



Document LCPR09-080

Executive Summary of Commission Staff Materials

<i>Affected Pension Plan(s):</i>	PERA Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan
<i>Relevant Provisions of Law:</i>	Minnesota Statutes, Chapters 69, 353G, and 424A
<i>General Nature of Proposal:</i>	Administrative recommendations of the statewide volunteer fire plan advisory board.
<i>Date of Summary:</i>	February 2, 2010

Specific Proposed Changes

- Clarifies applicability of fire state aid and local volunteer fire relief association regulation.
- Clarifies initial benefit level for transferring defined contribution volunteer fire relief associations.
- Eliminates special additional municipal asset transfer provision.
- Adds special benefit default municipal funding requirement.
- Adds disability pension coverage through insurance arrangement.

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of the specification of the initial benefit level and alternative early period service pension amount.
2. Appropriateness of the proposed elimination of a special additional municipal asset transfer requirement.
3. Appropriateness of the addition of special benefit default avoidance special municipal funding requirement.
4. Appropriateness of adding disability benefits to the statewide volunteer fire plan coverage.

Potential Amendments

There are no proposed amendments.



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Lawrence A. Martin, Executive Director *JLM*
RE: Document LCPR09-080: PERA Volunteer Fire; Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan Advisory Board Administrative Changes
DATE: February 3, 2010

General Summary of Document LCPR09-080

Document LCPR09-080 amends various provisions of Minnesota Statutes, Chapters 69, 353G, and 424A, as recommended by the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan Advisory Board to the Public Employees Retirement Association (PERA) Board, and makes the following changes in or related to the PERA Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan:

1. Clarifies Applicability of Fire State Aid and Local Volunteer Fire Relief Association Regulation. Clarifications are added that the volunteer fire relief association annual financial reporting requirements and fire state aid disbursement limits do not apply to municipalities with PERA Statewide Volunteer Fire Plan coverage. (*Sections 1 and 7*)
2. Clarifies Initial Benefit Level for Transferring Defined Contribution Volunteer Fire Relief Associations. The initial service pension level and the early period alternative service pension amount for defined contribution volunteer fire relief associations transferring to the PERA Statewide Volunteer Fire Plan coverage is clarified based on the pre-transfer firefighter account balance amounts. (*Sections 2 and 5*)
3. Eliminates Special Additional Municipal Asset Transfer Provision. An unnecessary provision requiring an additional municipal asset transfer for volunteer fire relief association asset value declines occurring between the initial benefit level costing and actual coverage transfer is eliminated. (*Section 3*)
4. Adds Special Benefit Default Municipal Funding Requirement. A special requirement is added for an additional municipal funding in the event that the PERA Statewide Volunteer Fire Plan account faced a cash flow shortfall. (*Section 4*)
5. Adds Disability Pension Coverage Through Insurance Arrangement. If the PERA Board can arrange the insurance coverage with an insurance company licensed to do business in Minnesota, the PERA Statewide Volunteer Fire Plan is permitted to provide disability coverage and pay the premiums for that coverage. (*Sections 4 and 6*)

Section-By-Section Summary

A section-by-section summary of the proposed legislation is attached.

Relevant Background Information

1. Background information on the 2009 session legislation creating the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan is set forth in **Attachment A**.
2. Background information on the financial reporting requirements applicable to volunteer fire relief associations is set forth in **Attachment B**.
3. Background information on the disbursements authorized for fire state aid is set forth in **Attachment C**.

Discussion and Analysis

S.F. xxx; H.F. xxx (Document LCPR09-080) amends portions of Minnesota Statutes, Chapters 69, 353G, and 424A, by clarifying the applicability of fire state aid and local volunteer fire relief association regulation, by clarifying the initial benefit level for transferring defined contribution volunteer fire relief associations, by eliminating a special municipal asset transfer requirement, by a special benefit default

municipal funding requirement, and by adding disability pension coverage through an insurance arrangement.

