



TO: Members of the Legislative Commission on Pensions and Retirement
 FROM: Lawrence A. Martin, Executive Director *JAM*
 RE: S.F. 2831 (Tomassoni); H.F. 2784 (Rukavina): Volunteer Firefighter Relief Associations; Additional State Supplemental Benefit for Volunteer Fire Death Benefits
 DATE: March 22, 2006

Summary of S.F. 2831 (Tomassoni); H.F. 2784 (Rukavina)

S.F. 2831 (Tomassoni); H.F. 2784 (Rukavina) amends Minnesota Statutes, Section 424A.10, the mandated lump sum volunteer firefighter supplemental benefit of ten percent of the benefit amount, not to exceed \$1,000, reimbursed by the State, by allowing volunteer firefighter relief associations to pay an enhanced supplemental benefit to the survivor of a deceased volunteer firefighter of 20 percent of the savings benefit, not to exceed \$2,000, also to be reimbursed by the State.

Background Information on Volunteer Firefighter Relief Associations and on Supplemental Lump Sum Volunteer Firefighter Benefits

Minnesota Statutes, Section 424A.10, enacted in 1988 (Laws 1988, Chapter 719, Article 19, Section 22), mandates that all volunteer firefighter relief associations that provide a lump sum service pension or retirement benefit provide an additional lump sum supplemental benefit, equal to ten percent of the lump sum benefit, but not to exceed \$1,000, and reimbursable in the following year by the State Department of Revenue.

The lump sum supplemental volunteer fire benefit stems from a late 1980s tax law change which caused Minnesota public pensions to be taxable and the supplemental benefit is intended to offset some or all of the effects of that tax law change.

There are about 725 volunteer firefighter relief associations in Minnesota, with most relief associations paying lump sum retirement benefits, either as defined benefit retirement plans or as defined contribution plans. The following sets forth general information from the annual compilation of volunteer firefighter relief association data assembled by the Office of the State Auditor (with two or three dozen volunteer firefighter relief associations failing to file the required data in a timely fashion every year):

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Number of Reporting Plans	692	695	686
<u>Lump Sum Associations</u>			
Defined Contribution Plans	87	88	84
Lump Sum Defined Benefit Plans	583	585	577
<u>Monthly/Combination Associations</u>			
Monthly Benefit Plans	5	4	5
Comb. Lump Sum/Monthly Benefit Plans	17	18	20
Total Active Members	16,869	16,995	16,860
Total Deferred Inactive Members	2,897	3,015	3,095
Total Retired Members	<u>1,174</u>	<u>1,112</u>	<u>1,209</u>
Total Membership	20,940	21,122	21,164
Total Actuarial Accrued Liability	\$308,923,067	\$311,801,760	\$329,287,563
Assets	<u>\$291,241,397</u>	<u>\$265,724,390</u>	<u>\$316,638,883</u>
Unfunded Actuarial Accrued Liability	\$17,681,670	\$46,077,370	\$12,648,680
Funding Ratio	94.28%	85.22%	96.16%
Total Normal Cost	\$18,498,533	\$18,998,498	\$19,305,406
Total Amortization Contribution	\$1,675,033	\$3,498,283	\$4,787,932
Total Fire State Aid	\$13,246,449	\$14,584,066	\$17,771,509
Total Municipal Contribution	\$4,766,358	\$6,379,562	\$7,220,506
Total Other Revenue	\$763,428	\$765,056	\$745,795

In 2001, 43.4 percent of volunteer firefighter relief associations received Volunteer Fire Supplemental Aid, with 19.0 percent of the total number of relief associations (43.8 percent of associations receiving supplemental aid) receiving less than the maximum \$1,000 per lump sum recipient amount. In 2002, 45.7 percent of volunteer firefighter relief associations received Volunteer Fire Supplemental Aid, with 18.4 percent of the total number of relief associations (40.3 percent of associations receiving supplemental aid) receiving less than the maximum \$1,000 per lump sum recipient amount. In 2003, the most recent year for which data is available, 49.1 percent of volunteer firefighter relief associations received Volunteer Fire Supplemental Aid, with 17.8 percent of the total number of relief associations (36.2 percent of associations receiving supplemental aid) receiving less than the maximum \$1,000 per lump sum recipient amount.

