



TO: Members of the Legislative Commission on Pensions and Retirement  
FROM: Lawrence A. Martin, Executive Director *LAM*  
RE: S.F. 274 (Pappas); H.F. 340 (Nelson): PERA-SVFRP; Deadline Extension for Participation Election  
DATE: February 22, 2013

Summary of S.F. 274 (Pappas); H.F. 340 (Nelson)

S.F. 274 (Pappas); H.F. 340 (Nelson) amends Minnesota Statutes, Section 353G.05, Subdivision 2, a portion of the voluntary statewide lump sum volunteer firefighter retirement plan of the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan of the Public Employees Retirement Association (PERA- SVFRP), by changing the deadline date for municipalities to act on a fire department election to join the statewide volunteer fire retirement plan by extending it from 90 days to 120 days after the receipt of the PERA cost analysis document on a potential transfer, effective July 1, 2013.

Background Information on Relevant Topics

The following attachments provide background information on topics relevant to the proposed legislation:

- **Attachment A:** Background information on the Statewide Lump-Sum Volunteer Firefighter Retirement Plan of the Public Employees Retirement Association (PERA-SVFRP)

Discussion and Analysis

S.F. 274 (Pappas); H.F. 340 (Nelson) provides localities with a 33.33% extension in the period of time over which the question of joining the statewide volunteer fire plan can be considered after receipt of the PERA cost analysis document. The proposed legislation was recommended by the statewide volunteer firefighter retirement plan advisory board.

The sole policy issue is whether or not the extension is appropriate. The extension would not be appropriate if the additional passage of time rendered the cost analysis misleading or inapplicable or if the time extension on its own skews the result. When the statewide volunteer firefighter retirement plan advisory board considered this change, PERA indicated that the time extension did not adversely affect the timeliness or accuracy of the cost analysis document that is the basis for the decision to join the statewide plan or not. The time extension also does not appear to have any substantive impact on the decision. The extension appears to provide smaller governmental units with relatively infrequent governing board meetings more flexibility in considering the retirement coverage change.

## Background Information on the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan of the Public Employees Retirement Association

1. Creation; Establishment. After several years of discussion and study, in 2009 (Laws 2009, Ch. 169, Art. 9), the Legislature created the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan (PERA-SVFP).
2. Approach. The Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan is not a cost-sharing multiple employer retirement plan, but is an aggregation of liability and funding requirement-distinct former volunteer firefighter relief associations that operate under a single benefit plan, wholly set forth in statute, administered by a single retirement plan administration, the Public Employees Retirement Association (PERA), invested by a single investment agency, the State Board of Investment, and represented in legal affairs by a single counsel, the Attorney General of Minnesota.
3. Management; Administration. The Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan is administered by the local government statewide retirement plan administration, the Public Employees Retirement Association (PERA). The PERA board of trustees exercises the policy-making, management, and administrative functions related to the retirement plan, conducted by the PERA executive director and the PERA administrative staff. In undertaking its duties, the PERA board of trustees and the PERA executive director are governed by state law, the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan law, Minnesota Statutes, Chapter 353G, and the Public Pension Fiduciary Responsibility law, Minnesota Statutes, Chapter 356A.

To assist the PERA board of trustees and the PERA executive director, Minnesota Statutes, Section 353.03, establishes an advisory board, which is to advise the PERA board about the retirement coverage needs of volunteer firefighters and about the legislative and administrative changes that would assist the retirement plan in accommodating volunteer firefighters who are not members of the plan.

The advisory board consists of seven members:

- one representative from townships, appointed by the Minnesota Association of Townships
- two representatives from Minnesota cities, appointed by the League of Minnesota Cities
- one Fire Chief, appointed by the Minnesota State Fire Chiefs Association
- two volunteer firefighters, appointed by the Minnesota State Fire Departments Association
- one representative of the State Auditor's Office, designated by the state auditor.

The initial terms on the advisory board for the Minnesota townships representative and the Minnesota fire chiefs' representative are one year. The initial terms on the advisory board for one of the Minnesota cities representatives and one of the Minnesota active volunteer firefighter representatives are two years. The initial terms on the advisory board for the other Minnesota cities representative and the other Minnesota active volunteer firefighter representative are three years. The term for the Office of the State Auditor representative is determined by the state auditor. Subsequent terms on the advisory board other than the Office of the State Auditor representative are three years.

The administrative expenses of PERA with respect to the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan in 2011 were \$30 per firefighter, or \$7,709 in total.

4. Membership. Membership by volunteer firefighters in the voluntary statewide lump-sum volunteer firefighter retirement plan is a function of an election by municipalities or independent nonprofit firefighting corporations, which applies to all firefighters providing employment on an emergency on-call basis in the fire department associated with the electing municipality or nonprofit corporation.

