



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Rachel Barth, Deputy Director

RE: S.F. 1384 (Rosen); H.F. 1672 (Murphy): VFRA's; Implementing the recommendations of the Volunteer Fire Relief Association Working Group

DATE: March 13, 2017

Summary of S.F. 1384 (Rosen); H.F. 1672 (Murphy)

S.F. 1384 (Rosen); H.F. 1672 (Murphy), implements the proposed legislation approved by the Volunteer Fire Relief Association Working Group ("Working Group"). The proposed legislation is intended to be technical and address the various issues identified by the Working Group that affect Minnesota's local volunteer firefighter relief associations ("VFRA").

The main components of the proposed legislation are as follows:

Section 1: Legal Compliance Audit Clarification.

Under Minn. Stat. § 6.65, the Office of the State Auditor ("OSA") prescribes minimum procedures and the scope of political subdivision audits, which "must include financial and legal compliance audits." Section 6.65 was amended in 2008 by removing the reference "counties and local governments in Minnesota". The term "political subdivisions" replaced the former term, which has resulted in a lack of statutory clarity about whether VFRA audits must comply with the legal compliance audit requirement.

The revision in section 1 clarifies that relief association audits are required to follow the minimum audit procedures under Minn. Stat. § 6.65. According to the OSA, this change is technical because auditors should already be following the minimum audit procedure and the proposed language is consistent with the requirements of all other local units of government.

Section 2: Corporate Stock Restriction.

Several years ago the OSA convened an Investment Study Group to study the investment statutes under Minn. Stat. § 356. A main goal of the Investment Study Group was to change the statutes so that compliance would be measured based on the underlying securities owned by the pension plan and not by how the securities were purchased. The resulting revisions provided that securities could be owned directly, or through exchange-traded funds, mutual funds, or unit trusts. Regardless of how the securities were owned, the securities themselves would need to be authorized on either the limited or expanded list of authorized investment securities.

However, the revisions missed updating the corporate stock provision on the expanded list. This language creates a loophole by which a relief association can invest in any mutual funds or exchange-

traded funds without limitation, even those that hold precious metals, commodities, futures, or other speculative securities. Section 2 closes that loophole by updating the corporate stock provision by requiring all purchases of shares of exchange-traded or mutual funds to be consistent with the provision governing securities generally.

Sections 3-9, 11-20: Updating Definitions of Fire Department and Municipality.

The 2015-2016 Working Group started work on updating the definition of “municipality” in the relief association statutes to include joint powers fire departments. Currently, Chapter 424A generally refers to municipal fire departments and independent nonprofit firefighting corporations. Joint powers fire departments are becoming more common, so the Working Group wanted to ensure that the statutes were updated to reflect this trend. The OSA worked closely with the Revisor’s Office to make appropriate revisions and corresponding technical corrections.

Section 10: Return to Service Technical Correction.

Section 10 clarifies that Minn. Stat. 424A.01, Subd. 6, which governs return to service situations, only applies to volunteer firefighters who take a break in service and then return to active firefighting. The provision does not apply when a volunteer firefighter takes a break in service and does not return to active firefighting.

Section 20: Supplemental Benefits for Volunteer Emergency Medical Personnel.

The Pension Commission recently approved an updated version of the 2016 Omnibus Pension Bill that contains a provision to allow emergency medical personnel to become members of a VFRA and qualify for a service pension if the VFRA and municipality approval.

Section 20 further provides emergency medical personnel eligibility to also receive supplemental benefits. The supplemental benefit intends to help offset taxes paid on a service pension or benefit distribution. For service pensions and disability benefits, the supplemental benefit is equal to 10% of the lump-sum distribution, up to \$1,000. For survivor benefits, the supplemental benefit is equal to 20% of the survivor benefit distribution, up to \$2,000.

VFRA's can apply for reimbursement for paying supplemental benefits from the State of Minnesota. The payment is transmitted to the largest municipality affiliated with the VFRA. The municipality must transfer the reimbursement amount to the relief association, which must then be deposited into the VFRA's special fund.