State expenditures for Volunteer Fire Supplemental Aid were \$467,410 in 2001, \$468,402 in 2002, and \$513,994 in 2003. The amounts budgeted for Volunteer Fire Supplemental Aid for Fiscal Year 2006 and for Fiscal Year 2007 is \$535,000 in each year.

The number of volunteer firefighter relief associations during the period 2001-2003 which paid survivor benefits or funeral benefits has never exceeded 4.0 percent of the total number of relief associations.

Discussion

S.F. 2831 (Tomassoni); H.F. 2784 (Rukavina) amends Minnesota Statutes, Section 424A.10, the volunteer firefighter lump sum supplemental benefit, to expand the supplemental benefit by providing a doubled supplemental benefit amount for survivors of deceased volunteer firefighters.

The proposed legislation raises several pension and related public policy issues that may merit Commission consideration and discussion, as follows:

1. Appropriateness of Including Non-Duty Firefighter Deaths in Benefit. The policy issue is the appropriateness of creating a special benefit for the survivors of deceased firefighters when the death was not duty-connected. While the public additional benefit-public service connection is clear and obvious for a duty-related death and the connection argues for its creation, there is a less clear and less obvious connection when the death is not duty-related. The rationale for the creation of this special benefit will need to be clearly articulated if the proposed legislation is to be recommended for ultimate enactment by the Commission and by the applicable policy committees.
2. Connection Between the Benefit Amount and the Tax-Related Need of Deceased Firefighter Survivors. The policy issue is whether or not the enhanced supplemental benefit is well targeted as a public safety benefit to meet the needs of the surviving families of deceased firefighters. The original supplemental lump sum benefit was intended to offset the impact of eliminating an exclusion of volunteer firefighter service pensions from Minnesota income taxes in the late 1980s. It is unclear that the survivors of a deceased firefighter have twice the adverse state income tax impact of the late 1980s law changes that gave rise to the supplemental benefit in the first place. The Commission may need a clear articulation of the connection between the proposed benefit amount and the tax-related needs of the survivors of deceased firefighters to aid its consideration.
3. Extent of Duty-Related Death Benefits for Firefighters and Coordination With Those Benefits. The policy issue is whether or not the proposed enhanced deceased firefighter supplemental benefit recognizes and is well coordinated with other deceased public safety employee retirement compensation. Under Minnesota Statutes, Section 299A.44, the survivors of deceased firefighters who were killed in the line of duty are entitled to a \$100,000 lump sum death benefit, plus additional insurance and educational benefits. The deceased public safety death benefits are administered through the Department of Public Safety and testimony from a representative of that department may be of assistance for legislators to understand the extent of the current deceased firefighter benefit coverage, their limitations, and their interrelationships.
4. Appropriateness of Restricting Enhanced Supplemental Benefit Recipients to Surviving Spouses and Surviving Minor Children. The policy issue is the appropriateness of restricting the recipients of the proposed enhanced supplemental benefit to surviving spouses and surviving minor children. The death benefits under Minnesota Statutes, Section 299A.44, are similarly restricted and provide a precedent for the proposal. Surviving spouses and surviving minor children are either actually dependent or potentially dependant on the deceased firefighter and should be held harmless from the adverse impact of tax changes. Minnesota public pension plans rarely provide public pension benefits to estates beyond a refund of the balance of any member contributions made to the plan, plus interest.

5. Financial Impact of the Proposed Legislation. The policy issue is the financial impact of the proposed legislation. The current lump sum supplemental benefit is payable by the Department of Revenue on a reimbursement basis and is appropriated from the General Fund as an open and standing appropriation. The enhanced supplemental benefit would be similarly paid as a reimbursement of the applicable volunteer firefighter relief associations and would be covered by the same open and standing appropriation. Because the number of deceased active member firefighters is small, occurring in less than four percent of relief association annually based on the past three years of data (2001-2003), the enhanced benefit is unlikely to add five or ten percent to the cost of the total lump sum supplemental benefit reimbursements. The annual amount anticipated for the existing supplemental benefit reimbursements is \$535,000, based on House Fiscal Analyst Department tracking sheets for the 2005 Session, so the annual additional cost, as estimated by the Commission staff as payable in about five percent of instances in any year, should not exceed an amount in the \$27,000-\$54,000 range.