The proposed legislation raises several pension and related public policy issues for consideration and possible discussion by the Legislative Commission on Pensions and Retirement, as follows:

1. Appropriateness of the Specification of the Initial Benefit Level and Alternative Early Period Service Pension Amount. The policy issue is the appropriateness of including in the proposed legislation a procedure for setting the initial statewide plan service pension level and alternative early period service pension amount for former defined contribution volunteer fire relief associations transferring to the Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan. The current law does not specifically address the process for transferring defined contribution volunteer fire relief associations, but does set a procedure for transferring lump-sum volunteer fire relief associations. As of December 31, 2007, there were 91 defined contribution volunteer fire relief associations and 593 lump-sum volunteer fire relief associations. The proposed legislation would base the initial benefit level for costing out plan coverage for a prospective transfer by a defined contribution volunteer fire relief association at 95 percent of the most recent average account balance per relief association member and would set the alternative service pension amount for the initial five-year period of statewide plan coverage at an amount equal to the person's defined contribution volunteer fire relief association account balance immediately before the transfer to the statewide plan coverage plus six percent compound interest from that date to the date of retirement. The initial benefit level for costing out potential statewide plan coverage attempts to replicate the pre-transfer situation while leaving some margin for error. The transferring volunteer fire relief association and municipality can cost out other service pension levels for costing out and ultimately elect a level different from the level proposed to be specified in statute. The alternative service pension for the initial five years of service credit attempts to replicate the situation of service pension coverage by the defined contribution volunteer fire relief association as closely as possible, as current law does for lump-sum volunteer fire relief associations. While the proposal appears to create a situation for prospective transferring defined contribution volunteer fire relief associations that is wholly analogous to the current law situation for lump-sum volunteer fire relief associations, the Commission should consider taking testimony from the volunteer firefighter community about their perception of how analogous the proposed regulation will be.
2. Appropriateness of the Proposed Elimination of a Special Additional Municipal Asset Transfer Requirement. The policy issue is the appropriateness of the proposed legislation in eliminating a required additional municipal asset transfer if the assets of a volunteer fire relief association decline in value or amount between the initial benefit costing and the actual date of coverage transfer, which is January 1 annually. The current special municipal asset transfer requirement is a carryover of a feature that was present in the 1987 local police and paid firefighter consolidation law (Minnesota Statutes, Chapter 353A), where a change of the asset value affected complicated and more rarely performed actuarial valuation work, although the municipal contribution costing impact is not identical between the two circumstances. The special municipal asset transfer requirement does not address asset changes that disrupt the funding of the former relief association in the same manner as the 1987 consolidation law process and also has been identified by the Public Employees Retirement Association (PERA) as causing problems with potential joiners of the statewide volunteer firefighter plan because the requirement would be triggered not only by unexpected asset value declines in the market, but sizable lump-sum service pension retirements by long-service volunteer firefighters. As a consequence, the elimination of the requirement, combined with the addition of a special default avoidance municipal funding requirement appears to be appropriate.
3. Appropriateness of the Addition of Special Benefit Default Avoidance Special Municipal Funding Requirement. The policy issue is the appropriateness of adding a special municipal funding requirement to handle the potential that a volunteer firefighter account in the statewide volunteer firefighter plan would default in the payment of service pensions or survivor benefits before sufficient time to amass adequate assets elapses. The special cash-flow funding requirement is triggered when the executive director of PERA determines that the assets of a volunteer fire department account in the statewide volunteer firefighter retirement plan are insufficient to pay service pensions payable from the account. The addition of the special cash-flow funding requirement protects volunteer firefighters on the cusp of retirement as well as avoids any confusion about benefit payments in the event of a cash-flow shortfall. The special cash-flow funding requirement, however, could be very problematic for a municipality to handle if the special funding requirement was triggered by a very sudden asset market value decline rather than by a failure to anticipate future retirements and a past pattern of insufficient funding compliance.

