05, requires that every relief association establish and maintain a special fund. The special fund is the fund from which volunteer firefighter pension benefits are payable and into which state aid, municipal contributions, and other public money is deposited. Beyond fire state aid and municipal tax revenue, the special fund also must receive all money or property donated by any person if so designated. Investment income on special fund assets also must be deposited in the special fund. Beyond the payment of service pensions, the special fund can also be disbursed for disability benefits, survivor benefits, Minnesota State Fire Department Association, Minnesota Area Relief Association Coalition, Volunteer Firefighters' Benefit Association of Minnesota dues, and authorized administrative expenses. A survivor benefit may be paid to a designated beneficiary (which must be a natural person) if there is no surviving spouse or children. All benefit payments are required to be in accord with the requirements of law and the relief association bylaws.

The relief association treasurer is required to be the custodian of the special fund and recipient on behalf of the special fund of its revenue. The treasurer is required to maintain records documenting any transaction affecting the assets or revenues of the special fund. The records of the treasurer, as well as the relief association bylaws, are public and open for public inspection.

The assets of the special fund must be invested in authorized securities, which are either a limited list of securities for small relief associations, or a separate codified list which represents the pre-1994 list of authorized investment securities for the State Board of Investment for larger relief associations.

Relief associations under Minnesota Statutes, Section 69.775, also have authority to invest in mutual funds that are restricted to the same authorized securities, or to invest in the Minnesota Supplemental Investment Fund administered by the State Board of Investment.

Minnesota Statutes, Section 424A.06, allows a volunteer firefighter relief association to establish and maintain a general fund. The general fund is the fund into which non-tax or non-public funds are deposited and from which moneys can be expended as the relief association sees fit, as governed by its bylaws. The general fund traditionally is supported by member dues and by revenues raised from community fundraising events.

- E. Volunteer Firefighter Relief Association Membership Inclusions and Exclusions. A “volunteer firefighter” is defined as a person who was a member of a Minnesota fire department and a Minnesota volunteer firefighters’ relief association on July 1, 2006, or if commencing firefighting service after June 30, 2006, is engaged in providing emergency response services or delivering fire education or prevention services as a member of a municipal fire department, a joint powers entity fire department, or an independent nonprofit firefighting corporation, is trained in or is qualified to provide fire suppression duties or to provide fire prevention duties, and meets any other minimum firefighter and service standards established by the fire department or firefighting corporation or specified in the articles of incorporation or bylaws of the relief association.

Under Minnesota Statutes, Chapters 317A and 424A, each volunteer firefighter relief association sets its own qualifications or requirements for membership, subject to certain statutory membership exclusions. The determination of volunteer firefighter status occurs in conjunction with the municipal fire department or the independent nonprofit firefighting corporation membership requirements, since Minnesota Statutes, Section 424A.02, Subdivision 1, sets certain benefit qualifications in terms of active membership with the fire department in addition to relief association membership. Volunteer firefighters are not always individuals who donate their time for free to assist in fire suppression activities. Many volunteer firefighters are reimbursed for their out-of-pocket expenses, or are paid a minimum fire run amount, or are paid an hourly rate when engaged in fire department duties. Some volunteer firefighter relief associations cover salaried firefighters who also have PERA-P&F coverage. Fire department duties can include activities beyond strict fire suppression activities, including fire equipment maintenance, firefighters training, fire department administration, fire prevention, and emergency first response services. When the fire department is the sponsoring entity for ambulance services, the activities can include paramedic or other ambulance and emergency medical duties. Because service pensions from a volunteer firefighters relief association are a function in large measure of the amount of fire state aid per relief association member, which is an amount determined independent of volunteer firefighter relief association funding requirements, there is an economic incentive for a relief association to be selective or restrained in setting the volunteer fire department membership.

Minnesota Statutes, Section 424A.01, sets forth several exclusions from volunteer firefighter relief association membership or coverage. Minnesota Statutes, Section 424A.01, Subdivision 1, prohibits municipalities or independent nonprofit firefighting corporations from employing minors as volunteer firefighters, hence also excluding minors from volunteer firefighter relief association membership. Minnesota Statutes, Section 424A.01, Subdivision 2, excludes substitute volunteer firefighters from volunteer firefighter relief association membership. Minnesota Statutes, Section 424A.01, Subdivision 3, provides that members of the fire department who also decline to be members of the volunteer firefighter relief association are ineligible for volunteer firefighter relief association benefit coverage. Minnesota Statutes, Section 424A.01, Subdivision 4, allows a volunteer firefighter relief association board of trustees to exclude applicants for membership in the volunteer firefighter relief association from membership if they have a pre-existing physical or mental impairment or condition that would constitute a predictable and unwarranted risk of ancillary (disability or death) benefit liability, and if the relief association makes that determination based on medical evidence.

F. Benefit Coverage Provided By Volunteer Firefighter Relief Associations.

1. In General. The state law regulating the benefit coverage provided to volunteer firefighters by volunteer firefighter relief associations from the relief association special fund is primarily Minnesota Statutes, Sections 424A.02, 424A.03, and 424A.10. Minnesota Statutes, Chapter 424A, was enacted in 1979. Unlike most public employee pension coverage, where state law specifies all or most aspects of the benefit plan, the statutory regulation of volunteer firefighter relief associations largely consists of specifying certain minimum eligibility requirements and certain benefit maximums, with the actual benefit plan assembled in the articles of incorporation or the bylaws of the particular volunteer firefighter relief association. The primary benefit coverage provided by a volunteer firefighter relief association is the service pension coverage, and most minimum eligibility requirements and benefit maximums relate to the service pension coverage.

The primary benefit payable from a volunteer fire relief association is a service pension. Most volunteer fire relief associations provide a lump sum service pension, with a minority providing a monthly benefit service pension (some with an alternative lump sum service pension). Service pensions are not payable before age 50, and usually are payable in full only with 20 years of service. Some volunteer fire relief associations have casualty (disability and death) benefit coverage if a service pension is not otherwise payable.

The funding of volunteer fire relief associations is primarily the annual fire state aid, which is allocated to cities based half on population compared to statewide totals, and half on their property value compared to the statewide total. The aid is dedicated for pension purposes. Additionally, if the actuarial cost of the volunteer firefighters relief association exceeds the fire state aid, the municipality must levy a property tax to support the volunteer fire relief association.

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:
  - i. 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.
  - ii. Attain at Least Age 50. The person must reach at least age 50.
  - iii. 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.
  - iv. 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).
  - v. Compliance with Additional Conditions. The person must comply with any additional age, service or membership conditions prescribed in the relief association bylaws.

In 2005, a military leave of absence service credit procedure was added as Minnesota Statutes, Section 424A.021. A volunteer firefighter with a break in service to provide military service shall receive not more than five years of service credit upon prompt return to the relief association, or if the association provides a defined contribution benefit, up to five years of contributions. To be eligible, the military service must be honorably served.

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 firefighters' 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 firefighters 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.

- i. 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.
- ii. Service Pension Maximums 1979 and After. In 1979, with the enactment 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 and the 2007 Legislature. The 2000 Session changes increased the maximum monthly service pension from \$40 per month per year of service to \$56, phased in by the end of calendar 2003. The maximum lump sum service pension was increased from \$5,500 to \$7,500 per year of service, with a similar phase-in. The 2007 Legislature increased the maximum monthly service pension from \$56 per month per year of service to \$100 per month per year of service over a phase-in period that ends at the end of calendar year 2012, and increased the maximum lump sum service pension from \$7,500 per year of service to \$10,000 per year of service over a phase-in period that ends at the end of calendar year 2010.

- iii. Determination of 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).

5. Defined Contribution Lump Sum Service Pension Coverage. Minnesota Statutes, Section 424A.02, Subdivision 4, allows a volunteer firefighter relief association to provide a defined contribution (or “split the pie”) service pension in lieu of a defined benefit monthly benefit or lump sum service pension. The defined contribution service pension coverage necessitates that the volunteer firefighter relief association establish a separate account for each member, to which an equal share of any fire state aid, municipal contributions or turnover gain (forfeited amounts upon early terminations under Minnesota Statutes, Section 424A.02, Subdivision 2) must be credited to each individual account. Investment income based on the account balance also must be credited to each individual account.

In 2005, the allocations to accounts provision was clarified by indicating the allocation procedure applies only to active member accounts, and by clarifying the investment return crediting period.

6. Benefit Calculation Uniformity. Minnesota Statutes, Section 424A.02, Subdivision 6, provides that the method of calculating service pensions must be applied uniformly for all years of active service. It also provides that credit must be given for all years of service other than those covered by a service credit maximum and by the partial early vesting provisions. The provision also prohibits the payment of a service pension to a person who remains an active firefighter, prohibits the payment of other special fund benefits to a person receiving a service pension, exempts volunteer firefighter relief association pensions and benefits from garnishment, judgment, execution or legal process other than marriage dissolution or child support obligations, and prohibits the assignment of any service pension or benefit from a volunteer firefighter relief association.
7. Deferred Service Pensions. For a volunteer firefighter who has completed the length of service credit required for vesting, has at least five years of relief association active membership, but separates from active volunteer firefighter service and volunteer firefighter relief association membership before age 50, Minnesota Statutes, Section 424A.02, Subdivision 7, provides for a deferred service pension payable when the former firefighter reaches at least age 50. The service pension is calculated based on the law in effect when active service terminated, but a lump sum service pension may be credited with interest.

Minnesota Statutes 1978, Section 69.06, and its predecessor provisions, Revised Laws of 1905, Section 1655, General Statutes of Minnesota 1913, Section 3347, and Mason’s Minnesota Statutes of 1927, Section 3728, set the minimum age (age 50) and the minimum service (20 years active fire department membership, 10 years active relief association membership) requirements for a service pension and set maximum service pension amounts (\$40 per month initially, or \$100 per year of service after 1944). Minnesota Statutes 1978, Section 69.06, and precursor provisions did not specifically address the topic of deferred service pensions or what benefit rights a firefighter who terminates active firefighting service with the minimum service period before attaining age 50 has. Attachment A contains Minnesota Statutes 1978, Section 69.06, and its various predecessor formulations.

