



**H.F. 3715**  
(Nelson)

**S.F. 3325**  
(Betzold)

**Executive Summary of Commission Staff Materials**

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

**Specific Proposed Changes**

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

**Policy Issues Raised by the Proposed Legislation**

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

**Potential Amendments**

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



TO: Members of the Legislative Commission on Pensions and Retirement

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

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

DATE: March 5, 2008

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

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

Background Information

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

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

Discussion and Analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Attachment A

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

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

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

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

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

## Membership

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

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

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