4. Appropriateness of Adding Disability Benefits to the Statewide Volunteer Firefighter Retirement Plan Coverage. The policy issue is the appropriateness of adding coverage for disabilities to the voluntary statewide lump-sum volunteer firefighter retirement plan. When enacted in 2009, the statewide volunteer retirement plan contained no disability benefit coverage, probably because volunteer firefighter service is not the primary employment for affected individuals, because volunteer firefighter pension coverage is supplementary rather than primary retirement coverage, and because PERA has had administrative burdens and difficulties in conducting public safety employee disability determinations in its other public safety employee retirement plans. The proposal would add disability benefit coverage arranged through a casualty insurance carrier, with the statewide plan's obligations limited to the payment of insurance coverage premiums. The proposal adds potentially or actually significant benefit coverage without subjecting PERA to the same difficulties that it recently experienced with the Public Employees Police and Fire Plan (PERA-P&F). The proposal, however, is the first time that a Minnesota public pension plan will be utilizing third-party insurance carrier coverage to provide a regular portion of total benefit plan coverage and PERA does not have experience in arranging for this insurance coverage.

Section by Section Summary of Document LCPR09-080

Sec.	Pg.Ln	Retirement Plan	Stat. Provision	Summary
1	1.9	Local Volunteer Firefighter Relief Associations	69.051, Subd. 3	Clarifies that the current provision, requiring municipalities without local volunteer firefighter relief associations to file annual financial reports with the State Auditor on receipts and disbursements of fire state aid, does not apply to municipalities that participate in the voluntary statewide lump-sum volunteer firefighter retirement plan and comply with its governing law, and adds an exemption from the reporting requirement for municipalities participating in the voluntary statewide lump-sum firefighter retirement plan which comply with the reporting and funding requirements of Minnesota Statutes, Chapter 353G.
2	2.9	PERA Statewide Volunteer Fire Plan	353G.05, Subd. 2	Specifies that a service pension level to be initially costed out by PERA for defined contribution volunteer firefighter relief associations contemplating a retirement plan coverage change as that service pension amount of the 16 available levels that is closest to an amount equal to 95 percent of the current account balance of the relief association member.
3	3.32	PERA Statewide Volunteer Fire Plan	353G.06, Subd. 1	Eliminates a special pre-statewide plan joining additional municipal contribution based on any decline in the asset value of the volunteer firefighter relief association special fund.
4	4.14	PERA Statewide Volunteer Fire Plan	353G.08	Divides the current provision into three subdivisions, with the current subdivision 1 containing the current annual municipal funding requirement provision, with subdivision 2 containing a special municipal contribution requirement triggered if a statewide plan account is in danger of a service pension benefit default, and with subdivision 3 containing the current authorized disbursements provision augmented with specific authorization for disability insurance premium payments.
5	6.29	PERA Statewide Volunteer Fire Plan	353G.09, Subd. 3	Adds to the alternative service pension amount applicable to retiring voluntary statewide lump-sum volunteer firefighter retirement plan members during their initial five years of coverage by the statewide plan a specific alternative service pension amount for members of former defined contribution plan volunteer firefighter relief associations equal to the retiring member's account balance as of first coverage by the statewide retirement plan plus six percent annual compound interest from that date until retirement.
6	7.23	PERA Statewide Volunteer Fire Plan	353G.115	Authorizes as disability coverage through casualty insurance coverage arranged with a licensed insurance company, with the portion of the cost of disability insurance premiums attributable to the fire department as an addition to the financial requirement for statewide plan coverage.
7	8.1	PERA Statewide Volunteer Fire Plan	424A.08	Clarifies that the provision specifying the authorized disbursements of fire state aid by municipalities which do not have volunteer firefighter relief associations does not apply to municipalities without volunteer firefighter relief associations and with voluntary statewide lump-sum volunteer firefighter retirement plan, and provides that any fire state aid that may be received by a municipality without a volunteer firefighter relief association but with statewide plan coverage must be transmitted to the statewide fund.
8	8.30	--	Effective Date	The proposed legislation is effective on the day following final enactment and is retroactive to January 1, 2010.

