



H.F. 1338
(McFarlane)

S.F. 1113
(Chamberlain)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): White Bear Lake Volunteer Fire Department Relief Association
Relevant Provisions of Law: Uncoded
General Nature of Proposal: Authorizes special actuarial work in determining 2010 and 2011 municipal contributions
Date of Summary: May 3, 2011

Specific Proposed Changes

- Permits White Bear Lake and the White Bear Lake Fire Department Relief Association to consider an interim actuarial valuation of the special fund of the relief association as the basis to calculate the 2010 and 2011 minimum municipal obligation to the relief association and retain eligibility for fire state aid.

Policy Issues Raised by the Proposed Legislation

1. Sufficiency of the proposed legislation to retain White Bear Lake's fire state aid eligibility.
2. Appropriateness and reliability of interim valuation results.
3. Adequacy of the Post-12/31/2008 actuarial condition of the White Bear Lake Volunteer Fire Department Relief Association.
4. Precedent.
5. Appropriateness of continuing the use monthly benefit volunteer firefighter relief associations.

Potential Amendment

SCS1113A-1 is a technical amendment to clarify the issue of the relief association.



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Lawrence A. Martin, Executive Director *JAM*
RE: H.F. 1338 (McFarlane); S.F. 1113 (Chamberlain): White Bear Lake Volunteer Fire;
Authorizing Special Actuarial Work in Determining 2010 and 2011 Municipal Contributions
DATE: April 6, 2011

Summary of H.F. 1338 (McFarlane); S.F. 1113 (Chamberlain)

H.F. 1338 (McFarlane); S.F. 1113 (Chamberlain) is a special local law provision that authorizes the White Bear Lake Volunteer Fire Department Relief Association and the City of White Bear Lake to utilize an October 19, 2009, interim actuarial valuation of the relief association special fund as confirmed by a January 1, 2011, actuarial valuation of the relief association special fund as the basis for determining the actuarial requirements of the relief association and the minimum municipal obligation of the city for the 2010 and 2011 required municipal contributions, effective retroactively from July 31, 2009, if approved by the City of White Bear Lake.

White Bear Lake Fire Department Relief Association 2010 and 2011 Municipal Obligation Problem

The White Bear Lake Fire Department Relief Association, one of 23 volunteer firefighter relief associations that pay monthly benefit service pensions or pay monthly service pensions as an alternative to lump sum service pensions, suffered investment losses during the recent Great Recession, saw its funding ratio decline from 114% funded as of December 31, 2006, to 87% funded as of December 31, 2008, and would have had to certify to the City of White Bear Lake a \$70,000 minimum municipal obligation as of August 1, 2010, and a similar amount as of August 1, 2011, if investment performance after December 31, 2008, was not recognized. The city and the relief association had an adjustment made to its December 31, 2008, actuarial valuation made by its consulting actuary, Gabriel, Roeder, Smith & Company, as of October 19, 2009, using the market value of relief association assets as of that date. The October 19, 2009, actuarial work, with post-recession investment gains, indicated that the White Bear Lake Fire Department Relief Association was 101.5% funded and that no minimum municipal contribution from the City of White Bear Lake beyond its annual fire state aid allocation is necessary. The October 19, 2009, actuarial work departs from statutory requirements for an eligible actuarial valuation for a volunteer firefighter relief association based on its date and a number of other deficiencies and the resulting failure to require or make a \$70,000 municipal contribution in 2010 and a similar amount in 2011, if uncorrected or if unmodified, will disqualify White Bear Lake for the receipt of fire state aid for October 2011 and thereafter.

Relevant Background Information

- **Attachment A** contains background information on volunteer firefighter relief association state aid qualification requirements.
- **Attachment B** contains background information on volunteer firefighter relief associations and volunteer firefighter service pensions.
- **Attachment C** contains background information on monthly benefit service pension volunteer firefighter relief association funding requirements.
- **Attachment D** contains background information on the volunteer firefighter relief association fund structure.

Discussion and Analysis

H.F. 1338 (McFarlane); S.F. 1113 (Chamberlain) would permit the White Bear Lake Volunteer Fire Department Relief Association and the City of White Bear Lake to use an irregularly prepared and incomplete set of actuarial computations, subsequently validated by a complete actuarial valuation prepared as of the plan year start, in calculating the financial requirements of the relief association and in determining the required municipal contributions for 2010 and 2011. The proposed special legislation would eliminate required municipal contributions by the City of White Bear Lake to the White Bear Lake Volunteer Fire Department Relief Association.