The municipality or independent nonprofit firefighting corporation can elect coverage by the statewide plan. The process is initiated by requesting a cost analysis, to be based on the service pension level closest to the relief association's current level rounded up, using financial and demographic information available from the State Auditor. If there is no relief association, the cost analysis is based on the lowest service pension level provided in the statewide plan. The election of coverage provision, as it relates to defined contribution plans, was revised by providing that the service pension level cost estimate for an association contemplating coverage by statewide volunteer fire retirement plan is the service pension amount of the available levels that is closest to 95% of the current average account balance of the defined contribution plan members. The State Board of Investment will review the association's portfolio for consistency with permissible investment law and the State Board of Investment investment policy. The municipality or independent nonprofit firefighting corporation has 90 days from the date the cost analysis becomes available to approve or disapprove coverage by the statewide plan. If approved, the local relief association special fund is dissolved as of December 31,

statewide plan coverage commences and special fund assets are transferred to an account in the statewide plan fund. Statewide plan coverage commences on January 1. The voluntary statewide plan is the successor in interest to the local volunteer firefighter relief association.

5. Benefit Plan; Service Credit; Vesting; Lump Sum Service Pensions

- a. Service Crediting. "Good time service credit" is the length of the service credit for an active firefighter as reported by the respective fire chief based on the minimum firefighter activity standards of the fire department, either monthly or annually, as determined by the respective fire chief. The fire chief is required to notify individuals about the determination of good time service credit for the prior year by late January, with individuals having 60 days to contest any determinations. By March 31, the fire chief must provide the good time service credit determinations to PERA. Individuals providing military service must be credited with a full year of good time service credit for each year of service, up to the applicable limits under the Uniformed Service Employment and Reemployment Rights Act (USERRA). If the individual fails to return to provide fire services within the timelines required by USERRA, the applicable service credit is forfeited.
  - b. Vesting. Volunteer firefighters with at least five years of good time service credit who are at least age 50 and who separated from active fire department service for at least 30 days may apply for a benefit. Firefighters partially vest with five years of good time service credit and fully vest with at least 20 years of good time service credit. For plan members who retire before rendering at least five years of service under the statewide plan, a service pension calculated at the benefit level of the prior volunteer fire relief association is payable as an alternative amount. For plan members who previously were covered by local defined contribution plans and who retire within five years of commencing coverage under the statewide plan, the alternative service pension amount is the retiring member's account balance as of first coverage by the statewide plan plus 6% annual compound interest from that date until retirement.
  - c. Deferred Service Pension. Volunteer firefighters who vest for a service pension but are under age 50 when terminating active fire department service are entitled to a deferred service pension, payable without any interest over the deferral period.
  - d. Benefit Levels, Ancillary Benefits, and Changing Benefit Levels. The statewide plan offers 20 levels of service pension, from a low of \$500 per year of good time service credit to a high of \$7,500 per year of good time service credit. Annually, after obtaining a cost estimate from PERA for a new service pension level, the governing body of the entity operating the fire department may approve the selection of a higher service pension level. Retiring volunteer firefighters also qualify for the state supplemental volunteer fire lump-sum benefit established in 1988. The ancillary benefit the plan initially offered was a survivor benefit in an amount equal to a service pension assuming the member had died at age 50. The plan may provide disability coverage through outside casualty insurance.
  - e. Pension Portability. A volunteer firefighter with at least five years of good time service credit in two or more accounts in the statewide plan can receive a combined service pension based on all good time service credit periods, with the total benefit amount equal to the sum of the benefit amounts payable from each applicable account.
  - f. Purchase of Annuity Contracts. In lieu of a direct receipt of a lump-sum service pension, a retiring volunteer firefighter may request that the voluntary statewide lump-sum volunteer firefighter retirement plan purchase an annuity contract from an insurance company if the insurance company is licensed to do business in Minnesota and if the annuity payments do not begin before age 50.
  - g. Transfers to Individual Retirement Account (IRA) Permitted. In lieu of direct receipt, a retiring volunteer firefighter who is at least age 50 may elect to have the service pension amount transferred on an institution-to-institution basis to an individual retirement account.
  - h. Exemption from Garnishment. The voluntary statewide lump-sum volunteer firefighter retirement plan assets and benefits are exempt from assignment or garnishment, except in cases of marital dissolutions.
6. Retirement Fund. A separate fund was created in the State Treasury, to voluntary statewide lump-sum volunteer firefighter retirement fund, to contain the assets related to the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan.
7. Contributions. Annually, PERA determines the funding requirements of each volunteer firefighter account in the voluntary statewide lump-sum volunteer firefighter retirement fund. The requirements are the sum of the account's annual accruing liability, a proportional portion of the plan's

administrative expenses, and the account's amortization contribution, with the amortization contributions set at one-tenth of the unfunded actuarial accrued liability of the account. The special additional municipal contribution initially required to offset any decline in the asset value of the relief association special fund prior to joining the statewide plan was eliminated. If there are three years of funding surpluses, a credit of one-tenth of the surplus is taken to reduce the contribution requirement. The required contribution is the amount of the funding requirements in excess of the most recent fire state aid amount attributable to the fire department. A special municipal contribution requirement was added if a statewide plan account has insufficient assets to cover current benefit payments. Unpaid required contributions are subject to regular PERA collection procedures.