The historic practice in private sector/corporate pension plans before the 1974 enactment of the Employee Retirement Income Security Act (ERISA) was to require plan membership until and termination of employment at the normal retirement age for the pension plan in order to receive a retirement benefit, without any deferred pension eligibility. Until relatively recently, pension plans were established to encourage the retention of employees, penalizing employment mobility by having break-in-service rules, where past service credit could be cancelled when the plan member terminated covered employment.

Minnesota Statutes, Section 424A.02, Subdivision 7, affirmatively establishes the right of a volunteer firefighter who leaves active firefighting service before attaining age 50 to a deferred service pension and clarifies that a deferred service pension is to be calculated under the

provisions of law and the bylaws in effect when the firefighter separated from active service. Thus, if the service pension amount has increased since the deferred member terminated active service, the deferred service pensioner does not benefit from the service pension amount increase.

Before 2000 (Laws 2000, Chapter 461, Article 15, Section 6), the relief association was permitted to pay interest on a deferred lump sum service pension at the rate actually earned by the relief association, but not to exceed the five percent interest rate actuarial assumption underlying lump sum volunteer firefighter relief association funding. In 2000, in legislation initially requested by the Minnesota Area Relief Association Coalition (MARAC), an educational organization representing volunteer firefighter relief associations, the lump sum deferred service pension interest provision was modified, to encompass three options. If the relief association bylaws so provide, interest can be provided on a lump sum deferred service pension at the actual rate of interest earned if the deferred pension amount is placed in a separate relief association account established for that purpose, at the actual rate of interest earned if the deferred pension amount is invested in a separate investment vehicle held by the relief association, or at a flat five percent interest rate.

In 2003, displeased with the 2000 deferred service pension legislation, the Marshall Volunteer Firefighter Relief Association sought a legislative change to replicate the pre-2002 law change. Ultimately, the Marshall Volunteer Firefighter Relief Association general law request was converted into a special law demonstration project (First Special Session Laws 2003, Chapter 12, Article 12, Section 3), which included the additional specification of the manner in which the relief association investment earnings are to be calculated. The Marshall Volunteer Firefighter Relief Association was permitted to pay interest on its lump sum deferred service pensions based on the actual investment performance of the relief association special fund, up to five percent annually. The actual investment performance is that reported by the Office of the State Auditor under Minnesota Statutes, Section 356.219.

In 2004 (Laws 2004, Chapter 267, Article 14, Section 2), an additional option for providing interest on deferred lump sum service pensions was authorized, in force, until December 31, 2008. The additional deferred service pension interest option is an amount equal to the actual time-weighted rate of investment return of the pension plan as reported by the State Auditor, up to five percent per annum, if the volunteer firefighter relief association bylaws so provide.

In 2005 (First Special Session Laws 2005, Chapter 8, Article 9, Section 12), the five-percent interest option was revised to allow interest of five percent or less, as set by the board of directors and approved by the municipality. Interest would be payable from the first of the month following separation from service to the first of the month in which the individual becomes eligible to receive the service pension. Language was added to specifically address interest crediting procedures on deferred defined contribution plan benefits. If provided for in the bylaws, the association may use any of the approaches approved in law for defined benefit plans, or it may credit any investment return on the special fund assets in proportion to the share of the assets in the special fund to the credit of the given deferred member.

In 2008 (Laws 2008, Chapter 349, Article 14, Section 9), the authority to pay interest at the rate actually earned by the association as reported by the State Auditor, not to exceed five percent, was removed, and relief associations were permitted more flexibility in determining the time period over which interest is paid.

8. Installment Payments for Lump Sum Service Pensions. Volunteer firefighter relief associations that pay lump sum service pensions are authorized by Minnesota Statutes, Section 424A.02, Subdivision 8, to pay the lump sum service pension in installments. No limit in the number of installments is specified. The installments are to have the same present value as the lump sum service pension, based on a five percent interest assumption.
9. Conversion of Lump Sum Service Pensions Into Annuities Through Single Premium Insurance Annuity Purchase. Minnesota Statutes, Section 424A.02, Subdivision 8a, allows a volunteer firefighter relief association that pays a lump sum service pension to purchase a single premium insurance annuity for the retiring volunteer firefighter from an insurance company approved to do this type of business by the state Commerce Commissioner.
10. Ancillary Benefit Limits. Minnesota Statutes, Section 424A.02, Subdivision 9, places limits on ancillary retirement benefit coverage. Ancillary benefits are those benefits provided by a

volunteer firefighter relief association other than the service pension, such as disability benefits, death benefits, or survivor benefits. In 1873, with the creation of fire state aid, municipalities were permitted to pay relief to disabled firefighters and to survivors of deceased firefighters from fire state aid if no relief association is located in the municipality. In 1909, firefighter relief associations were specifically permitted to make payments for the relief of sick, injured, and disabled firefighters and to make payments to widows and orphans of deceased firefighters. The term “widow” was not defined until 1937, requiring three years of marriage before the occurrence of death and dependency for eligibility. The provision became Minnesota Statutes 1978, Section 424.31. The limitations are needed to protect the financial solvency regulation of volunteer firefighter relief associations, which is built around determining the accrued liability and financial requirements for the level of the service pension coverage provided by the volunteer firefighter relief association. The limitations are:

- i. No Post-Retirement Benefit Beyond the Lump Sum Service Pension. Volunteer firefighter relief associations that provide lump sum service pensions are prohibited from paying any additional benefit to a retired firefighter or on behalf of a retired firefighter once payment of the service pension commences; and
  - ii. Maximum Ancillary Benefit Available. All volunteer firefighter relief associations are limited in the payment of pre-retirement and post-retirement ancillary benefits to the amount of the accrued service pension of the volunteer firefighter, except that the survivor benefit payable on behalf of a deceased short service firefighter may be based on a five years of service accrued benefit if that produces a larger accrued service pension amount.
11. Post-Retirement Increases. A volunteer firefighter relief association paying a monthly service pension may, if it chooses, provide a post-retirement increase to service pension and benefit recipients upon providing a benefit increase to active firefighters, under Minnesota Statutes, Section 424A.02, Subdivision 9.
  12. Municipal Approval of Benefit Changes; State Filing Requirements. Minnesota Statutes, Section 424A.02, Subdivision 10, requires municipal approval of any benefit changes or amendments to the relief association articles of incorporation or bylaws impacting on benefits unless the volunteer firefighter relief association has authority under the 1971 Volunteer Firefighter Relief Association Financing Guidelines Act to implement the benefit increase without local approval. The benefit change approval request must be accompanied by an estimate of the actuarial impact of the benefit change. Upon making a benefit change, the volunteer firefighter relief association must file a copy of the revised articles of incorporation or bylaws with the Commissioner of Commerce in order to retain eligibility for fire state aid.
  13. Volunteer Firefighter Relief Association Dissolution and Consolidation. Minnesota Statutes, Chapter 424B, governs the dissolution and consolidation of volunteer firefighter relief associations. With approval of the governing bodies of each municipality, two or more relief associations servicing contiguous fire districts may initiate consolidation. Initiation involves proposing a consolidation resolution to the relief association board of trustees, notification of members, and a public hearing. If adopted by the majority of the board, a copy of the resolution must be filed with other relief associations which may be part of the consolidation. If two or more of the applicable relief associations adopt a consolidation resolution, those relief associations are consolidated as of the following January 1. If the subsequent relief association following the consolidation is a new relief association, the association must incorporate as a nonprofit corporation and the new board must include at least one board member from each prior association. If the consolidation retains one association and dissolves the others, the articles of incorporation of the remaining association must be revised as necessary. The president, secretary, and treasurer of the consolidated relief association must be elected by the association membership. On the effective date of the consolidation, the assets of the prior relief association special funds transfer to the consolidated special fund, and all liabilities, fund management and plan administration, and all records transfer to the new board of trustees. The consolidated relief association is the successor in interest in all claims for and against the special funds of the prior relief associations. Before consolidation, the secretaries of the prior relief associations must settle all accounts payable from the respective general fund. Remaining balances transfer to the general fund of the consolidated relief association. Following transfer of administration, records, special and general fund assets and liabilities, the prior relief associations cease to exist. The Secretary of State, State Auditor, Commissioner of Revenue, and the Commissioner of the federal Internal Revenue Service are to be notified of the termination. Administrative expenses consistent with Minnesota Statutes, Section

69.80 (authorized special fund administrative expenses) may be paid from the consolidated special fund. All other expenses must be paid from the general fund. The service pension of the consolidated relief association generally is set at the highest service pension amount payable by any of the relief associations that were included in the consolidation.

In 2005 (Laws 2005, First Special Session, Chapter 8, Article 9, Section 15), rather than setting benefits for prior service following a volunteer firefighter relief association consolidation at the highest level previously authorized by any of the consolidating relief associations, another option will be permitted in providing a benefit for that past service equal to the last approved benefit level of the prior association which covered the individual.

Subsequent benefit increases after the consolidation date must conform to general law applicable to volunteer fire benefit levels. Unless the municipalities agree in writing to another procedure, the minimum annual financial obligation to the consolidated relief association must be allocated between the applicable municipalities in proportion to their fire state aid. If a municipality fails to pay its share, contributions must be covered by the remaining municipalities. The municipality which is delinquent or deficient in its payments must reimburse the other municipalities plus a 25 percent surcharge.

If a relief association is dissolved without consolidation, prior to the effective date of the dissolution the board must pay all accounts payable against the special fund other than the accrued liabilities for pensions and other benefits. The remainder of the special fund assets after settling those non-benefit-related obligations are transferred, in cash or securities, to the municipal finance officer. The board also transfers any records needed to settle future benefit-related claims. The assets of the prior special fund create a municipal trust fund to be invested according to investment and fiduciary law applicable to volunteer fire plans. The municipality and the trust fund are responsible for any remaining liabilities of the prior special fund, including any unfunded liabilities. The board must notify the Commissioner of Revenue, the State Auditor, and the Secretary of State of the dissolution action within 30 days of the effective date of the dissolution.