The proposed special legislation raises a number of pension and related public policy issues which may merit consideration and discussion by the members of the Legislative Commission on Pensions and Retirement, as follows:

1. Sufficiency of the Proposed Legislation to Retain White Bear Lake’s Fire State Aid Eligibility. The policy issue is the adequacy of the proposed special legislation in retaining eligibility for fire state aid for 2010 and 2011 and for the future. As indicated in Attachment A, eligibility for fire state aid receipt by a municipality and its associated volunteer firefighter relief association is primarily determined by the Office of the State Auditor, especially with respect to determinations of the adequacy of actuarial reporting for volunteer firefighter relief associations providing monthly benefit service pensions or the adequacy of annual financial reporting for all volunteer firefighter relief associations. The proposed special legislation is intended, as drafted, to retroactively qualify White Bear Lake for receipt of fire state aid back to 2010 and forward by validating nonconforming actuarial work that was later substantiated by regular conforming actuarial work and that indicated the relief association was sufficiently well funded to obviate the need for required municipal contributions. If that is the sole potentially disqualifying factor for recent and future fire state aid receipt, the proposed special legislation will fully assist White Bear Lake. If there are other unidentified fire state aid disqualifiers, the proposed special legislation will not fully assist White Bear Lake. Testimony from the State Auditor’s office should be solicited to clarify White Bear Lake’s situation and the sufficiency of the proposed legislation.

2. Appropriateness and Reliability of Interim Valuation Results. The policy issue is the appropriateness and reliability of actuarial work that varies from the full actuarial reporting requirements of Minnesota Statutes, Sections 356.215 and 356.216, and of the Standards for Actuarial Work promulgated by the Legislative Commission on Pensions and Retirement. The October 19, 2009, interim actuarial work is substandard. The actuaries preparing the October 19, 2009, interim report did not certify that its preparation complied with Minnesota state law and the Standards for Actuarial Work, and the actuarial work:
 - was not calculated based on a December 31 reporting date;
 - was not based on new membership information;
 - did not newly calculate the present value of future benefits, the normal cost, the present value of future normal costs, or the actuarial accrued liability;
 - was based on an adaptation of a prior actuarial accrued liability figure;
 - used unaudited asset values at a date other than the annual financial report date; and
 - did not disclose plan actuarial assumptions or benefit plan provisions.

While White Bear Lake officials may correctly argue that the total number of relief association members did not change between January 1, 2009, and October 19, 2009, that is not a conclusive indication that a massaged actuarial liability number is an accurate representation of the relief association’s financial condition. Minnesota Statutes, Section 69.773, does require projections from the most recent prior actuarial valuation for purposes of assessing the impact of a proposed benefit change, if it had been implemented as of the date of that valuation, but does not permit stringing out old liability numbers to avoid the cost of doing a full actuarial valuation. Monthly benefit volunteer firefighter relief associations are really very small specialized insurance companies, and the assessment of the sufficiency of the reserves needed for that specialized risk is very important.

3. Adequacy of the Post-December 31, 2008, Actuarial Condition of the White Bear Lake Volunteer Fire Department Relief Association. The policy issue is the actuarial condition of the White Bear Lake Volunteer Fire Department Relief Association after December 31, 2008, and whether deeming the White Bear Lake Volunteer Fire Department Relief Association to be sufficiently funded to not be required to make the required municipal contribution determined under the January 1, 2009, actuarial valuation. The following sets forth the January 1, 2007, actuarial valuation; the January 1, 2009, actuarial valuation; the October 19, 2009, interim actuarial work; the actuarial condition of the relief association reported in the 2009 volunteer firefighter relief association compilation published by the Office of the State Auditor; and the January 1, 2011, actuarial valuation:

	1/1/2007 Actuarial Valuation	1/1/2009 Actuarial Valuation	10/19/2009 Interim Actuarial Work	2009 State Auditor Compilation	1/1/2011 Actuarial Valuation
<u>Membership</u>					
Active Members	51	50	50	47	49
Service Retirees	33	36	36	43	35
Surviving Spouses	6	7	7	--	6
Deferred Retirees	11	11	11	10	11
Total Membership	101	104	104	100	101

