



S.F. 1878
(Betzold)

H.F. 1983
(Kahn)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): Minneapolis Firefighters Retirement Association (MFRA)
Relevant Provisions of Law: Minnesota Statutes, Section 423C.03, Subdivision 1
General Nature of Proposal: Modifying the Number of Member Representatives on Relief Association Board of Trustees
Date of Summary: March 30, 2009

Specific Proposed Changes

Permits the number of relief association board of trustees member positions to be set in the relief association bylaws, not to exceed ten, rather than specifying in statute that there must be ten member representatives on the board of trustees.

Policy Issues Raised by the Proposed Legislation

1. Vague drafting; unclear intention.
2. Unclear need for bill. May have no impact on number of board members.
3. Potential concern about shifting from statutory authority to bylaw authority.
4. Support by City of Minneapolis.
5. Minimal comparative cost savings.

Potential Amendments

S1878-1A is a delete-everything amendment transferring the administration of the MFRA and MPRA to PERA.

S1878-2A is a delete-everything amendment transferring the administration of the MFRA to PERA. If either of these first two amendments is used, the Commission does not need to consider further amendments.

S1878-3A, alternative to the two prior amendments, revises the maximum number of board members elected from the MFRA membership from ten to nine. Ensures some cost savings. If some other number than nine is preferred, S1878-3A could be amended orally.

S1878-4A allows the Commission to reset the salaries of the MFRA board members and executive secretary by filling in the blanks in the amendment. Ensures cost savings.

S1878-5A, alternative to S1878-4A, could also be used with S1878-3A, eliminates the salaries of board members other than the executive secretary; permits the Commission to reset the salary of the executive secretary. Ensures greater cost savings than S1878-4A.

S1878-6A could be used with the 3A, 4A, or 5A amendments; specifies an exemption for filling vacant positions. If an elected member position is vacated within one year of the start of the next term, MFRA is not required to fill that position until the next scheduled election. A period other than one year could be done by oral amendment to this amendment.

S1878-7A, alternative to S1878-6A, could also be used with the 3A, 4A, or 5A. If an elected member position is vacated within one year of the next election, the MFRA may fill the vacated position. If the position was vacated by an active member, the appointee must be an active member; if vacated by a retiree, the replacement is a retiree; if vacated by a surviving spouse, the replacement is a surviving spouse. A period other than one year could be done by oral amendment to this amendment.

S1878-8A is identical to S1878-6A except that it removes changes proposed in the bill by reinstating old language and removing all new language. The ten board member requirement remains in place.

S1878-9A is identical to S1878-7A except that it removes the proposed changes by reinstating the old language and removing all new language. The ten board member requirement remains in place.



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Ed Burek, Deputy Director *EB*
RE: S.F. 1878 (Betzold); H.F. 1983 (Kahn): MFRA; Modifying the Number of Member Representatives on Relief Association Board of Trustees
DATE: March 30, 2009

Summary of S.F. 1878 (Betzold); H.F. 1983 (Kahn)

S.F. 1878 (Betzold); H.F. 1983 (Kahn) revises the Minneapolis Firefighters' Relief Association (MFRA) board of trustees composition provision by permitting the number of member positions to be set in the relief association bylaws, not to exceed ten, rather than specifying in statute that there must be ten member representatives on the board of trustees.

Discussion and Analysis

Information Commission staff received indicates that the Minneapolis Firefighters Retirement Association (MFRA) wants the flexibility to not have to replace a board member who is incapacitated or resigns for health reasons. The contention is that a typical board member costs the fund about \$5,000 per year due to salary and/or reimbursement for expenses. The MFRA could save on administrative expenses if it did not have to replace members, either at any time or at least until the next scheduled election.

A. Minneapolis Firefighters Retirement Association (MFRA) Board of Trustees

The Minneapolis Firefighters Retirement Association (MFRA) is managed by a governing board of 12 members composed of two active firefighters, eight retired firefighters or surviving spouses, and two appointed representatives of the City of Minneapolis. In addition to maintaining records and determining benefit amounts, the MFRA governing board is responsible for investing the special (pension) assets and general (non-pension) funds of the relief association.