In lieu of the asset transfer to the municipality mentioned above, the board of the dissolving relief association may purchase annuity contracts. Payment of the annuity for which the contract is purchased may not begin before the retirement age specified in law and bylaw. Legal title to the annuity contract transfers to the municipality in trust.

14. Combined Volunteer Firefighter Relief Association Service Pensions. If the volunteer firefighter relief association elects to do so, the relief association under Minnesota Statutes, Section 424A.02, Subdivision 13, 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 accrual service rendered in that relief association.
15. Supplemental Benefit for Lump Sum Volunteer Firefighter Relief Associations. Minnesota Statutes, Section 424A.10, requires a volunteer firefighter relief association that pays a lump sum service pension to pay a supplemental benefit from the relief association special fund to retiring firefighters who receive a lump sum service pension. The supplemental benefit for retiring firefighters is an amount equal to ten percent of the lump sum service pension paid, up to \$1,000. In 2005, a state-funded supplemental lump sum benefit was made payable to survivors of deceased active or deferred members and was doubled to a maximum of \$2,000. The supplemental benefit is reimbursable to volunteer firefighter relief associations annually, in March, from the state general fund by the Commissioner of Revenue, for the volunteer firefighter relief associations that apply for the reimbursement in the preceding February. The state reimbursement provision for lump sum volunteer fire plan supplemental benefits (Minnesota Statutes, Section 424A.10, Subdivision 3), is sent to the municipal treasurer and the municipality is prohibited from forwarding the reimbursement to the relief association until the relief association files the required annual financial report with the municipality. The supplemental benefit was intended to offset the impact of a federal Internal Revenue Code ten percent income tax surcharge on pre-age 59-1/2 non-annuity pension distributions. The supplemental benefit is in lieu of a state income tax exclusion for lump sum retirement benefit distributions.

- G. Background Information on Relief Association Financial Reporting. Since 1965 (Laws 1965, Chapter 359, Section 1), Minnesota public pension plans have been required to prepare annual financial reporting. The statutory requirement is codified as Minnesota Statutes, Section 356.20. For

volunteer firefighter relief associations, a financial report under Minnesota Statutes, Section 69.051, is considered to meet the reporting requirements of Minnesota Statutes, Section 356.20.

The financial reporting requirement under Minnesota Statutes, Section 69.051, was first imposed as part of the fire state aid revisions of 1969 (Laws 1969, Chapter 1001, Section 5). From 1969 to 1986, all volunteer firefighter relief associations filed the same reporting form, which was initially prescribed by the Commissioner of Insurance and then by the Commissioner of Commerce. The 1969-1986 form was required to include the information needed by the Commissioner to reveal the true financial condition of the relief association and to reveal the extent of compliance by the relief association with the regulatory, financing, and funding provisions of the applicable state law. The financial report was to be prepared as of December 31 for the prior calendar year, was required to be countersigned by the municipal clerk, and was to be certified by an independent accountant or auditor, who was required to provide an opinion on the condition of the relief association and any exceptions.

In 1986, after the discovery of a significant fraud and misappropriation of funds involving the secretary of the Winona Police Relief Association, the local relief association financial reporting requirements to qualify for state aid under 69.051 were modified. The 1986 financial reporting law amendments gave the State Auditor authority and responsibility to audit all relief associations and centralized the receipt and certification of financial statements of all relief associations in the Office of the State Auditor, provided that the Commissioner of Revenue process the distribution of state aid only after notification by the State Auditor that a relief association's financial reports and actuarial valuations are complete, and provided more municipal oversight of the relief associations by requiring annual reports to the municipality of relief association financial affairs. The 1986 legislation also gave the Commission authority to request information from the various funds and the funds are authorized and directed to promptly furnish any data requested and required the State Auditor in performing an audit or examination of a pension plan to notify the Commission if the audit or examination reveals malfeasance, misfeasance, or nonfeasance in office and requires the Commissioner of Revenue to notify the Commission if the State Auditor has not filed with the Commissioner of Revenue the required financial compliance reports by the July 1 deadline. The State Auditor was required to oversee the completion and auditing of financial statements of fire relief associations rather than the Commissioner of Revenue and was required to notify the Commissioner of Revenue by July 1 in any year which relief associations that with the financial reporting requirements necessary to qualify for fire state aid, and the primary administration of the fire and police state aid program was transferred from the Department of Revenue to the State Auditor. The deadline for fire state aid applications was moved from June 1 to July 1.

The requirements for the preparation and submission of financial reports is based on the size of the relief association, and for volunteer associations with assets or liabilities of at least \$200,000, the relief association must:

- i. Prepare its annual financial reports on forms prescribed by the State Auditor;
- ii. File the report in its office for public inspection and present it to the city council; and
- iii. Submit audited financial statements to the State Auditor within 180 days after the close of the fiscal year.

For volunteer associations with assets and liabilities less than \$200,000, the relief association must:

- i. Prepare annually a detailed financial statement on a form prescribed by the State Auditor;
- ii. Have the detailed financial statement certified by an independent public accountant or auditor or the auditor that regularly examines the books of the municipality;
- iii. File the statement in its office for public inspection and present it to the city council within 45 days of the close of the fiscal year; and
- iv. Send a copy of the statement to the State Auditor within 90 days of the end of the fiscal year.

The surety bond of the volunteer firefighter relief association treasurer must be at least 10 percent of the assets, but is not required to exceed \$500,000.

#### H. 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 volunteer firefighter relief associations, the determination of the minimum obligation 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:

- i. The normal cost;
- ii. The amortization requirement if the relief association has an unfunded actuarial accrued liability;
- iii. The prior year's administrative expenses, multiplied by a factor of 1.035; and
- iv. 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
1	\$60
2	124
3	190
4	260
5	334
6	410
7	492
8	576
9	666
10	760
11	858
12	962
13	1070
14	1184
15	1304
16	1428
17	1560
18	1698
19	1844
20	2000
21 and thereafter	100 additional per year

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:

- i. The computed annual accruing liability;
  - ii. One-tenth of the computed current year's unfunded accrued liability, if the relief association has an unfunded accrued liability;
  - iii. The prior year's administrative expense, multiplied by a factor of 1.035; and
  - iv. 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.

- I. Volunteer Firefighter Relief Association Investment Authority. In Minnesota, the assets of the local retirement plans (i.e., the first class city teacher retirement fund associations, the Minneapolis Employees Retirement Fund (MERF), and the local police, paid fire, and volunteer fire relief associations) are invested by the particular retirement plan board and the assets of the statewide retirement plans are invested by the State Board of Investment.

Prior to 1961, the responsibility to invest statewide public pension plan assets lay with the State Board of Investment (see Minnesota Statutes 1953, Sections 135.04, Subdivision 4; 352.06; and 353.06), but neither the retirement plan governing laws nor the State Board of Investment governing laws specifically regulated the types of investment securities in which those assets could be invested. In 1961 (Laws 1961, Chapter 380), the investment authority over state retirement funds was first delineated, with the legislation coded in the Minnesota State Retirement System (MSRS) governing law. The 1961 enactment set the prudent person rule as the general investment standard and included a "legal list" of authorized types of investment securities, which included the following:

1. U.S. Government bonds or notes;
2. Minnesota or other U.S. state bonds;
3. Dominion of Canada or Canadian province bonds;
4. Minnesota municipal bonds, notes, or obligations;
5. Other U.S. state municipal bonds;
6. Canadian municipal bonds;
7. International Bank for Reconstruction and Development obligations;
8. U.S. agency insured obligations;
9. Minnesota public housing obligations;
10. Other state, municipal, or public authority obligations with income for each of the prior five years at least equal to 120 percent of its average annual debt service;
11. U.S. or Canadian corporate bonds, if Canadian bond debt service is payable in U.S. dollars, and if the corporation has assets of at least \$10 million and has capital stock equal to at least 50 percent of its debt, has pretax earnings over each of the prior five years of 150 percent of annual interest charges, and has gross operating revenues of at least \$1 million, and the bond issue is rated at least "A" by a recognized commercial rating agency. Total corporate bond investments were limited to 40 percent of the total assets of the fund;
12. U.S. corporate stock of a corporation with at least \$10 million, with corporate earnings equal to the prior five-year average of interest and preferred dividend requirements for preferred stock, and with the payment of cash dividends for at least five years before the purchase. Investment in any one corporation was limited to

one percent of the assets of the fund. The total corporate stock investments were limited to 25 percent of the assets of the fund, with a maximum increase in the stock investment in any year of five percent of the assets of the fund. The investment of all Minnesota public pension plans in any one corporation was limited to five percent of its voting stock;

13. Bank certificates of deposit and savings account if insured by a federal agency and if needed for liquidity; and
14. Commercial paper of less than 270-day maturity if the corporation has assets equal to 150 percent of current liabilities and long-term debt, and has average annual income over the past five years of at least \$1 million. Commercial paper in total cannot exceed five percent of the book value of the fund and in any one corporation cannot exceed two percent of the book value of the fund.

In 1961, the State Board of Investment created the predecessor the current Investment Advisory Council to advise the board on the entry of statewide Minnesota public pension plans into corporate stock investments.

In 1967 (Laws 1967, Chapter 404), the authorized retirement plan investment specification was moved out of the MSRS statutes and was added to the State Board of Investment statutes. During the 1970s and 1980s, the investment authority of the State Board of Investment was expanded and the requirements and maximums relaxed. In 1989, a separate public pension plan fiduciary responsibility law was enacted for the state's statewide and local retirement plans, including a "prudent person" rule as a general fiduciary standard and legal lists of authorized investments. Initially, the fiduciary law legal list for larger or professionally managed local retirement plans replicated the legal list applicable to the State Board of Investment. In 1993-1994, in connection with the issue of authorizing non-investment grade corporate bonds for the State Board of Investment, the fiduciary law legal list retained the pre-1994 authority of the State Board of Investment.

Volunteer firefighter relief associations are either subject to a limited list of authorized investment securities or to an expanded list of authorized investment securities.