**Background Information on the
Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan
of the Public Employees Retirement Association (PERA)**

1. Plan and Fund Creation. The voluntary statewide lump-sum volunteer firefighter retirement plan and fund were created, administered by PERA, invested by the State Board of Investment (SBI), and audited by the Legislative Auditor, and represented by the Attorney General. *Laws 2009, Ch. 169, Art. 9, Sec. 11.*
2. Creation of Volunteer Fire Account within Supplemental Fund. A volunteer fire account was created within the SBI Supplemental Fund to invest the assets of the voluntary statewide lump-sum volunteer firefighter retirement fund. *Laws 2009, Ch. 169, Art. 9, Sec. 1-2.*
3. Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan Defined. For purposes of the fire state aid program, the voluntary statewide lump-sum volunteer firefighter retirement plan was specified to mean the plan established under Minnesota Statutes, Chapter 353G. *Laws 2009, Ch. 169, Art. 9, Sec. 3.*
4. Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan State Aid Qualification. For purposes of qualifying for fire state aid, the PERA executive director certifies to that coverage on behalf of the participating municipalities, while a municipal official or independent nonprofit firefighting corporation secretary, whichever applies, certifies the fire personnel and fire equipment. *Laws 2009, Ch. 169, Art. 9, Sec. 4-5.*
5. Voluntary Statewide Lump-Sum Volunteer Firefighter Retirement Plan, Apportionment of Fire Aid, Minimum Floor Aid, and Appeal Rights. The fire aid/minimum floor aid provision includes municipalities participating in the voluntary statewide plan. For participants in the statewide plan, the fire state aid is transmitted to PERA and PERA credits the aid against the municipality's contribution requirements. The voluntary statewide volunteer fire plan may appeal an aid allocation to the Commissioner of Revenue. *Laws 2009, Ch. 169, Art. 9, Sec. 6-9.*
6. Definition of Terms. For purposes Minnesota Statutes, Chapter 353G, the terms "advisory board", "board", "Commissioner of Finance", "executive director", "fund", "good time service credit", "member", "municipality", "plan", "retirement board", "retirement plan", "standards for actuarial work", "State Board of Investment", and "volunteer firefighter" are defined. "Good time service credit" means 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. "Volunteer firefighter" means an active department member engaging in fire suppression, emergency response, fire education, or fire prevention on an on-call basis. *Laws 2009, Ch. 169, Art. 9, Sec. 10.*
7. Advisory Board Created. An advisory board was created to advise PERA regarding statewide volunteer fire plan matters, composed of a Minnesota Association of Townships appointee, two League of Minnesota Cities appointees, a Minnesota State Fire Chiefs Association appointee, two Minnesota State Fire Department Association appointees, and a representative from the Office of the State Auditor. *Laws 2009, Ch. 169, Art. 9, Sec. 12.*
8. Statewide Plan Coverage Election. 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 SBI will review the association's portfolio for consistency with permissible investment law and SBI 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 plan fund. *Laws 2009, Ch. 169, Art. 9, Sec. 14-15.*
9. Service Credit Procedure and Treatment of Military Leaves. 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. *Laws 2009, Ch. 169, Art. 9, Sec. 16.*