	1/1/2007 Actuarial Valuation	1/1/2009 Actuarial Valuation	10/19/2009 Interim Actuarial Work	2009 State Auditor Compilation	1/1/2011 Actuarial Valuation
Funded Status					
Actuarial Accrued Liab.	\$4,427,483	\$4,737,869	\$4,850,942	\$4,882,555	\$4,873,330
Assets	\$5,392,442	\$4,125,799	\$4,925,923	\$4,999,243	\$5,528,154
Unfunded Act. Accr. Liab.	(\$964,959)	\$612,070	(\$74,981)	(\$116,688)	(\$654,824)
Funding Ratio	121.8%	87.1%	101.5%	102%	113.4%
Financing Requirements					
Benefits Payable	Undisclosed	Undisclosed	Undisclosed	\$221,197	
Normal Cost	\$119,589	\$128,114	\$128,114	\$128,114	\$125,003
Admin. Exp.	21,226	23,485	23,485	28,779	22,126
Amortization/ Surplus Credit	(96,496)	61,335	(7,498)	61,335	(65,482)
Total Financial Reqmts	\$44,319	\$212,934	\$144,101	\$29,155	\$81,647
Total Financial Reqmts.	\$44,319	\$212,934	\$144,101	\$154,503	\$81,647
Fire State Aid				0	
Minimum Municipal Contrib.					
Actuarial Assumptions					
Interest	5%	5%	Undisclosed	Unreported	5%
Mortality	1994 Group Annuity Table	1994 Group Annuity Table	Undisclosed	Unreported	1994 Group Annuity Table
Separation	9.6% at 25 2.4% at 40	9.6% at 25 2.4% at 40	Undisclosed	Unreported	9.6% at 25 2.4% at 40
Disablement	0.04% at 25 1.13% at 55	0.04% at 25 1.13% at 55	Undisclosed	Unreported	0.04% at 25 1.13% at 55
Retirement Age	age 53 with 20 yrs. service	age 53 with 20 yrs. service	Undisclosed	Unreported	age 53 with 20 yrs. service
Incentive Points	Earned maximum possible	Earned maximum possible	Undisclosed	Unreported	Earned maximum possible
Actuary	Michael R. Kivi, FSA	Michael R. Kivi, FSA	Michael R. Kivi, FSA	Unreported	Alex Rivera, FSA
Statutory Compliance Certification	Compliance Certified	Compliance Certified	No certification	Unreported	Partial Certification

The actuarial results indicate that the White Bear Lake Volunteer Fire Department Relief Association has been fully funded before January 1, 2009, and since October 18, 2009, augmenting the argument from White Bear Lake City officials that 2010 and 2011 municipal contributions were not needed to maintain the solvency of the relief association. It should be noted, however, that the basis for the funding result reported by the Office of the State Auditor in the 2009 compilation is unclear and is not a replication of the actuarial work provided by the Office of the State Auditor to the Commission staff in response to a request for information on the White Bear Lake Volunteer Fire Department Relief Association.

4. Precedent. The policy issue is the extent to which there is an existing precedent for the recommendation and potential enactment of the proposed special legislation and is the likelihood that this proposed special legislation, if enacted, would constitute a precedent for similar future legislation. To the best determination of the Commission staff, there is no prior special legislation that could be considered to be a precedent for this proposed special legislation. If enacted, the proposed special legislation would potentially create a hope and an expectation for other monthly benefit service credit volunteer firefighter relief associations and other combination monthly benefit lump sum benefit volunteer firefighter relief associations to undertake informal or partial actuarial work whenever there is positive volatility in the investment markets and pending municipal contributions could be reduced or obviated. While there are only 23 volunteer firefighter relief associations that are required to obtain periodic actuarial valuation work, making the precedential value of the proposed special legislation more limited than the entire volunteer firefighter relief association community, it could be utilized repeatedly by the modest number of affected volunteer firefighter relief associations.
5. Appropriateness of Continuing to Authorize Volunteer Firefighter Relief Associations Wholly or Partially Providing Monthly Benefit Service Pensions. The policy issue is the appropriateness of retaining the 23 volunteer firefighter relief associations that partially or wholly provide monthly benefit service pension coverage. Only these volunteer firefighter relief associations are required to obtain periodic actuarial valuations because these volunteer firefighter relief associations have a mortality risk by the nature of their benefit coverage and no simple lay person's approximation of the necessary benefit reserves is possible. If these volunteer firefighter relief associations converted to insurance company-purchased annuities as an alternative to simpler lump sum service pension coverage, the problem giving rise to this special legislation and the administrative expense and complexity of operating this type of pension coverage could be eliminated. Since the authority for these relief associations to convert their directly provided benefits into insurance company-purchased annuities currently exists, all that would be needed to eliminate direct monthly benefit service pension coverage would be to provide an economic incentive for making the conversion or to provide an economic disincentive to refuse to convert. Additions to or subtractions from current fire state aid levels could provide an incentive or disincentive.