Minnesota Statutes, Section 356A.06, Subdivision 6, provides that a relief association that has less than \$1 million in assets based on book value is a limited list plan unless the relief association:

1. Invests at least 60 percent of its assets based on book value using the services of an investment advisor registered with the securities and exchange commission in accordance with the federal Investment Advisors Act of 1940 or uses a licensed investment advisor under state law; or
2. Invests at least 60 percent of its assets based on book value through the State Board of Investment; or
3. Uses a combination of a registered/licensed investment advisor and the State Board of Investment to invest at least 75 percent of its assets based on book value.

A relief association which has more than \$1 million in assets based on book value or which meets one or more of the above requirements is an expanded list plan and is permitted to invest according to the expanded list of authorized investment securities under Minnesota Statutes, Section 356A.06, Subdivision 7.

Section 356A.06, Subdivision 6, includes the following investment securities in the limited list of authorized investment securities:

1. Insured certificates of deposit and savings accounts.
2. Fixed income government obligations which have yield and quality comparable to non-tax exempt issues, and which have been issued by government units which back the securities by full taxing authority and which have not defaulted on any interest and principal during the preceding ten years (revenue bonds must be self supporting for the last five years).
3. Domestic corporate obligations, including bonds, notes, debentures, or other regularly issued and readily marketable forms of indebtedness, providing that average pre-tax earnings for the past five years are at least 150 percent of total interest and principal payments, and providing that the debt is in the top three quality ratings of Moody's Investors Service or Standard and Poor's ratings.
4. Mutual fund shares, providing that the securities the mutual fund holds comply with (1) through (3) above.

Section 69.775 permits stock investing through a mutual fund. Section 69.775 indicates that, notwithstanding Section 356A.06, Subdivision 6, volunteer firefighter relief associations can invest up to 75 percent of the market value of their assets in open end mutual funds if the investments of those funds are consistent with the expanded list of authorized investments.

Those volunteer firefighter relief associations that are not subject to the limited list are permitted by Section 356A.06, Subdivision 7, to invest in the full range of acceptable investments for the State Board of Investment prior to 1994. This creates a difference between the relief associations that are subject to the limited list and those which are not. The difference concerns the form of the investments. Limited list relief associations can invest through mutual funds in securities of the types applicable to expanded list volunteer firefighter relief associations. Those associations subject to the expanded list and not subject to the limited list can invest in these assets without use of a mutual fund.

The expanded list of authorized investment securities includes the following:

1. Government obligations, including notes, bills, bonds, and mortgages backed by the full faith and credit of the issuer and with a rating within the top four quality rating categories of a nationally recognized rating agency. Acceptable investments include guaranteed and insured issues of the United States and its agencies, the states and their political subdivisions, Canadian issues and those of the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided that the principal and interest is payable in United States dollars;
2. Domestic corporate debt, including bonds, notes, debentures, and transportation equipment obligations, providing the obligations are rated among the top four quality categories by a nationally recognized rating agency, and Canadian debt meeting these quality requirements, providing the principle and interest payments are in United States dollars;
3. Various other forms of investments, including bankers acceptances, certificates of deposit, commercial paper, mortgage participation certificates and pools, guaranteed investment contracts, savings accounts, guaranty fund certificates, surplus notes, and mutual insurance company debt, providing various quality and insurance requirements regarding these various investments as specified in detail in the statutes are met;
4. Stocks and convertibles of any domestic corporation, Canadian corporation, or any corporation whose stock trades on the New York or American Stock Exchanges; and
5. Venture capital, real estate and resource limited partnerships, below investment grade debt, and international securities, with limits regarding the minimum number of other unrelated owners of the limited partnership investments and the maximum portion of a portfolio that can be devoted to these types of investments, in order to limit the risk exposure.

Finally, Minnesota Statutes, Section 356.71, permits any public pension plan whose assets are not invested by the State Board of Investment to invest in Minnesota situs non-farm real estate ownership interests or loans secured by mortgages or deeds of trust.

J. Fiduciary Obligations. The fiduciary obligations of volunteer firefighter relief association administrators and the standards which they must follow in conducting those duties are codified in Minnesota Statutes, Chapter 356A, the Public Pension Fiduciary Responsibility Law. This regulation includes:

1. Fiduciary Status. Board members and the chief administering officer of volunteer firefighter relief associations are fiduciaries. As fiduciaries, they have a duty to active members, deferred retirees, and benefit recipients, to the state, and to local taxpayers.
2. Fiduciary Activities. The activities of volunteer firefighter plan fiduciaries include, but are not limited to:
  - i. Determination of Plan Benefits. Administrators must correctly compute benefits and provide only authorized benefits to plan members;
  - ii. Determining Funding Requirements and Contributions. Funding requirements must be properly determined;
  - iii. Maintaining Membership and Financial Records. Accurate, well maintained membership data and financial information must be maintained;
  - iv. Plan Administrative Expenses. Administrative expenses must be reasonable and necessary; and
  - v. Investment of Plan Assets. Investments should be properly diversified, prudent, and consistent with laws indicating authorized investments for the particular fund.

All fiduciary activities must be conducted in accordance with the purpose and intent of the by-laws and relevant laws, and must be conducted faithfully and without prejudice. No fiduciary or relative of a fiduciary may receive anything more than nominal compensation in consideration for a pension plan disbursement. The administrators are also bound in all their actions by the prudent person standard, which requires the fiduciary to act in good faith and to exercise the degree of judgment and care that persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, and, for investments, not undertaken for speculation, considering the probable safety of the plan capital as well as the probable investment return to be derived from the assets.

3. Specific Investment Requirements. Section 356A.06 details investment-related fiduciary requirements, as follows:
  - i. Financial control of assets. Plan assets may be held only by the plan treasurer, the depository agent of the plan, or the State Board of Investment or its depository agent;
  - ii. Diversification. Investment must be properly diversified among investment types to minimize the risk of substantial investment losses;
  - iii. Sufficient Liquidity. Plans must invest sufficient assets in cash equivalent securities to meet immediate liquidity needs, thus avoiding losses due to forced early liquidation of other securities;
  - iv. Collateralization. Plans are required to designate a financial institution as the depository for plan assets not held by the plan's custodian bank and is subject to the applicable federal government insurance limits unless collateralized by the institution.
  - v. Investment Authority Disclosure. Before using any investment broker, the plan is required to provide the broker with a written statement of the applicable state law and plan policy investment restrictions and the broker must acknowledge receipt of the statement and must agree to comply with those restrictions.
  - vi. Conflicts of Interest. Any conflict of interest must be avoided and no fiduciary may personally profit, directly or indirectly, from the investment of plan assets;
  - vii. Prohibited Transactions. Certain transactions are explicitly prohibited, which include, but are not limited to, sales, exchanges, or leases of real estate between the pension plan and a fiduciary of the plan, lending of money or extensions of credit by the plan to a fiduciary, transfers of assets between a fiduciary and the plan, and sales of services by a fiduciary to a plan;
  - viii. Economic Interest Statement. To help identify actual or potential conflicts of interest, members of the governing board and the chief administrative officer of the relief association must file an annual economic interest statement which is available for public inspection, which must identify ownership interests in investment brokerage businesses, real estate sales, insurance agencies, banks, or other financial institutions, and which must identify any relationship or financial arrangement that can lead to a conflict of interest;
  - ix. Investment Business Recipient Disclosure. The chief administrative officer must annually disclose the recipients of investment business or investment commissions paid to brokers, banks, or other investment managers; and
  - x. Authorized Investments. Volunteer fire relief associations are either "limited list" associations, or "expanded list" associations, depending on the size of their asset base or whether the plan uses professional investment advisors. Plans with more than \$1 million in assets, or smaller plans that use professional investment advisors are expanded list associations, enabling them to invest following essentially the same investment authorization as the State Board of Investment had prior to 1994. In addition, under other statutes, these plans are given broader real estate investment authorization than the State Board of Investment. Limited list plans are somewhat more restricted, although they share the same real estate investment authorization as the expanded list plans. In all cases, investments must meet prudent investment standards.
4. Required Disclosure to the Membership. The chief administrative officer of the volunteer firefighter relief association must provide a benefit summary to all plan participants. A copy of all financial reports and actuarial reports required of volunteer fire plans, or a summary of these reports, must be provided to relief association members.

5. Adverse Determination Review Procedure. A review procedure covering adverse determination of eligibility, benefits, or other rights under the plan must be available to volunteer firefighter relief association members. Members must be given timely notice and a reasonable opportunity to be heard in the review process. If a specific review procedure is not specified by other law, the volunteer firefighters' relief association must develop and adopt a review procedure.
6. Fiduciary Continuing Education Requirement. Fiduciaries must make a reasonable effort to obtain the knowledge and skills necessary to perform their obligations effectively. The governing boards of the volunteer firefighter relief associations must develop continuing education programs for relief association board of trustee members who are not proficient in all areas of their fiduciary responsibilities.
7. Consultant Certificate of Insurance. Before hiring or contracting with a consultant, a volunteer fire relief association must obtain a copy of the consultant's certificate of insurance. A consultant is an individual or firm providing legal or financial advice, including an actuary; attorney; accountant; investment advisor, manager, counselor, or investment manager selection consultant; pension benefit design advisor or consultant; or any other financial consultant.

K. Background Information on Fire State Aid.

1. Establishment. The fire state aid program was initially established in 1885 (Laws 1885, Chapter 187). The program is codified in Minnesota Statutes, Sections 69.011 through 69.051.

The fire state aid was initially intended to assist municipal and other fire departments in obtaining firefighting equipment and in providing firefighter pension coverage. In 1943, for municipalities and nonprofit firefighting corporations with fire pension coverage, the fire state aid was dedicated to fire pension funding. Fire state aid is payable to municipalities and fire department with paid or volunteer firefighters or with a combination of paid and volunteer firefighters.

2. Source of Fire State Aid Revenue. The fire state aid program is funded from a premium tax on various types of minimum coverage, primarily fire insurance. The 1885 law established a one-half of one percent tax on insurance premiums for property located in municipalities having a fire protection service. Laws 1903, Chapter 20, raised the tax to the two percent premium tax level and specified uses for the money raised. The funds were to be used to provide retirement and disability benefits to fire department members and their survivors, and to help maintain the fire department, including covering purchase and maintenance costs of fire equipment.