10. Retirement Plan Funding Requirements; Required 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. 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. Unpaid required contributions are subject to regular PERA collection procedures. *Laws 2009, Ch. 169, Art. 9, Sec. 17.*
11. Vesting; Benefits. 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. *Laws 2009, Ch. 169, Art. 9, Sec. 18.*
12. 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. *Laws 2009, Ch. 169, Art. 9, Sec. 19.*
13. Benefit Levels, Ancillary Benefits, and Changing Benefit Levels. The statewide plan offers 16 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 only ancillary benefit the plan offers is a survivor benefit in an amount equal to a service pension assuming the member had died at age 50. *Laws 2009, Ch. 169, Art. 9, Sec. 20-21.*
14. 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. *Laws 2009, Ch. 169, Art. 9, Sec. 22.*
15. 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. *Laws 2009, Ch. 169, Art. 9, Sec. 23.*
16. 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. *Laws 2009, Ch. 169, Art. 9, Sec. 24.*
17. 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. *Laws 2009, Ch. 169, Art. 9, Sec. 25, 27.*
18. Adding Plan to Reporting Provision. The voluntary statewide lump-sum volunteer firefighter retirement plan was added to the list of retirement plans covered by the annual public pension plan financial reporting requirement. *Laws 2009, Ch. 169, Art. 9, Sec. 26.*
19. Adding Plan to Major Plan Appeal Procedure. The voluntary statewide lump-sum volunteer firefighter retirement plan is added to the statewide retirement plan appeal procedure provision. *Laws 2009, Ch. 169, Art. 9, Sec. 28.*
20. Eligibility for Supplemental Lump Sum Benefit. Recipients of distributions from the statewide volunteer firefighter plan are eligible for the state supplemental lump-sum volunteer firefighter benefit, and the statewide plan is eligible to be reimbursed by the state for supplemental benefits paid. *Laws 2009, Ch. 169, Art. 9, Sec. 29-31.*

Background Information on Relief Association Financial Reporting

Since 1965 (Laws 1965, Chapter 359, Section 1), Minnesota public pension plans have been required to prepare annual financial reporting. The statutory requirement is codified as Minnesota Statutes, Section 356.20. For volunteer firefighter relief associations, a financial report under Minnesota Statutes, Section 69.051, is considered to meet the reporting requirements of Minnesota Statutes, Section 356.20.

The financial reporting requirement under Minnesota Statutes, Section 69.051, was first imposed as part of the fire state aid revisions of 1969 (Laws 1969, Chapter 1001, Section 5). From 1969 to 1986, all volunteer firefighter relief associations filed the same reporting form, which was initially prescribed by the Commissioner of Insurance and then by the Commissioner of Commerce. The 1969-1986 form was required to include the information needed by the Commissioner to reveal the true financial condition of the relief association and to reveal the extent of compliance by the relief association with the regulatory, financing, and funding provisions of the applicable state law. The financial report was to be prepared as of December 31 for the prior calendar year, was required to be countersigned by the municipal clerk, and was to be certified by an independent accountant or auditor, who was required to provide an opinion on the condition of the relief association and any exceptions.

In 1986, after the discovery of a significant fraud and misappropriation of funds involving the secretary of the Winona Police Relief Association, the local relief association financial reporting requirements to qualify for state aid under section 69.051 were modified. The 1986 financial reporting law amendments gave the State Auditor authority and responsibility to audit all relief associations and centralized the receipt and certification of financial statements of all relief associations in the Office of the State Auditor, provided that the Commissioner of Revenue process the distribution of state aid only after notification by the State Auditor that a relief association's financial reports and actuarial valuations are complete, and provided more municipal oversight of the relief associations by requiring annual reports to the municipality of relief association financial affairs. The 1986 legislation also gave the Commission authority to request information from the various funds and the funds are authorized and directed to promptly furnish any data requested and required the State Auditor in performing an audit or examination of a pension plan to notify the Commission if the audit or examination reveals malfeasance, misfeasance, or nonfeasance in office and requires the Commissioner of Revenue to notify the Commission if the State Auditor has not filed with the Commissioner of Revenue the required financial compliance reports by the July 1 deadline. The State Auditor was required to oversee the completion and auditing of financial statements of fire relief associations rather than the Commissioner of Revenue and was required to notify the Commissioner of Revenue by July 1 in any year which relief associations that with the financial reporting requirements necessary to qualify for fire state aid, and the primary administration of the fire and police state aid program was transferred from the Department of Revenue to the State Auditor. The deadline for fire state aid applications was moved from June 1 to July 1.