Background Information on Volunteer Firefighter Relief Association Fire State Aid Qualification Requirements

Minnesota Statutes, Section 69.771, Subdivision 3, a portion of the Volunteer Firefighter Relief Association Financing Guidelines Act, initially enacted in 1971 (Laws 1971, Ch. 261), was substantially revised under recommendations from the State Auditor's Volunteer Fire Working Group in 2005 (1st Spec. Sess. Laws 2005, Ch. 8, Art. 9, Sec. 3). The provision specifies the basis for the State Auditor to determine whether or not a volunteer firefighter relief association has complied with the relief association funding and related statutory requirements.

In addition to Minnesota Statutes, Sections 69.011, Subdivisions 2, 4, and 5, and 69.021, Subdivision 4, which require that the clerk of a municipality or the secretary of an independent nonprofit firefighting corporation certify the existence of the fire department on or before March 15, that the municipal fire department must have been officially established and organized for at least one year, that an independent nonprofit firefighting corporation must operate exclusively for firefighting purposes and must provide retirement benefits to firefighters, and that the fire department or firefighting corporation must have at least ten firefighters, must have regular meetings and frequent drills, must have a motorized fire truck with equipment, must have suitable housing for apparatus, must have an alarm system, must have second piece of motorized apparatus if service area exceeds municipal limits, and must meet other Department of Revenue requirements, with compliance determined by the State Fire Marshal, the fire state aid qualification and retention requirements of Minnesota Statutes, Section 69.771, Subdivision 3, include the following:

1. 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 under Minnesota Statutes, Section 69.051.
2. Relief Association Treasurer Bond. The volunteer firefighter relief association treasurer must be bonded to a minimum amount under Minnesota Statutes, Section 69.051, Subdivision 2.
3. Lump Sum Relief Association Accrued Liability and Annual Accruing Liability Determination. The volunteer firefighter relief association officers are required to properly determine the accrued liability of the special fund of the relief association and its annual accruing liability under Minnesota Statutes, Section 69.772, Subdivisions 2, 2a, and 3, if the volunteer firefighter relief association provides solely a lump sum service pension.
4. Monthly Benefit Relief Association Obtain and File Periodic Actuarial Valuations. The volunteer firefighter relief association officers are required to obtain and file a periodic actuarial valuation, which must contain:
 - (a) the actuarial accrued liability of the special fund determined under the entry age normal actuarial cost method;
 - (b) the special fund assets;
 - (c) the special fund unfunded actuarial accrued liability;
 - (d) the special fund normal cost determined under the entry age normal actuarial cost method;
 - (e) the amortization of the special fund unfunded actuarial accrued liability contribution for the applicable amortization target date;
 - (f) a summary of the relief association benefit plan;
 - (g) a membership summary;
 - (h) an actuarial assumption summary;
 - (i) an attestation by the actuary of the results; and
 - (j) a certification by the actuary of the actuary's qualifications as an approved actuary under Minnesota Statutes, Section 356.215.
5. 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 under Minnesota Statutes, Sections 69.772 and 69.773.
6. 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 under Minnesota Statutes, Sections 69.772, Subdivision 6; 69.773, Subdivision 6; and 424A.02, Subdivision 10.

7. Authorized Relief Association Investments. Volunteer firefighter relief association special fund assets must be investment in authorized investment securities under Minnesota Statutes, Sections 69.775 and 356A.06, Subdivisions 6 and 7.
8. Authorized Relief Association Administrative Expenses. The volunteer firefighter relief association or the municipality must limit administrative expenses to authorized expenses under Minnesota Statutes, Section 69.80 or 424A.05, Subdivision 3.
9. Relief Association Investment Performance Reporting. The volunteer firefighter relief association must make investment portfolio and investment performance report under Minnesota Statutes, Section 356.219.
10. 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 under Minnesota Statutes, Section 356A.06, Subdivision 8b.
11. 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 under Minnesota Statutes, Section 356A.06, Subdivision 9.
12. 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 under Minnesota Statutes, Section 424A.02, Subdivision 3.