The officers of the relief association are selected from the active members and retired MFRA members of the board of trustees. The officers are a president, one or more vice-presidents, an executive secretary, an assistant executive secretary, a treasurer, and an assistant treasurer.

All members of the board of trustees, other than the city representatives, receive salary. In contrast, no board member of the Minneapolis Employees Retirement Fund (MERF), or of the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA), the Teachers Retirement Association (TRA), or first class city teacher fund associations receive any salary. The MFRA president's salary cannot exceed ten percent of first-grade firefighter salary, while all other members, other than the executive secretary, have a salary not to exceed 2.5 percent of first-grade firefighter salary. The executive secretary is a full-time position. If the executive secretary is an active MFRA member, the salary paid by the relief association cannot exceed 50 percent of first-grade firefighter salary. The association's 2007 annual report lists the executive secretary's salary as \$36,594. However, under a Minneapolis special law, that individual also receives the salary of the active duty position the individual held prior to becoming the executive secretary. The current executive secretary was a fire inspector and receives the salary of a fire captain with maximum longevity service. The last salary information we have on that fire inspector position is from 2004, at which time the individual received \$70,600. If that active duty salary has not changed since 2004, the executive secretary's total salary currently would be \$107,194. If the salary for that fire inspector position has increased, current total salary would be correspondingly higher. In 2004, when the Commission last reviewed issues relating to the MFRA executive secretary salary, the combined salary received by the MFRA executive secretary exceeded the total salary received by the MSRS, PERA, and TRA executive directors by over \$10,000.

If the executive secretary is not an active plan member, that individual would no longer receive the fire inspector pay. However, a provision in MFRA law would then permit the plan to pay the executive secretary an amount not to exceed that paid to the MSRS, PERA, and TRA executive directors.

These other retirement organizations are far larger than the MFRA. The total MFRA membership is considerably less than one percent of the membership of these other organizations. The MFRA has,

according to the plan's 2007 actuarial report, 27 active members and 581 benefit recipients, for a total membership of 608. In the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) (and thus leaving out the smaller plans MSRS administrators), there were in that same year 48,379 active members and a total membership of 95,483. The General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) active membership was 146,226, with a total PERA-General membership of 356,983. TRA's active membership was 77,694 with a total TRA membership was 159,782. Because of the size of MSRS, PERA, and TRA, including the large active membership requiring retirement counseling and the processing of contributions, there is a need for considerable staff, and each of these organizations has several dozen staff members. In contrast, the MFRA has two staff members. The MFRA membership will soon be composed entirely of retired members. The workload will consist largely of managing the assets, which is all done by outside managers, and ensuring the monthly benefits to the retirees are sent.

Additional background information on the Minneapolis Firefighters Relief Association is contained in Attachment A.

B. Administrative Costs, Minneapolis Firefighters Retirement Association (MFRA) and Minneapolis Police Relief Association (MPRA)

According to the report, *Office of the State Auditor Report, Large Plan Public Pensions Plan Investment Report, for the Year Ended December 31, 2007*, the MFRA and MPRA administrative expenses are high, and on a per-member basis they are extremely high. According to that report, the MFRA administrative expenses in 2007 was \$581,704. The 2007 administrative expenses of the MPRA was \$529,561. Both organizations spend considerable amounts on legal fees. Another Minneapolis fund, MERF, had 2007 administrative expenses of \$665,281. All of these funds are closed to new members, but MERF, representing general employees rather than public safety employees, has the largest total membership of the three. MERF's administrative cost was \$128 per member, while the MFRA was \$957 per member, and MPRA was \$606 per member. In contrast, the per-member administrative cost in PERA-General was \$25.38.