The requirements for the preparation and submission of financial reports are based on the size of the relief association, and for volunteer associations with assets or liabilities of at least \$200,000, the relief association must:

- 1) prepare its annual financial reports on forms prescribed by the State Auditor;
- 2) file the report in its office for public inspection and present it to the city council; and
- 3) submit audited financial statements to the State Auditor within 180 days after the close of the fiscal year.

For volunteer associations with assets and liabilities less than \$200,000, the relief association must:

- 1) prepare annually a detailed financial statement on a form prescribed by the State Auditor;
- 2) have the detailed financial statement certified by an independent public accountant or auditor or the auditor that regularly examines the books of the municipality;
- 3) file the statement in its office for public inspection and present it to the city council within 45 days of the close of the fiscal year; and
- 4) send a copy of the statement to the State Auditor within 90 days of the end of the fiscal year.

The surety bond of the volunteer firefighter relief association treasurer must be at least ten percent of the assets, but is not required to exceed \$500,000.

Background Information on Authorized Disbursements of Fire State Aid

The authorized disbursements of fire state aid depend on whether the fire state aid is transferred to a volunteer fire relief association or whether the fire state aid is retained by the municipality because there is no volunteer fire relief association associated with the municipality. Initially, in 1885, fire state aid could be used to provide firefighters with pension coverage or to maintain the fire department, including the purchase of fire equipment. In 1943, the fire state aid was dedicated solely to firefighter pension funding if the firefighters have pension coverage. For municipalities and nonprofit firefighting corporations where the associated firefighters do not have pension coverage, fire state aid must be used to maintain the fire department or purchase fire equipment.

Under Minnesota Statutes, Section 69.021, Subdivision 7, fire state aid is allocated to municipalities and nonprofit firefighting corporations and, if there is a volunteer fire relief association associated with the municipality or nonprofit firefighting corporation, under Minnesota Statutes, Section 69.031, Subdivision 5, the fire state aid must be transmitted to the volunteer fire relief association within 30 days of receipt if the relief association has filed its financial report or statement with the municipality or corporation or delayed until the financial report or statement is filed if the report or statement has not been filed within 30 days of the receipt of the fire state aid from the Minnesota Department of Revenue. Once deposited in the volunteer fire relief association as required by Minnesota Statutes, Section 424A.05, Subdivision 2, the fire state aid may only be disbursed for one of the following six purposes under Minnesota Statutes, Section 424A.05, Subdivision 3:

1. For the payment of service pensions to retired members of the relief association if authorized and paid under law and the bylaws governing the relief association;
2. For the payment of temporary or permanent disability benefits to disabled members of the relief association if authorized and paid under law and specified in amount in the bylaws governing the relief association;
3. For the payment of survivor benefits to surviving spouses and surviving children, or if none, to designated beneficiaries, of deceased members of the relief association, and if no survivors and if no designated beneficiary, for the payment of a death benefit to the estate of the deceased active or deferred firefighter, if authorized by and paid under law and specified in amount in the bylaws governing the relief association;
4. For the payment of the fees, dues and assessments to the Minnesota State Fire Department Association and to the Minnesota Area Relief Association Coalition in order to entitle relief association members to membership in and the benefits of these associations or organizations;
5. For the payment of insurance premiums to the state Volunteer Firefighters Benefit Association, or an insurance company licensed by the state of Minnesota offering casualty insurance, in order to entitle relief association members to membership in and the benefits of the association or organization; and
6. For the payment of administrative expenses of the relief association as authorized under section 69.80.