6. Appropriateness of Retroactivity to Include the Survivors of a Recent Deceased Firefighter. The policy issue is the appropriateness of allowing the enhanced supplemental lump sum benefit to be extended retroactively to the family of a recently deceased firefighter. The special retroactivity is an unusual benefit provided by the Legislature and should be granted only if based on a particularly compelling set of equitable considerations. The Commission staff lacks any knowledge of the situation of the applicable surviving family, so testimony will be needed to establish that strong equitable consideration basis for the retroactivity.

Senators Tomassoni, Bakk and Saxhaug introduced—

S.F. No. 2831: Referred to the Committee on State and Local Government Operations.

A bill for an act relating to retirement; volunteer firefighter relief associations; increasing the state supplemental benefit for certain survivors; amending Minnesota Statutes 2004, section 424A.10.

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

Section 1. Minnesota Statutes 2004, section 424A.10, is amended to read:

424A.10 STATE SUPPLEMENTAL BENEFIT; VOLUNTEER FIREFIGHTERS.

Subdivision 1. ~~Definition~~ Definitions. For purposes of this section;

(1) "qualified recipient" means an individual who receives a lump sum distribution of pension or retirement benefits from a firefighters' relief association for service performed as a volunteer firefighter;

(2) "survivor of a deceased active volunteer firefighter" means the legally married spouse of a deceased volunteer firefighter, or, if none, the surviving minor child or minor children of a deceased volunteer firefighter; and

(3) "active volunteer firefighter" means a person who regularly renders fire suppression service for a municipal fire department or an independent nonprofit firefighting corporation, who has met the statutory and other requirements for relief association membership, and who has been a fully qualified member of the relief association for at least one month.

Subd. 2. **Payment of supplemental benefit.** (a) Upon the payment by a firefighters' relief association of a lump sum distribution to a qualified recipient, the association must pay a supplemental benefit to the qualified recipient. Notwithstanding any law to the contrary, the relief association may pay the supplemental benefit out of its special fund.

2.1 The amount of this benefit equals ten percent of the regular lump sum distribution that
2.2 is paid on the basis of service as a volunteer firefighter. In no case may the amount of
2.3 the supplemental benefit exceed \$1,000.

2.4 (b) Upon the payment by a relief association of a lump sum survivor benefit or
2.5 funeral benefit to a survivor of a deceased active volunteer firefighter, the association may
2.6 pay a supplemental survivor benefit to the survivor of the deceased volunteer firefighter
2.7 from the special fund of the relief association if its articles of incorporation or bylaws so
2.8 provide. The amount of the supplemental survivor benefit is 20 percent of the survivor
2.9 benefit or funeral benefit, but not to exceed \$2,000.

2.10 Subd. 3. **State reimbursement.** (a) By February 15 of each year, the treasurer of
2.11 the relief association shall apply to the commissioner of revenue for state reimbursement
2.12 of the amount of supplemental benefits paid under subdivision 2 during the preceding
2.13 calendar year. By March 15 the commissioner shall reimburse the relief association for the
2.14 amount of the supplemental benefits paid to qualified recipients.

2.15 (b) The commissioner of revenue shall prescribe the form of and supporting
2.16 information that must be supplied as part of the application for state reimbursement.

2.17 (c) The reimbursement payment must be deposited in the special fund of the relief
2.18 association.

2.19 (d) A sum sufficient to make the payments is appropriated from the general fund
2.20 to the commissioner of revenue.

2.21 Subd. 4. **In lieu of income tax exclusion.** (a) The supplemental benefit provided
2.22 by this section is in lieu of the state income tax exclusion for lump sum distributions of
2.23 retirement benefits paid to volunteer firefighters.

2.24 (b) If the law is modified to exclude or exempt volunteer firefighters' lump sum
2.25 distributions from state income taxation, the supplemental benefits under this section
2.26 may no longer be paid beginning with the first calendar year in which the exclusion or
2.27 exemption is effective. This subdivision does not apply to exemption of all or part of a
2.28 lump sum distribution under section 290.032 or 290.0802.

2.29 **Subd. 5. Retroactive reimbursement in certain instances.** A supplemental
2.30 survivor or funeral benefit may be paid by a relief association for the death of an active
2.31 volunteer firefighter that occurred on or after August 1, 2005, if the relief association
2.32 articles of incorporation or bylaws so provide for a supplemental survivor benefit and
2.33 for retroactivity.

2.34 **Sec. 2. EFFECTIVE DATE.**

2.35 Section 1 is effective the day following final enactment.