S.F. 1878 (Betzold); H.F. 1983 (Kahn) raises several pension policy issues for Commission consideration and discussion, as follows:

1. Need for Change. The policy issue is whether the bill is needed at all. The claimed justification for the change is to permit the MFRA to save marginal amounts of money by not replacing a board member who resigns, dies, or is incapacitated. Given the propensity for this organization to spend large amounts on legal fees and salaries, it is unclear why the organization feels it is important to pass legislation which might save a few thousand dollars on board member expenses. They may not even need legislation to take the claimed action. There is nothing in current law stating how quickly a vacated position must be filled. Given the existing law, lawyers for the MFRA could argue the MFRA is operating in a reasonable manner and consistent with the general intention of the law if it failed to promptly fill a vacated position.
2. Unclear Drafting. The bill is so vague it is not clear what the MFRA's intention is. If this bill were to pass, the relief association might choose to operate in the exact same manner as if the current law remained in effect. Nothing is specified in the bill regarding the number of board members, other than it cannot exceed ten as in the present statute, and nothing is specified in this bill regarding conditions under which the board will fill or not fill a vacated position. The MFRA may be quite reluctant to reduce the number of elected member board positions to less than ten because that would result in the city representatives having relatively more power, as the proportion of the board composed of city representatives would increase. Thus, it is fairly likely that the elected board members will remain at ten, as in current law. This again raises the question of why this bill is needed.
3. Issue of Bylaw Discretion. The policy issue is whether the Commission feels it is appropriate to permit the MFRA to revise board membership and procedures for replacing members in its bylaws, rather than by law or statute. Some MFRA members may later argue that the MFRA is acting in an inconsistent manner, and that some portion of the membership (active members, retirees, or survivors) is being disadvantaged. The Commission may wish to seek assurance through testimony that all membership groups are comfortable with this change.
4. City Support. The issue is whether the City of Minneapolis supports this change.

5. Cost Savings. If cost savings is an argument or the principal argument for this change, the Commission may wish to consider that far greater savings could be obtained with no adverse impact on the membership if the administration of this plan, and possibly also administration of the MPRA, were transferred to PERA.

Amendments

Amendment S1878-1A is a delete-everything amendment which transfers the administration of the MFRA and MPRA to PERA.

Amendment S1878-2A is an alternative to S1878-1A. This amendment is a delete-everything amendment which transfers the administration of the MFRA to PERA. If either of these first two amendments is used, the Commission does not need to consider further amendments.

Amendment S1878-3A is an alternative to the two prior amendments. This amendment can be used to revise the maximum number of board members elected from the MFRA membership from ten to nine. This would ensure some cost savings. If the Commission wishes to have some other number rather than nine, this could be done by an oral amendment to Amendment S1878-3A.

Amendment S1878-4A, which could be used with S1878-3A, allows the Commission to reset the salaries of the MFRA board members, including the executive secretary, by filling in the blanks in the amendment. This amendment would ensure cost savings.

Amendment S1878-5A is an alternative to S1878-4A. This amendment, which could also be used with S1878-3A, eliminates the salaries of board members other than the executive secretary, and permits the Commission to reset the salary of the executive secretary to amounts to be specified by filling in the blanks in the amendment. This would ensure greater cost savings than Amendment S1878-4A.

Amendment S1878-6A could be used with the 3A, 4A, or 5A amendments. It adds a paragraph specifying an exemption for filling vacant positions. If an elected member position is vacated within one year of the start of the next term, the MFRA is not required to fill that position until the next scheduled election. (Under MFRA law, the elected board members serve two-year terms.) If the Commission prefers a period other than one year, that could be done by a verbal amendment to this amendment.

Amendment S1878-7A is an alternative to S1878-6A and could be used with the 3A, 4A, or 5A amendments. If an elected member position is vacated within one year of the next election, the MFRA is authorized to appoint an individual to fill the vacated position. If the position was vacated by an active member, the appointee must be an active member. If vacated by a retiree, the replacement is a retiree, and similarly, if vacated by a surviving spouse, the replacement is a surviving spouse. If the Commission prefers a period other than one year, that could be done by a verbal amendment to this amendment.