8. **Investment.** The Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan is invested exclusively in the Volunteer Firefighter Account of the Minnesota Supplemental Investment Fund. The Volunteer Firefighter Account uses a balanced asset mix investment approach to provide long-term returns by investing in a diversified mix of domestic stock, international stock, bonds and money market securities. While holdings will vary day to day, the targeted asset mix is 35% domestic stocks, 15% international stocks, 45% fixed income, and 5% cash.

The domestic stock segment is passively managed and is indexed to the Russell 3000, a market index that reflects the broad U.S. stock market. The international stock segment is actively and passively managed and is invested primarily in large, developed international markets such as Japan, the United Kingdom, Canada, France, Germany, and Australia, with a portion invested in developing countries, or emerging markets, in Asia, Latin America, Eastern Europe, the Middle East and Africa. The fixed income segment is actively managed and includes high-quality corporate bonds and mortgage securities as well as U.S. Government issues. The cash segment is invested in a short-term fund of high-quality money market instruments.

The investment performance for the one full fiscal year that the Volunteer Firefighter Account has been in operation, Fiscal Year 2011, the account had a 17.5% rate of return. For the 12-month period ending March 31, 2011, the investment management fees were approximately \$0.08 per \$100 invested.

9. **Participating Fire Departments.** Initially, on January 1, 2010, six municipalities or nonprofit firefighting corporations with fire departments joined the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan. On January 1, 2011, 12 additional municipalities or nonprofit firefighting corporations with fire department joined the plan. On January 1, 2012, 16 additional municipalities or nonprofit firefighting corporations with fire departments joined the retirement plan.

The following are the individual municipality or nonprofit firefighting corporation results for the voluntary statewide lump-sum volunteer firefighter retirement plan as of June 30, 2011:

Statewide Volunteer Firefighter Retirement Plan  
Statistics as of June 30, 2011

	Active Members	Benefit Per Year of Service	Net Assets	Accrued Liability	Funding Ratio	Normal Cost (CY12)	2011 Fire State Aid	2012 Required Contrib.
Alborn (Township)	23	\$500	\$120,712	\$106,897	113%	\$9,644	\$7,855	\$0
Alden (City)	25	500	114,598	124,982	92%	12,565	10,037	0
Biwabik (Township)	19	800	218,311	215,083	102%	13,404	10,037	0
Buyck VFD	12	500	38,216	15,036	254%	4,141	5,673	0
Crane Lake VFD	16	700	62,916	95,000	66%	5,140	6,526	0
DeGraff (City)	11	500	50	6,126	1%	3,342	323	3,364
Elbow Tulaby Lakes VFD	14	600	55,881	56,560	99%	7,155	5,451	0
Emmons (City)	21	600	232,471	158,664	147%	11,745	10,037	0
Grand Marais (City)	28	1,250	338,337	356,434	95%	24,962	13,578	0
Lakeland VFD	18	1,000	192,192	168,393	114%	13,449	7,418	0
Lexington (City)	21	3,000	360,519	385,243	94%	45,243	10,910	14,986
Lutsen (Township)	19	1,500	164,569	188,186	87%	20,188	11,657	1,221
Manchester (City)	16	1,000	86,449	16,719	517%	9,399	3,770	556
North Star (Township)	21	500	40,042	62,234	64%	7,956	4,800	2,376
Ottertail (City)	28	750	403,119	336,751	120%	22,095	12,076	0
Scandia (City)	28	2,500	605,239	735,834	82%	62,662	21,763	18,258
Twin Valley (City)	28	1,000	237,423	235,594	101%	19,103	11,346	0
Warba-Feeley-Sago (City/Twp)	19	600	141,801	97,397	146%	10,376	8,291	0

These figures are unaudited. Net assets represent the market value of investments in each entity's account. Accrued liabilities and normal cost are approximations based on spreadsheets approved by PERA's actuary, but are not calculated by the actuary.