If there is no volunteer fire relief association, under Minnesota Statutes, Section 69.031, Subdivision 5, the fire state aid is required to be deposited in the municipal treasury and may only be disbursed for one of the following four purposes under Minnesota Statutes, Section 424A.08:

1. The payment of the fees, dues and assessments to the Minnesota State Fire Department Association and to the state Volunteer Firefighters' Benefit Association in order to entitle its firefighters to membership in and the benefits of these state associations;
2. The payment of the cost of purchasing and maintaining needed equipment for the fire department;
3. The payment of the cost of construction, acquisition, repair, or maintenance of buildings or other premises to house the equipment of the fire department; or
4. If there is no volunteer fire relief association associated with the municipality and if there are full-time firefighters covered by the Public Employees Police and Fire Plan (PERA-P&F), the payment of employer contributions to PERA-P&F with respect to those firefighters.

1.1 A bill for an act
 1.2 relating to retirement; voluntary statewide lump-sum volunteer firefighter
 1.3 retirement plan of the Public Employees Retirement Association; amending
 1.4 Minnesota Statutes 2008, sections 69.051, subdivision 3; 353G.05, subdivision
 1.5 2, as added; 353G.09, subdivision 3, as added; 424A.08, as amended; Minnesota
 1.6 Statutes 2009 Supplement, sections 353G.06, subdivision 1; 353G.08; proposing
 1.7 coding for new law in Minnesota Statutes, chapter 353G.

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

1.9 Section 1. Minnesota Statutes 2008, section 69.051, subdivision 3, is amended to read:

1.10 Subd. 3. **Report by certain municipalities.** (a) Each municipality which has
 1.11 an organized fire department but which does not have a firefighters' relief association
 1.12 governed by section 69.77 or sections 69.771 to 69.775 and which is not exempted
 1.13 under paragraph (b) shall annually prepare a detailed financial report of the receipts and
 1.14 disbursements by the municipality for fire protection service during the preceding calendar
 1.15 year, on a form prescribed by the state auditor. The financial report ~~shall~~ must contain any
 1.16 information which the state auditor deems necessary to disclose the sources of receipts
 1.17 and the purpose of disbursements for fire protection service. The financial report ~~shall~~
 1.18 must be signed by the municipal clerk or clerk-treasurer of the municipality. The financial
 1.19 report ~~shall~~ must be filed by the municipal clerk or clerk-treasurer with the state auditor on
 1.20 or before July 1 annually. The state auditor shall forward one copy to the county auditor of
 1.21 the county wherein the municipality is located. The municipality shall not qualify initially
 1.22 to receive, or be entitled subsequently to retain, state aid ~~pursuant to~~ under this chapter if
 1.23 the financial reporting requirement or the applicable requirements of this chapter or any
 1.24 other statute or special law have not been complied with or are not fulfilled.

2.1 (b) Each municipality which has an organized fire department and which provides
2.2 retirement coverage to its firefighters through the voluntary statewide lump-sum volunteer
2.3 firefighter retirement plan under chapter 353G qualifies to have fire state aid transmitted
2.4 to and retained in the statewide lump-sum volunteer firefighter retirement fund without
2.5 filing a detailed financial report if the executive director of the Public Employees
2.6 Retirement Association certifies compliance by the municipality with the requirements of
2.7 sections 353G.04 and 353G.08, paragraph (e), and by the applicable fire chief with the
2.8 requirements of section 353G.07.

2.9 Sec. 2. Minnesota Statutes 2009 Supplement, section 353G.05, subdivision 2, as added
2.10 by Laws 2009, chapter 169, article 9, section 14, is amended to read:

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

2.14 (b) If the volunteer firefighters are currently covered by a volunteer firefighters' relief
2.15 association governed by chapter 424A, the cost analysis of the prospective retirement
2.16 coverage must be requested jointly by the secretary of the volunteer firefighters' relief
2.17 association, following approval of the request by the board of the volunteer firefighters'
2.18 relief association, and the chief administrative officer of the entity associated with the
2.19 relief association, following approval of the request by the governing body of the entity
2.20 associated with the relief association. If the relief association is associated with more than
2.21 one entity, the chief administrative officer of each associated entity must execute the
2.22 request. If the volunteer firefighters are not currently covered by a volunteer firefighters'
2.23 relief association, the cost analysis of the prospective retirement coverage must be
2.24 requested by the chief administrative officer of the entity operating the fire department.
2.25 The request must be made in writing and must be made on a form prescribed by the
2.26 executive director.