Amendment S1878-8A could be used with the 3A, 4A, or 5A amendments and is an alternative to the 6A amendment. It is identical to S1878-6A except that it also removes the changes proposed in the bill by reinstating the old language and removing all the new language. The statute will continue to require that there be ten elected board members.

Amendment S1878-9A can be used with the 3A, 4A, or 5A amendments, and is an alternative to S1878-7A. It is identical to S1878-7A except that it also removes the changes proposed in the bill by reinstating the old language and removing all the new language. The statute will continue to require that there be ten elected board members.

Attachment A

Additional Background Information on the Minneapolis Firefighters Relief Association

- a. Relief Association Establishment and Operation. The Minneapolis Firefighters Relief Association was established as an organization in 1868. Initially it provided relief to disabled firefighters and to their families, when the Minneapolis Firefighters was a volunteer fire department, and was incorporated under Minnesota law in 1886, after the Minneapolis Fire Department became a paid fire department, in 1879. The MFRA began paying service pensions to retiring firefighters in 1897. Membership in the Minneapolis Firefighters Relief Association was closed to new firefighters as of June 15, 1980, when pension coverage for newly hired Minneapolis firefighters shifted to the statewide the Public Employees Police and Fire Plan (PERA-P&F). Prior to 2001, the relief association was named the Minneapolis Fire Department Relief Association and changed its name when its governing law was codified as Minnesota Statutes, Chapter 423C.

The Minneapolis Firefighters Relief Association is managed by a governing board of 12 members, of which two are active firefighters, eight are retired firefighters or surviving spouses, and two are appointed representatives of the City of Minneapolis. In addition to maintaining records and determining benefit amounts, the Minneapolis Firefighters Relief Association governing board is the investment authority for the assets of the special (pension) and general (non-pension) funds of the relief association.

In calendar year 2005, the Minneapolis Firefighters Relief Association received total contributions of almost \$6.7 million (28.72 percent from the State of Minnesota, 71.10 percent from the City of Minneapolis, and 0.18 percent from the members), received net investment income of \$15.5 million, paid total retirement benefits of almost \$21.1 million, and paid administrative expenses of \$668,000 (28 percent for personnel, 48 percent for professional services, and 23 percent for conferences, communications, office rent, and other items).

- b. Nature of the Benefit Plan; Benefit Coverage. The Minneapolis Firefighters Relief Association provides from its special fund a salary-related service pension to firefighters retiring at age 50 or older with at least five years of service, a disability benefit to temporarily or permanently disabled firefighters, a survivor benefit to the surviving family of a deceased active, retired, or disabled firefighter, and a return of contributions to the estate of deceased active, retired, or disabled firefighters on whose behalf no survivor benefit is payable. Pensions and benefits are based on the salary of a first-grade firefighter, irrespective of the actual rank of the firefighter. Under Laws 1997, Chapter 233, Article 4, a joint-and-survivor optional annuity form can be elected in lieu of the automatic survivorship coverage otherwise provided by the fund.

Since 1990, the contributions by any member (eight percent of the pay of a first-grade firefighter) who has 25 or more years of service are not deposited in the special fund, but rather, the contribution is deposited in a health insurance account set up for the member. After retirement, in addition to the pension benefit paid from the relief association's special fund, the retiree also receives distributions from the health insurance account, which the retiree can use toward health care costs or other expenses of the retiree.

When a Minneapolis firefighter retires and begins drawing a service pension from the relief association's special fund, those benefits are eligible for increases annually through three different post-retirement increase mechanisms, which are:

1. Active Salary-Related Escalator. The first post-retirement adjustment is a standard escalator tied to increases in the salary of a first-grade firefighter. This escalator increases retirement benefits by the same percentage increase as the percentage increase in first-grade firefighter pay negotiated between the City and the Minneapolis Firefighters Union.
2. Thirteenth Check Adjustment. A second increase provision is based on the investment performance of the special fund of the relief association, and is referred to as the 13th check post-retirement adjustment. The 13th check post-retirement adjustment was enacted in 1989.
3. Additional Post-Retirement Adjustment. A third post-retirement increase mechanism was added to law in 2000. If the funding ratio (percentage of plan pension liabilities covered by plan assets) of the relief association exceeds 110 percent, the relief association is authorized to distribute a portion of the funding in excess of 110 percent of its liabilities to its benefit recipients.