After 1903, the most fundamental changes in the fire state aid laws were to restrict the use of the aid to providing pension and disability related benefits, and to change the nature of the aid distribution system. Authority to use the aid to purchase fire equipment and to cover other costs of operating the fire service existed from 1885 until 1943, when Laws 1943, Chapter 323, Section 2, deleted the language authorizing this use. Laws 1945, Chapter 225, provided for the use of fire state aid for firefighting equipment purposes only if no firefighter relief association is associated with the fire department.

Before 1995, the fire state aid program was financed from the dedicated proceeds of a generally applicable two percent premium tax on fire, lightning, sprinkler damage, and extended coverage insurance on property located within the state. Minnesota Statutes, Section 60A.15, Subdivision 1, imposed a premium tax on fire and related insurance of two percent for most insurance companies, and one-half of one percent for town and farmer's mutual insurance companies and mutual property and casualty insurance companies with assets less than \$1.6 billion. The fire state aid under Minnesota Statutes, Section 69.021, Subdivision 5, Paragraph (b), was funded by an appropriation equal to the amount of fire and related insurance premium taxes collected. Half of the total fire state aid amount was distributed in proportion to the population according to the last federal census and half was distributed in proportion to property market values, excluding mineral values but including tax-exempt property. This allocation method reflected an assumption that local property values and population relative to the whole state reflect the relative need for fire protection services. Before 1995, the last major revision in the insurance premium tax rates underlying the fire state aid program occurred in 1988 (Laws 1988, Chapter 719, Article 2, Sections 1 through 5) when the fire and related insurance premium tax rates were reduced for certain mutual insurance companies. Before 1995, the last major revision in the amount of state tax revenue available for allocation as fire state aid occurred in

1991 (Laws 1991, Chapter 291, Article 13) when the appropriation for the fire state aid program was reduced to the amount of the insurance premium taxes raised.

The 1995 Omnibus Tax Bill, Laws 1995, Chapter 264, increased the various insurance premium taxes and also increased the revenue available for the fire state aid program. Laws 1995, Chapter 264, Article 9, Section 3, amending Minnesota Statutes, Section 60A.15, Subdivision 1, increased the insurance premium tax rates for town and farmers' mutual insurance companies and for mutual property casualty companies with assets no greater than \$1.6 billion. The pre-1995 insurance premium tax rate for these mutual insurance companies was one-half of one percent of the amount of all premiums. The rate was increased by the 1995 Legislature to two percent of all life insurance premiums, one percent of all other insurance premiums for all town and farmers' mutual insurance companies and for the smaller mutual property and casualty companies (assets of no more than \$5 million) and 1.26 percent of all other insurance premiums for the larger mutual property and casualty companies (assets over \$5 million and no greater than \$1.6 billion). Laws 1995, Chapter 264, Article 9, Section 5, amending Minnesota Statutes, Section 69.021, Subdivision 5, increases the insurance premium tax revenue dedicated to the fire state aid program and the police state aid program. For the fire state aid program, the dedicated revenue is increased from the amount of insurance premium taxes collected on fire, lightning, sprinkler leakage, and extended coverage insurance, to the greater of either 107 percent of the fire, lightning, sprinkler leakage, and extended coverage insurance premium taxes collected or an amount equal to one percent of the fire, lightning, sprinkler leakage, and extended coverage premiums written by town and farmers' mutual insurance companies and by mutual property and casualty companies with assets not exceeding \$5 million and to two percent of the fire, lightning, sprinkler leakage, and extended coverage premiums written by all other fire risk insurers.

In 1996, Minnesota Statutes, Sections 69.021, Subdivision 7, and 423A.02, were amended to implement a minimum fire state aid floor for volunteer firefighter relief associations that would otherwise receive a disproportionately small amount of fire state aid on a per-active-member basis.

Total fire state aid has increased over time, as follows:

Year	Total Fire State Aid	Aid to Volunteer Firefighters	Aid to Paid Firefighters
1988	\$10,840,404	\$7,528,581	\$3,311,823
1989	10,923,145	7,601,263	3,321,882
1990	10,872,111	7,508,647	3,363,464
1991	10,491,446	7,650,439	2,841,532
1992	10,530,014	7,716,007	2,814,007
1993	9,997,957	7,349,215	2,648,742
1994	10,665,543	7,869,847	2,795,696
1995	11,336,631	8,405,060	2,931,571
1996	14,797,126	11,006,256	3,790,870
1997	15,148,160	11,476,519	3,671,641
1998	16,088,768	11,976,222	4,112,546
1999	16,682,376	12,419,342	4,263,034
2000	17,265,502	12,879,980	4,385,522
2001	17,964,376	13,595,203	4,369,173
2002	19,912,608	14,930,886	4,981,722

3. Qualification Requirements for Receipt of Fire State Aid. Before 1969, fire state aid was provided to municipalities that had an organized fire department upon the filing of a certificate by the municipal clerk stating that the fire department exists, stating that the fire department does not employ any minor under age 18, and indicating the fire department's water supply, the number of fire department organized companies, the number of fire department engines and trucks, the number of hose carts in use, and the number of hose feet in use.

In 1969, the qualifications for fire state aid were increased. Municipalities and independent nonprofit firefighting corporations using paid, volunteer, or a combination of paid and volunteer firefighters can qualify to receive the aid. To determine which municipalities and independent nonprofit firefighting corporations qualify for the aid, the municipal clerk or the secretary of the nonprofit firefighting corporation, if appropriate, and fire chief certify by March 15 of each year to the Department of Revenue that a municipal fire department or nonprofit firefighting corporation exists which meets minimum required standards for the aid.

Under Minnesota Statutes, Section 69.771, and other volunteer firefighter relief association statutes, the initial qualification for fire state aid by a municipality and its associated volunteer firefighter relief association and the retention of fire state aid is conditioned on compliance with

several requirements. Those requirements, in the view of the staff of the Legislative Commission on Pensions and Retirement, are the following:

- i. Fire Department Existence Certification. The clerk of a municipality or the secretary of an independent nonprofit firefighting corporation must certify the existence of the fire department on or before March 15 (Minnesota Statutes, Section 69.011, Subdivision 2);
  - ii. Fire Department Minimum Requirements. A municipal fire department must have been officially established and organized for at least one year. An independent nonprofit firefighting corporation must operate exclusively for firefighting purposes and must provide retirement benefits to firefighters. Fire department or firefighting corporation must have at least ten firefighters, have regular meetings and frequent drills, a motorized fire truck with equipment, has suitable housing for apparatus, have alarm system, have second piece of motorized apparatus if service area exceeds municipal limits, and meet other Department of Revenue requirements, with compliance determined by the State Fire Marshal (Minnesota Statutes, Sections 69.011, Subdivisions 4 and 5, and 69.021, Subdivision 4);
  - iii. Relief Association Financial Report or Statement. The volunteer firefighter relief association must file a financial statement (liabilities or assets under \$200,000) by March 31 or a financial report (liabilities or assets of at least \$200,000) by July 1 (Minnesota Statutes, Section 69.051, Subdivisions 1, 1a, 1b, 3, and 4);
  - iv. Relief Association Treasurer Bond. The volunteer firefighter relief association treasurer must be bonded to a minimum amount (Minnesota Statutes, Section 69.051, Subdivision 2);
  - v. Relief Association Financial Requirements Determination. The volunteer firefighter relief association officers must determine relief association funding requirements, based on liability calculations or actuarial valuation, whichever is required (Minnesota Statutes, Sections 69.771, 69.772, and 69.773);
  - vi. Relief Association Minimum Municipal Contribution. The municipality or the independent nonprofit firefighting corporation must budget for the minimum contribution and the municipality must budget for that contribution amount (Minnesota Statutes, Sections 69.772 and 69.773);
  - vii. Municipal Ratification of Plan Amendments. Unless the volunteer firefighter relief association is fully funded before and after the plan amendment, the municipality must ratify plan amendments affecting benefits (Minnesota Statutes, Sections 69.772, Subdivision 6; 69.773, Subdivision 6; and 424A.02, Subdivision 10);
  - viii. Authorized Relief Association Investments. Volunteer firefighter relief association special fund assets must be investment in authorized investment securities (Minnesota Statutes, Sections 69.775 and 356A.06, Subdivisions 6 or 7);
  - ix. Authorized Relief Association Administrative Expenses. The volunteer firefighter relief association or the municipality must limit administrative expenses to authorized expenses (Minnesota Statutes, Section 69.80 or 424A.05, Subdivision 3);
  - x. Relief Association Investment Performance Reporting. The volunteer firefighter relief association must make investment portfolio and investment performance report (Minnesota Statutes, Section 356.219);
  - xi. Investment Authority Statement. The volunteer firefighter relief association must provide all investment brokers with written statement of investment restrictions and receive acknowledgement and compliance agreement from the broker annually (Minnesota Statutes, Section 356A.06, Subdivision 8b);
  - xii. No Prohibited Transactions. The volunteer firefighter relief association must not permit a prohibited transaction to occur or must correct a prohibited transaction that did occur (Minnesota Statutes, Section 356A.06, Subdivision 9); and
  - xiii. No Excessive Service Pension Amount. The defined benefit volunteer firefighter relief association must not provide a service pension that is in excess of the applicable service pension maximum (Minnesota Statutes, Section 424A.02, Subdivision 3).
4. Allocation of Fire State Aid. Initially, fire state aid was allocated to the various municipalities and independent nonprofit firefighting corporations based on the amount of fire insurance written in that firetown, as identified by the various insurance agents and insurance companies. The

allocation method eventually proved problematic, in part because of errors made by insurance company agents in identifying applicable firetowns.

In 1969, the allocation method was shifted to a combination of population ranking and property value ranking. One half of the fire state aid was distributed in proportion to the population according to the last federal census and one half was distributed in proportion to property market values, excluding mineral values but including tax-exempt property. This allocation method reflected an assumption that local property values and population relative to the whole state reflect the relative need for fire protection services.