Background Information on Volunteer Fire Relief Associations and Volunteer Firefighter Service Pensions

1. Volunteer Firefighter Service Pensions. In Minnesota, most firefighters are volunteer firefighters. Minnesota provides pension coverage for volunteer firefighters as an incentive to provide services. This coverage is provided by volunteer firefighter relief associations and the volunteer firefighter relief association pension coverage either is the only compensation or is an important component of the compensation package provided to volunteer firefighters. The volunteer fire relief associations are Minnesota nonprofit corporations governed by a board made up of a majority of firefighters and a minority of city officials. In addition to the Minnesota Nonprofit Corporation Act, volunteer fire relief associations are governed by Minnesota Statutes, Chapters 69, 356A, 424A, and 424B.

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 small minority providing a monthly benefit service pension (some with an alternative lump sum service pension) and a larger minority providing a defined contribution 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 from the annual fire state aid, which is initially allocated to cities based half on population compared to statewide totals, and half on their property value compared to the statewide total and supplemented by minimum volunteer firefighter state aid under Minnesota Statutes, Sections 69.011 to 69.051. The aid is dedicated for pension purposes. Additionally, if the actuarial cost of the volunteer firefighter relief association exceeds the fire state aid, the municipality must levy a property tax to support the volunteer fire relief association.

2. History of Volunteer Firefighter Service Pension Maximums

- a. Before 1979. Volunteer firefighter service pensions have always been subject to a benefit maximum, either under Minnesota Statutes, Section 69.06 (1905-1979) or Minnesota Statutes, Section 424A.02, Subdivision 3 (1979 to present). In the system used before 1979, a single-benefit maximum was stated in law, but without any mention of the financing needed to support that benefit level, and without any guidance for reasonable benefit levels that could be supported in municipalities where funding support was low. Prior to 1957, the maximum service pension payable to a retiring volunteer firefighter was a \$40 monthly benefit (plus two dollars per month per year of service beyond 20 years to a maximum of \$60 per month) or \$100 per year of service credit lump sum benefit.

In 1957, the lump sum benefit maximum was increased to \$200 per year of service credit.

In 1973, the lump sum benefit maximum was increased to \$300 per year of service credit.

In 1976, the monthly benefit maximum was increased to \$80 per month (plus four dollars per month per year of service beyond 20 years to a maximum of \$120 per month) or \$600 per year of service credit lump sum benefit.

- b. 1979 and After. In 1979, with the passage of Minnesota Statutes, Chapter 424A, recodifying the law governing volunteer fire pension coverage, the single dollar amount service pension maximums were eliminated in favor of flexible service pension maximums. The flexible service pension maximums established a sliding scale of benefit maximums based on the level of funding per firefighter for the previous three-year period, with the greatest monthly benefit service pension of \$15 per month per year of service up to 30 years of service if the funding per firefighter was at least \$744 per year and with the greatest lump sum benefit service pension of \$2,000 per year of service if the funding per firefighter was at least \$960 per year.

In 1983, the upper end of the monthly benefit service pension flexible maximum sliding scale was increased to \$22.50 per year of service credit up to 30 years of service with at least \$1,678 funding per firefighter per year, and the upper end of the lump sum service pension flexible maximum sliding scale was increased to \$3,000 per year of service credit with at least \$1,440 funding per firefighter per year.

In 1990, the monthly benefit service pension flexible maximum sliding scale was increased from \$22.50 per month per year of service to \$30.00 per month per year of service credit.

In 1993, the maximum permitted lump sum pension was increased from \$3,000 per year of service to \$4,000 per year of service, to be phased in by 1996.

In 1997, Senator Terwilliger and Representative Delmont authored bills to again increase volunteer fire monthly and lump sum plan benefit maximums. The bills were S.F. 466 (Terwilliger); H.F. 568 (Delmont): Volunteer Firefighter Relief Associations; Increasing the Maximum Service Pension Amounts for Monthly and Lump Sum Plans. The Legislative Commission on Pensions and Retirement heard these bills and recommended them to pass with a Commission staff cleanup amendment. The bill passed as Laws 1997, Chapter 241, Article 6, with the new highest permitted pension set at \$40 per month per year of service, if the support level is \$4,137 or above.