Additionally, from its general fund, the Minneapolis Firefighters Relief Association provides a \$1,200 lump sum death benefit to the survivors or the estate of deceased active or former firefighters and a \$102 per year of service lump sum retirement benefit to a retiring firefighter.

- c. Actuarial and Financial Reporting. The Minneapolis Firefighters Relief Association is required to prepare actuarial reporting under Minnesota Statutes, Sections 69.77, 356.215, 356.216, and 423C.15. The relief association is required to make financial reports under Minnesota Statutes, Sections 69.051 and 356.20.

Minnesota Statutes, Section 69.77, initially enacted in 1969 (Laws 1969, Chapter 223), and amended periodically thereafter, requires municipalities to fund their local relief associations on an actuarial basis. The basic provisions of the 1969 Local Police and Salaried Firefighters Relief Associations Financial Guidelines Act, adjusted for the Minneapolis Firefighters Relief Association, are as follows:

- Each member of a local relief association is required to contribute at least eight percent of the salary used for calculating retirement benefits, with the contribution to be made by salary deduction.
- The financial requirements of the relief associations must be calculated annually based on the most recent actuarial valuation. The financial requirements are to include normal cost and amortization of the unfunded accrued liability by the year 2010 or 15 years from the recognition date of a net new unfunded actuarial accrued liability, whichever is later, but not to exceed the average remaining life expectancy of its remaining members. The minimum obligation of the municipality to be raised by taxes each year is the financial requirements of the association, less member contribution amounts received under the fire state aid program, amounts received under the fire insurance premium surcharge, and amounts received under the relief association amortization aid programs for that year. If the Minneapolis Firefighters Relief Association assets exceed 110 percent of the relief association actuarial accrued liability, the city is not obligated to make a normal cost contribution.
- The levy required to meet the municipality's minimum obligation is outside statutory or charter levy limitations.
- If a municipality fails to include an amount sufficient to meet the minimum obligation to the relief association, the relief association has the authority to certify the amount required to the county auditor for inclusion in the municipality's tax levy.
- Investments of local relief associations must be in securities which are authorized investments under Minnesota Statutes, Chapter 356A.
- Local relief associations are authorized to contract with outside investment advisors and are authorized to certify funds for investment by the State Board of Investment in the Minnesota Supplemental Investment Fund.
- Actuarial valuations must be filed by the relief associations with the State Auditor, the Legislative Commission on Pensions and Retirement, the Legislative Reference Library, and the municipality.
- All articles of incorporation or bylaw amendments affecting benefits for a local relief association must be ratified by the municipality prior to becoming effective.
- The penalty for a violation of the act is to make the transfer of funds received under the various state aid programs or the levying of taxes by the municipality unlawful.

Minnesota Statutes, Sections 356.215 and 356.215, require the preparation of actuarial valuations under the entry age normal cost actuarial method, using specified interest and salary rate actuarial assumptions, and calculating the actuarial requirements based on a specified amortization target date. Minnesota Statutes, Section 423C.15, provides for an adjustment to the city normal cost contribution, suspends city normal cost contributions in certain instances, provides 15-year amortization periods for actuarial losses after 2001, and limits the amortization target date revisions to the end of the average life expectancy of the relief association membership.

Minnesota Statutes, Section 69.051, a portion of the fire and police state aid programs, requires the preparation of a financial report and audit for qualification for fire and police state aid, with the report filed with the State Auditor and with the Legislative Commission on Pensions and Retirement. Minnesota Statutes, Section 356.20, requires annual financial reporting by various Minnesota public pension plans, but grandparents financial reporting under Minnesota Statutes, Section 69.051, by local fire and police relief associations.