In 1996, for municipalities and independent nonprofit firefighting corporations with wholly volunteer fire departments, an additional allocation of aid is made to bring the municipal or corporation total up to the minimum volunteer firefighter fire state aid amount multiplied by the total number of active volunteer firefighters to a maximum of 30 firefighters.

5. Permissible Use of Fire State Aid. Initially, in 1885, fire state aid could be used to provide firefighters with pension coverage or to maintain the fire department, including the purchase of fire equipment. In 1943, the fire state aid was dedicated solely to firefighter pension funding if the firefighters have pension coverage. For municipalities and non-profit firefighting corporations where the associated firefighters do not have pension coverage, fire state aid must be used to maintain the fire department or purchase fire equipment.
6. Source of Additional Revenues if Shortfall Occurs. If a relief association funding requirements exceed all applicable revenue sources, including tax revenues derived from taxes on life insurance providers and town and farmers' mutual insurance companies and mutual property and casualty companies, any shortfall or additional revenue needs must be paid from the state's general fund if appropriated by the Legislature. The provision is not to be interpreted as relieving any municipality of its obligations to a relief association.

L. Background Information on the Minimum Volunteer Fire State Aid Program.

1. Establishment. The minimum volunteer fire state aid program was enacted in 1996 (Laws 1996, Chapter 438, Article 4, Section 2). The program is codified as Minnesota Statutes, Sections 69.021, Subdivision 7, Paragraph (d), and 423A.01, Subdivision 7, Paragraph (a). The minimum fire state aid program was an effort to address a long-standing concern that the state fire tax aid provides unreasonable low aid amounts per firefighter in many communities in the state. Many jurisdictions were receiving well under \$100 per firefighter. After the minimum fire state aid program was introduced, the floor aid per eligible firefighter was increased to slightly over \$260 per firefighter.
2. Source of Minimum Fire State Aid. Thirty percent of any unallocated amortization or supplemental amortization state aid is dedicated as a minimum fire state aid amount for volunteer fire relief associations. Amortization state aid and supplemental amortization state aid becomes unallocated when there is the payment of a thirteenth check by the Minneapolis Fire Relief Association or by the Minneapolis Police Relief Association or when a former local police or paid firefighter consolidation account became fully funded.

The amount of amortization state aid and supplemental amortization state aid dedicated to the minimum fire state aid (and added to the fire insurance premium tax equivalent amount dedicated to pension purposes and already included in the total fire state aid in the preceding section) is as follows:

Year	Total Additional Aid Dedicated to Volunteer Firefighters
1996	\$ 663,788
1997	667,610
1998	974,076
1999	1,034,608
2000	1,210,366
2001	1,065,323
2002	1,846,119

3. Qualification Requirements for the Receipt of Minimum Fire State Aid. The minimum volunteer firefighter fire state aid is payable to municipalities with volunteer firefighters and with fire state aid calculated on the basis of relative property value and relative population that is modest, with these minimum receipt municipalities brought up to the minimum fire state aid amount for



firefighters, not to exceed 30, until the funding dedicated for the program is exhausted. Roughly half of the municipalities with volunteer firefighter relief associations receive some minimum fire state aid amount.

4. Allocation of Minimum Fire State Aid. The minimum fire state aid program is targeted to volunteer fire relief associations that receive low aid per firefighter under the state fire tax aid program. The firefighter count used in the allocation procedure is the number of firefighters, not to exceed 30, in each relief association in 1993. The minimum floor fire state aid program brings the funding for those associations receiving the least aid per firefighter up to a higher, uniform level. Volunteer fire relief associations established after 1999 also are eligible for inclusion in the minimum floor fire aid distribution. The member count the association will use in the distribution is the member count, up to a limit of 20 firefighters, reported in the first annual financial reporting submitted to the State Auditor by the association.
5. Permissible Uses of Minimum Fire State Aid. Minimum fire state aid is included in the fire state aid allocation and is subject to the same permissible use as fire state aid.

M. Background Information on the First Class City Fire Insurance Premium Tax Surcharge.

1. Establishment. The first class city fire insurance premium tax surcharge was enacted in 1934 (Extra Session Laws 1934, Chapter 53, Sections 1 through 3). It is codified in Minnesota Statutes, Section 297I.10.

The first class city fire insurance premium tax surcharge was enacted to assist the three first class city fire department relief associations in paying the service pensions and other retirement benefits that are payable. The provisions were enacted at a time when the Duluth Fire Department Relief Association, the Minneapolis Fire Department Relief Association, and the St. Paul Fire Department Relief Association were funded in virtually a current disbursements (or “pay-as-you-go”) manner, when there were substantial statutory limits on the amount of municipal taxes that could be levied in support of the relief associations, and before the enactment of the 1969 Police and Paid Fire Relief Association Financing Guidelines Act mandating some measure of actuarial funding.

2. Source of Program Revenue. The first class city fire insurance premium tax surcharge is funding from the dedicated proceeds of a surcharge on the premiums paid on fire insurance written in a city of the first class. The surcharge is an amount equal to two percent of those premiums. The surcharge is collected by the Commissioner of Commerce and deposited in the state general fund.
3. Qualification Requirement for Receipt of Surcharge Amounts. There are no qualification requirements for the receipt of the first class city fire insurance premium tax surcharge proceeds.
4. Allocation of First Class City Fire Insurance Premium Tax Surcharge. The first class city insurance premium tax surcharge is allocated based on the geographical source of the insurance premium tax surcharge. Thus, the fire insurance premium tax surcharge proceeds collected from Duluth are payable to the Duluth Fire Consolidation Account, the fire insurance premium tax surcharge proceeds collected from Minneapolis are payable to the Minneapolis Firefighters Relief Association, and the fire insurance premium tax surcharge proceeds collected from St. Paul are payable to the St. Paul Fire Consolidation Account.

N. Background on the Volunteer Fire Lump Sum Supplemental Benefit and State Reimbursement.

1. Establishment. In 1988 (Laws 1988, Chapter 719, Article 19, Section 22), as part of that legislative session’s tax bill, the Legislature mandated that volunteer firefighter relief associations that pay a lump sum service pension also pay a supplemental benefit equal to ten percent of the amount of the lump sum service pension payable to retiring members, to a maximum of \$1,000 per lump sum service pension. The provision is coded as Minnesota Statutes, Section 424A.10. The supplemental benefit was intended to reimburse retiring volunteer firefighters for a change in Minnesota tax law, enacted in the late 1980s, which caused Minnesota public pensions to be taxable under Minnesota law. Given the relatively modest level of volunteer fire pensions, at least as of the late 1980s, the 1988 enactment of the volunteer fire lump sum supplemental benefit may have been intended to offset the impact of that new Minnesota taxation, so that the new tax treatment did not discourage individuals from providing volunteer fire services.

2. Source of the Volunteer Fire Lump Sum Supplemental Benefit State Reimbursement. The volunteer fire lump sum supplemental benefit state reimbursement is payable from a state general fund appropriation to the Department of Revenue.
3. Qualification Requirements for Receipt of the Volunteer Fire Lump Sum Supplemental Benefit State Reimbursement. The supplemental benefit is reimbursable by the state if the volunteer firefighter relief association that paid the supplemental benefit applies with the Commissioner of Revenue by the subsequent February 15, with the reimbursement paid on March 15 from a state general fund appropriation for that purpose.
4. Amount of the Volunteer Fire Lump Sum Supplement Benefit State Reimbursement. The amount of the state general fund appropriation to the Department of Revenue for payment by the Department of Revenue of volunteer fire lump sum supplemental benefits is as follows:

Fiscal Year	Supplemental Benefit Reimbursement Appropriation	Fiscal Year	Supplemental Benefit Reimbursement Appropriation
1989	not available	1996	\$400,000
1990	not available	1997	378,000
1991	not available	1998	375,000
1992	not available	1999	370,000
1993	not available	2000	378,000
1994	not available	2001	420,000
1995	\$400,000	2002	420,000

5. Permissible Uses for Reimbursement Amounts. The state reimbursement of volunteer fire lump sum supplemental benefits are required to be deposited into the special fund of the applicable volunteer firefighter relief association and may be expended for any lawful purpose for the relief association.

## Attachment C

### Background Information on Volunteer Firefighters Relief Association Special Fund Disbursements

Minnesota Statutes, Section 424A.05, governs the special funds of volunteer firefighters' relief associations, including the disbursements authorized from volunteer firefighter relief association special funds.

Minnesota Statutes, Section 424A.05, enacted in 1979, replaced Minnesota Statutes 1978, Section 424.31, in part. Minnesota Statutes 1978, Section 424.31, with respect to authorized volunteer firefighter relief association special fund disbursements, limited expenditures from the volunteer firefighter relief association special fund to the following:

- (1) For the relief of sick, injured, and disabled members of the fire department in the city;
- (2) For the payment of pensions to disabled firefighters and the surviving spouses and orphans of firefighters;
- (3) For the payment of pensions to retired firefighters under the laws of the state;
- (4) For the payment of the fees, dues, and assessments in the Minnesota State Fire Department Association, and in the Volunteer Firemen's Benefit Association of Minnesota so as to entitle the members of any qualified fire department to membership in and benefits of such state association;
- (5) For the payment of such death or funeral benefits as may be from time to time stipulated in the bylaws of the relief association; and
- (6) For the payment of necessary expenses of administering the relief association, including the salaries of the president, secretary, and treasurer.

Laws 1979, Chapter 201, Section 15, Subdivision 3, coded as Minnesota Statutes 1979 Supplement, Section 424A.05, Subdivision 3, limited the expenditures payable from a volunteer firefighter relief association special fund to the following:

- (1) For the payment of service pensions to retired members of the relief association if authorized and paid pursuant to law and the bylaws governing the relief association;
- (2) For the payment of temporary or permanent disability retirement benefits to disabled members of the relief association if authorized and paid pursuant to law and specified in amount in the bylaws governing the relief association;
- (3) For the payment of survivor retirement benefits to surviving spouses and surviving children of deceased members of the relief association if authorized by and paid pursuant to law and specified in amount in the bylaws governing the relief association;
- (4) For the payment of any funeral benefits to the surviving spouse, or if no surviving spouse, the estate, of the deceased member of the relief association if authorized by law and specified in amount in the bylaws governing the relief association;
- (5) For the payment of the fees, dues and assessments to the Minnesota State Fire Department Association and to the State Volunteer Firefighters Benefit Association in order to entitle relief association members to membership in and the benefits of these state associations; and
- (6) For the payment of administrative expenses of the relief association as authorized pursuant to Section 69.80.