The flexible service pension maximums were again increased by the 2000 Legislature (Laws 2000, Chapter 461, Article 15, Section 5) but the unusual change in the required support level between \$37 per month per year of service and \$38 per month per year of service was not addressed. The 2000 Session changes increased the maximum monthly pension from \$40 per month per year of service to \$56, to be phased in by the end of calendar 2003. The maximum lump sum pension was increased from \$5,500 to \$7,500 per year of service, with a similar phase in.

In 2008 (Laws 2008, Ch. 349, Art. 14, Sec. 8), the flexible service pension maximums were increased again, to \$8,100 per year of service credit lump sum and to \$100 per month per year monthly benefit, phased in over the period 2008-2012.

Background Information on Monthly Benefit Service Pension 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 Monthly Benefit Service Pension Volunteer Firefighter Relief Association 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 an actuarial valuation prepared at least every four years.

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 must disclose the relief association's actuarial accrued liability, the assets, unfunded actuarial accrued liability, normal cost, and amortization of the unfunded actuarial accrued liability (typically using a 20-year amortization period.) The financial requirement of the monthly benefit relief association is the combination of four items:

- (a) the normal cost;
 - (b) the amortization requirement if the relief association has an unfunded actuarial accrued liability;
 - (c) the prior year's administrative expenses, multiplied by a factor of 1.035; and
 - (d) one-tenth of the relief association's funding surplus, if the relief association has assets in excess of its actuarial accrued liability.
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, Ch. 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)). 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 5% 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. 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 69.773, 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 benefit service pensions or purchases insurance company 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 those converted monthly benefit service pension volunteer firefighter relief associations.

Background Information on the Volunteer Firefighter Relief Association Fund Structure

Volunteer Firefighter Relief Association Special Fund

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 dues, Minnesota Area Relief Association Coalition dues, Volunteer Firefighters Benefit Association of Minnesota insurance premiums, state licensed insurance company casualty insurance premiums, and authorized administrative expenses. A survivor benefit may be paid to a designated beneficiary (who 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.

Volunteer Firefighter Relief Association General Fund

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.

1.1 Senator moves to amend S.F. No. 1113 as follows:

1.2 Page 1, line 12, delete "Relief Department" and insert "Department Relief

1.3 Association"

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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH
SESSION

HOUSE FILE No. 1338

March 30, 2011

Authored by McFarlane

The bill was read for the first time and referred to the Committee on Government Operations and Elections

1.1 A bill for an act
1.2 relating to retirement; city of White Bear Lake and White Bear Lake Volunteer
1.3 Fire Department Relief Association; authorizing the use of special actuarial
1.4 work in determining the 2009 and 2010 special fund financial requirements and
1.5 minimum municipal obligations.

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

1.7 Section 1. **WHITE BEAR LAKE; SPECIAL ACTUARIAL WORK**
1.8 **AUTHORIZATION.**

1.9 Notwithstanding any provision to the contrary of Minnesota Statutes, sections
1.10 69.771, subdivision 3; 69.773, subdivisions 2, 4, and 5; 356.215; and 356.216, a document
1.11 styled as an interim valuation at October 19, 2009, of the White Bear Lake Volunteer Fire
1.12 Relief Department prepared by the actuarial consulting firm of Gabriel, Roeder, Smith
1.13 & Company, as confirmed as to its funded status results by an actuarial valuation as of
1.14 January 1, 2011, of the White Bear Lake Volunteer Fire Department Relief Association
1.15 pension plan prepared by the actuarial consulting firm of Gabriel, Roeder, Smith &
1.16 Company may be considered by the relief association officers, the city of White Bear
1.17 Lake, and the Office of the State Auditor to be a qualifying actuarial valuation of the
1.18 special fund of the relief association for the determination of the actuarial condition of
1.19 the relief association and the financial requirements of the relief association amounts
1.20 and the minimum municipal obligation amounts calculated by relief association officers
1.21 certified to the city of White Bear Lake on or before August 1, 2009, and on or before
1.22 August 1, 2010, may be considered by the City of White Bear Lake and by the Office of
1.23 the State Auditor to be properly determined.

- 2.1 **EFFECTIVE DATE; LOCAL APPROVAL.** This section is effective retroactively
2.2 from July 31, 2009, if the White Bear Lake city council and the White Bear Lake chief
2.3 clerical officer timely complete their compliance with Minnesota Statutes, section
2.4 645.021, subdivisions 2 and 3.