2011 Fire State Aid will be paid by the State and deposited into each fire department's account on October 1, 2011.

2012 Required Contributions are due from the entity sponsoring each fire department by 12/31/2012.

Source: PERA FY2011 Comprehensive Annual Financial Report, p. 72

**SENATE**  
**STATE OF MINNESOTA**  
**EIGHTY-EIGHTH LEGISLATURE**

**S.F. No. 274**

(SENATE AUTHORS: PAPPAS)

DATE	D-PG	OFFICIAL STATUS
02/06/2013	159	Introduction and first reading Referred to State and Local Government

1.1   A bill for an act  
1.2           relating to retirement; voluntary statewide lump sum volunteer firefighter  
1.3           retirement plan; extending the length of time for municipal action on the election  
1.4           of transfer to statewide plan coverage; amending Minnesota Statutes 2012,  
1.5           section 353G.05, subdivision 2.

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

1.7           Section 1. Minnesota Statutes 2012, section 353G.05, subdivision 2, is amended to read:

1.8   Subd. 2. **Election of coverage.** (a) The process for electing coverage of volunteer  
1.9           firefighters by the retirement plan is initiated by a request to the executive director for a  
1.10          cost analysis of the prospective retirement coverage.

1.11    (b) If the volunteer firefighters are currently covered by a volunteer firefighters' relief  
1.12          association governed by chapter 424A, the cost analysis of the prospective retirement  
1.13          coverage must be requested jointly by the secretary of the volunteer firefighters' relief  
1.14          association, following approval of the request by the board of the volunteer firefighters'  
1.15          relief association, and the chief administrative officer of the entity associated with the relief  
1.16          association, following approval of the request by the governing body of the entity associated  
1.17          with the relief association. If the relief association is associated with more than one entity,  
1.18          the chief administrative officer of each associated entity must execute the request. If  
1.19          the volunteer firefighters are not currently covered by a volunteer firefighters' relief  
1.20          association, the cost analysis of the prospective retirement coverage must be requested by  
1.21          the chief administrative officer of the entity operating the fire department. The request  
1.22          must be made in writing and must be made on a form prescribed by the executive director.

1.23    (c) The cost analysis of the prospective retirement coverage by the statewide  
1.24          retirement plan must be based on the service pension amount under section 353G.11  
1.25          closest to the service pension amount provided by the volunteer firefighters' relief

2.1 association if the relief association is a lump-sum defined benefit plan, or the amount equal  
2.2 to 95 percent of the most current average account balance per relief association member if  
2.3 the relief association is a defined contribution plan, or to the lowest service pension amount  
2.4 under section 353G.11 if there is no volunteer firefighters' relief association, rounded up,  
2.5 and any other service pension amount designated by the requester or requesters. The cost  
2.6 analysis must be prepared using a mathematical procedure certified as accurate by an  
2.7 approved actuary retained by the Public Employees Retirement Association.

2.8 (d) If a cost analysis is requested and a volunteer firefighters' relief association exists  
2.9 that has filed the information required under section 69.051 in a timely fashion, upon  
2.10 request by the executive director, the state auditor shall provide the most recent data  
2.11 available on the financial condition of the volunteer firefighters' relief association, the most  
2.12 recent firefighter demographic data available, and a copy of the current relief association  
2.13 bylaws. If a cost analysis is requested, but no volunteer firefighters' relief association  
2.14 exists, the chief administrative officer of the entity operating the fire department shall  
2.15 provide the demographic information on the volunteer firefighters serving as members  
2.16 of the fire department requested by the executive director.

2.17 (e) If a cost analysis is requested, the executive director of the State Board of  
2.18 Investment shall review the investment portfolio of the relief association, if applicable,  
2.19 for compliance with the applicable provisions of chapter 11A and for appropriateness  
2.20 for retention under the established investment objectives and investment policies of the  
2.21 State Board of Investment. If the prospective retirement coverage change is approved  
2.22 under paragraph (f), the State Board of Investment may require that the relief association  
2.23 liquidate any investment security or other asset which the executive director of the State  
2.24 Board of Investment has determined to be an ineligible or inappropriate investment for  
2.25 retention by the State Board of Investment. The security or asset liquidation must occur  
2.26 before the effective date of the transfer of retirement plan coverage. If requested to do so by  
2.27 the chief administrative officer of the relief association, the executive director of the State  
2.28 Board of Investment shall provide advice about the best means to conduct the liquidation.

2.29 (f) Upon receipt of the cost analysis, the governing body of the municipality or  
2.30 independent nonprofit firefighting corporation associated with the fire department shall  
2.31 either approve or disapprove the retirement coverage change within 90 120 days. If the  
2.32 retirement coverage change is not acted upon within 90 120 days, it is deemed to be  
2.33 disapproved. If the retirement coverage change is approved by the applicable governing  
2.34 body, coverage by the voluntary statewide lump-sum volunteer firefighter retirement plan  
2.35 is effective on the next following January 1.

2.36 **EFFECTIVE DATE.** This section is effective July 1, 2013.