In 2000 (Laws 2000, Chapter 461, Article 15, Section 11), Minnesota Statutes, Section 424A.05, Subdivision 3, was amended, based primarily on volunteer firefighter relief association changes suggested by the Minnesota Area Relief Association Coalition (MARAC) and recommended by the Fire Subcommittee of the Legislative Commission on Pensions and Retirement, allowing the payment of a survivor benefit to a designated beneficiary if the designated beneficiary is a natural person and if there is no surviving spouse or surviving child, and allowing the payment of MARAC dues.

In 2006 (Laws 2006, Chapter 271, Article 13, Section 4), Minnesota Statutes, Section 424A.05, Subdivision 3, was again amended, based on a recommendation from the Volunteer Fire Relief Association Working Group assembled by the Office of the State Auditor to permit the payment of a death benefit to the estate of a deceased active firefighter if there is no designated beneficiary.

## Attachment D

### Background Information on the Authorized Uses of Fire State Aid

Fire state aid, a substantial portion of the funding of firefighter retirement coverage in Minnesota, was created in 1885 (Laws 1885, Chapter 187).

Initially, in 1885, fire state aid was required to be placed in a special municipal fund and expended, first, for the support and relief of firefighters who were injured or disabled in the line of duty and, second, for equipping and maintaining the fire department.

In 1903 (Laws 1903, Chapter 20), accompanying an increase in the dedicated portion of the fire insurance premium tax for allocation, fire state aid was permitted to be expended for the relief of widows and orphans of deceased firefighters and for the relief and support of firefighters who were injured or who became disabled other than in the line of duty.

In 1943 (Laws 1943, Chapter 328), the expenditure of fire state aid was restricted to firefighter pension funding if the firefighters of the locality have retirement coverage. For municipalities and nonprofit firefighting corporations where the associated firefighters do not have pension coverage, fire state aid must be used to maintain the fire department or purchase fire equipment.

Although defraying some of all of the employer contributions to the Public Employees Police and Fire Retirement Plan (PERA-P&F) for paid firefighters is not a specifically authorized expenditure of fire state aid under Minnesota Statutes, Sections 69.031 or 424A.08, Minnesota Statutes, Section 353A.10, Subdivision 6, applicable to municipalities which previously had a local paid fire relief association and which consolidated with the Public Employees Retirement Association (PERA) between 1987 and 1999, requires that the appropriate amount of fire state aid be allocated against the municipality's PERA-P&F employer contribution obligation. Some local firefighter pension laws (see Laws 1975, Chapter 424, Section 2, for Columbia Heights) also provide for an allocation of fire state aid between funding the volunteer firefighters' relief association associated with the municipality and funding the municipality's employer contribution obligation to PERA-P&F for full-time paid firefighters.

## Attachment E

### Background Information on Supplemental Lump Sum Volunteer Firefighter Benefits

Minnesota Statutes, Section 424A.10, enacted in 1988 (Laws 1988, Chapter 719, Article 19, Section 22, the 1988 tax bill), and substantively amended in 2006 (Laws 2006, Chapter 271, Article 13, Section 5) and in 2007 (Laws 2007, Chapter 134, Article 10, Sections 1-3), mandates that all volunteer firefighter relief associations that provide a lump sum service pension or retirement benefit provide an additional lump sum supplemental benefit. The supplemental benefit is an amount equal to ten percent of the lump sum service pension for a retiring firefighter, but not to exceed \$1,000, an amount equal to twenty percent of the lump sum survivor benefit for the survivor of a deceased active or deferred firefighter, but not to exceed \$2,000. The supplemental benefit is reimbursable in the following year by the State Department of Revenue.

The lump sum supplemental volunteer fire benefit stems from a late 1980s tax law change which caused Minnesota public pensions to be taxable and the supplemental benefit is intended to offset some or all of the effects of that tax law change. The supplemental benefit was intended to reimburse retiring volunteer firefighters for a change in Minnesota tax law, which caused Minnesota public pensions to be taxable under Minnesota law. Given the relatively modest level of volunteer fire pensions, at least as of the late 1980s, the 1988 enactment of the volunteer fire lump sum supplemental benefit may have been intended to offset the impact of that new Minnesota taxation, so that the new tax treatment did not discourage individuals from providing volunteer fire services.

The volunteer fire lump sum supplemental benefit state reimbursement is payable from an open and standing state general fund appropriation to the Department of Revenue. The supplemental benefit is reimbursable by the state if the volunteer firefighter relief association that paid the supplemental benefit applies with the Commissioner of Revenue by the subsequent February 15, with the reimbursement paid on March 15. The amounts expended by the Department of Revenue in reimbursing volunteer fire lump sum supplemental benefits for the period 1989-2006 are as follows:

Fiscal Year	Number of Payments	Supplemental Benefit Reimbursement Appropriation	Fiscal Year	Number of Payments	Supplemental Benefit Reimbursement Appropriation
1989	169	\$248,877.98	1998	277	\$365,561.84
1990	253	\$355,340.44	1999	285	\$411,695.58
1991	259	\$357,604.39	2000	287	\$420,388.00
1992	268	\$394,324.32	2001	275	\$439,660.80
1993	264	\$384,550.40	2002	297	\$456,594.53
1994	248	\$330,629.36	2003	313	\$480,665.19
1995	263	\$366,189.08	2004	351	\$534,653.75
1996	261	\$414,799.08	2005	336	\$521,665.15
1997	262	\$371,903.61	2006	328	\$485,738.34

The state reimbursement of volunteer fire lump sum supplemental benefits are required to be deposited into the special fund of the applicable volunteer firefighter relief association and may be subsequently expended for any lawful purpose for the special fund of the relief association.

There are approximately 725 volunteer firefighter relief associations in Minnesota, with most relief associations paying lump sum retirement benefits, either as lump sum defined benefit retirement plans or as defined contribution plans. The following sets forth general information from the annual compilation of volunteer firefighter relief association data assembled by the Office of the State Auditor (with two or three dozen volunteer firefighter relief associations failing to file the required data in a timely fashion every year):

	2001	2002	2003	2004	2005	2006
Number of Reporting Plans	692	695	686	679	673	700
<u>Lump Sum Associations</u>						
Defined Contribution Plans	87	88	84	87	86	87
Lump Sum Defined Benefit Plans	583	585	577	569	563	590
<u>Monthly/Combination Associations</u>						
Monthly Benefit Plans	5	4	5	5	5	5
Comb. Lump Sum/Monthly Benefit Plans	17	18	20	18	19	18
Total Active Members	16,869	16,995	16,860	16,767	16,673	17,236
Total Deferred Inactive Members	2,897	3,015	3,095	3,067	3,027	3,102
Total Retired Members	<u>1,174</u>	<u>1,112</u>	<u>1,209</u>	<u>1,221</u>	<u>1,185</u>	<u>1,258</u>
Total Membership	20,940	21,122	21,164	21,055	20,885	21,596

	2001	2002	2003	2004	2005	2006
Total Actuarial Accrued Liability	\$308,923,067	\$311,801,760	\$329,287,563	347,227,373	366,290,782	395,797,609
Assets	\$291,241,397	\$265,724,390	\$316,638,883	350,944,892	374,254,109	422,237,089
Unfunded Actuarial Accrued Liability	\$17,681,670	\$46,077,370	\$12,648,680	(\$3,717,519)	(\$7,963,327)	(\$26,439,480)
Funding Ratio	94.28%	85.22%	96.16%	101.07%	102.17%	106.68%
Total Normal Cost	\$21,502,571	\$22,286,829	\$23,065,149	\$24,629,327	\$25,560,680	\$27,323,836
Total Amortization Contribution	\$1,675,033	\$3,498,283	\$4,787,932	\$3,162,278	\$2,396,127	\$2,357,404
Total Fire State Aid	\$13,246,449	\$14,584,066	\$17,771,509	\$22,768,597	\$22,074,813	\$23,678,464
Total Municipal Contribution	\$4,766,358	\$6,379,562	\$7,220,506	\$7,812,069	\$6,552,942	\$6,602,900
Total Other Revenue	\$763,428	\$765,056	\$745,795	\$1,100,045	\$533,011	\$969,384

In 2001, 43.4 percent of volunteer firefighter relief associations received volunteer fire supplemental aid, with 19.0 percent of the total number of relief associations (43.8 percent of associations receiving supplemental aid) receiving less than the maximum \$1,000 per lump sum recipient amount. In 2002, 45.7 percent of volunteer firefighter relief associations received volunteer fire supplemental aid, with 18.4 percent of the total number of relief associations (40.3 percent of associations receiving supplemental aid) receiving less than the maximum \$1,000 per lump sum recipient amount. In 2003, 49.1 percent of volunteer firefighter relief associations received volunteer fire supplemental aid, with 17.8 percent of the total number of relief associations (36.2 percent of associations receiving supplemental aid) receiving less than the maximum \$1,000 per lump sum recipient amount. In 2004, 2005, and 2006, insufficient data is available on volunteer firefighters' relief associations receiving volunteer fire supplemental aid.

## Attachment F

### Background Information on the Volunteer Firefighters' Benefit Association of Minnesota

The Volunteer Firefighters' Benefit Association of Minnesota is a non-profit association that was incorporated in 1927 under Minnesota Statutes, Section 61A.39. The association is located in Baxter, Minnesota.

The general purpose of the Volunteer Firefighters' Benefit Association of Minnesota was to create, establish, and maintain funds available for the relief and support of volunteer firefighters who sustain injury, sickness, disability, or loss of life in the line of duty.

Benefit funds of the Volunteer Firefighters' Benefit Association of Minnesota are provided through membership dues, fees, and investment income. As of December 31, 2007, the reserve for members was \$1,551,801 and the total claims paid in 2007 were \$30,495.

Membership in the Volunteer Firefighters' Benefit Association of Minnesota is limited to individuals who are between age 18 to 65 and who are members of a volunteer fire department in the State of Minnesota. Firefighters who are full-time employees of a fire department are permitted to be members if the majority of the fire department members are volunteer firefighters. The annual membership dues are \$7 for volunteer firefighters and \$128 for paid firefighters. A \$4 additional initial membership fee is also charged to new members.

As of December 31, 2006, there were 640 member volunteer fire departments with 16,408 volunteer firefighters and 90 paid firefighters.

Management of the Volunteer Firefighters' Benefit Association of Minnesota is vested in a Board of Directors of nine members, representing nine districts that cover all 87 Minnesota counties. The board members have staggered terms. Three directors are elected each year at the annual meeting for terms of three years. No member is eligible for election or re-election as a director after attaining age 65.

Each member fire department which has between one and 25 firefighter members is entitled to send one voting delegate (or proxy) to the annual meeting. Each fire department which has at least 26 firefighter members is entitled to two voting delegates (or proxies) at the annual meeting. Voting delegates must be members of the Volunteer Firefighters' Benefit Association of Minnesota.

The Volunteer Firefighters' Benefit Association of Minnesota currently offers:

- 1) accidental death coverage, with a fixed benefit of \$20,000;
- 2) limited disability coverage with the following benefits:
  - a. Loss of both hands or both feet, \$12,000,
  - b. Loss of both eyes, \$12,000,
  - c. Loss of one hand or one foot, \$ 6,000, and
  - d. Loss of one eye, \$ 6,000; and
- 3) loss of time coverage with a daily benefit of \$85 to a maximum per injury or occurrence of \$16,150.



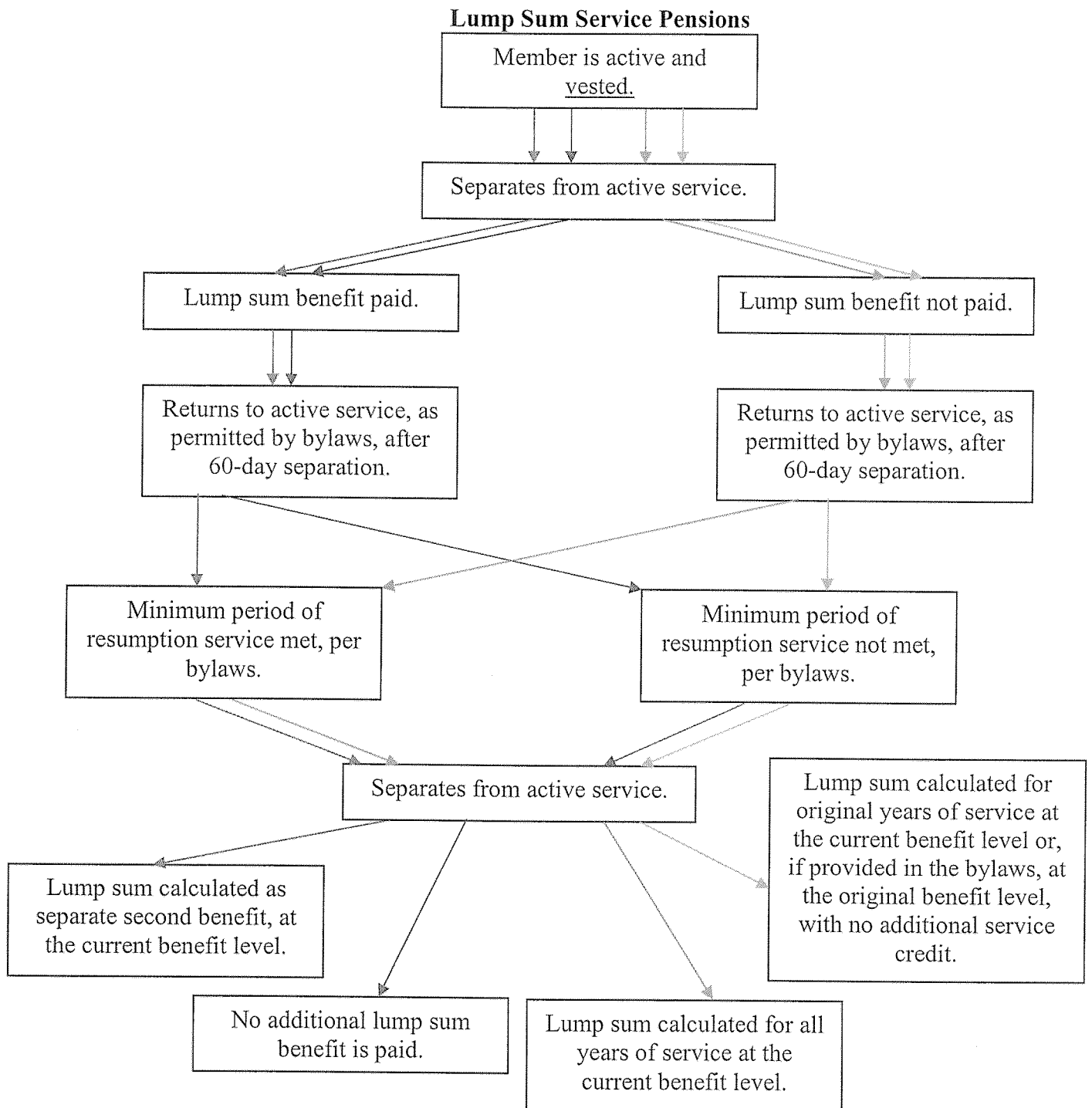
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## Volunteer Fire Relief Associations Return to Service Flow Chart







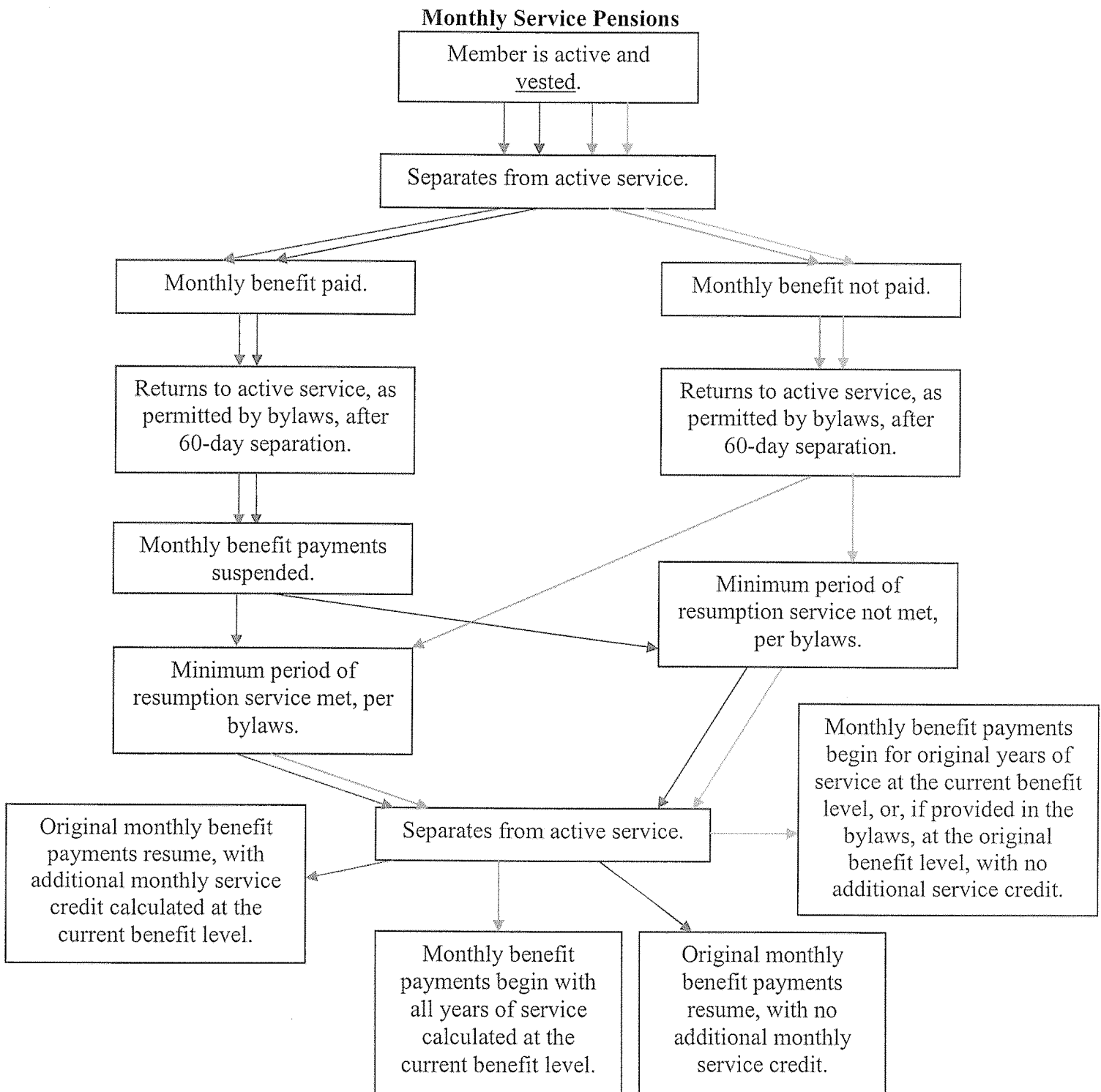
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**Volunteer Fire Relief Associations  
Return to Service Flow Chart**



- 1.1 ..... moves to amend S.F. No. 1001; H.F. No. 1129, as follows:
- 1.2 Page 7, line 1, delete "funeral,"
- 1.3 Page 11, strike lines 33 to 36
- 1.4 Page 12, strike lines 1 to 9
- 1.5 Page 35, line 12, strike "or funeral"
- 1.6 Page 36, line 33, before "deferred" insert "inactive member,"
- 1.7 Page 48, line 11, delete "separated from active service" and insert "ceased to perform
- 1.8 or supervise fire suppression and fire prevention duties"