2.27 (c) The cost analysis of the prospective retirement coverage by the statewide
2.28 retirement plan must be based on the service pension amount under section 353G.11
2.29 closest to the service pension amount provided by the volunteer firefighters' relief
2.30 association; ~~if there is one~~ the relief association is a lump-sum defined benefit plan, or
2.31 the amount equal to 95 percent of the most current average account balance per relief
2.32 association member if the relief association is a defined contribution plan, or to the
2.33 lowest service pension amount under section 353G.11 if there is no volunteer firefighters'
2.34 relief association, rounded up, and any other service pension amount designated by
2.35 the requester or requesters. The cost analysis must be prepared using a mathematical

3.1 procedure certified as accurate by an approved actuary retained by the Public Employees
3.2 Retirement Association.

3.3 (d) If a cost analysis is requested and a volunteer firefighters' relief association exists
3.4 that has filed the information required under section 69.051 in a timely fashion, upon
3.5 request by the executive director, the state auditor shall provide the most recent data
3.6 available on the financial condition of the volunteer firefighters' relief association, the most
3.7 recent firefighter demographic data available, and a copy of the current relief association
3.8 bylaws. If a cost analysis is requested, but no volunteer firefighters' relief association
3.9 exists, the chief administrative officer of the entity operating the fire department shall
3.10 provide the demographic information on the volunteer firefighters serving as members
3.11 of the fire department requested by the executive director.

3.12 (e) If a cost analysis is requested, the executive director of the State Board of
3.13 Investment shall review the investment portfolio of the relief association, if applicable,
3.14 for compliance with the applicable provisions of chapter 11A and for appropriateness
3.15 for retention under the established investment objectives and investment policies of the
3.16 State Board of Investment. If the prospective retirement coverage change is approved
3.17 under paragraph (f), the State Board of Investment may require that the relief association
3.18 liquidate any investment security or other asset which the executive director of the State
3.19 Board of Investment has determined to be an ineligible or inappropriate investment for
3.20 retention by the State Board of Investment. The security or asset liquidation must occur
3.21 before the effective date of the transfer of retirement plan coverage. If requested to do
3.22 so by the chief administrative officer of the relief association, the executive director of
3.23 the State Board of Investment shall provide advice about the best means to conduct the
3.24 liquidation.

3.25 (f) Upon receipt of the cost analysis, the governing body of the municipality or
3.26 independent nonprofit firefighting corporation associated with the fire department shall
3.27 approve or disapprove the retirement coverage change within 90 days. If the retirement
3.28 coverage change is not acted upon within 90 days, it is deemed to be disapproved. If the
3.29 retirement coverage change is approved by the applicable governing body, coverage by
3.30 the voluntary statewide lump-sum volunteer firefighter retirement plan is effective on the
3.31 next following January 1.

3.32 Sec. 3. Minnesota Statutes 2009 Supplement, section 353G.06, subdivision 1, is
3.33 amended to read:

3.34 Subdivision 1. **Special fund disestablishment.** ~~(a)~~ On the date immediately prior
3.35 to the effective date of the coverage change, the special fund of the applicable volunteer

4.1 firefighters' relief association, if one exists, ceases to exist as a pension fund of the
4.2 association and legal title to the assets of the special fund transfers to the State Board of
4.3 Investment, with the beneficial title to the assets of the special fund remaining in the
4.4 applicable volunteer firefighters.

4.5 ~~(b) If the market value of the special fund of the volunteer firefighters' relief~~
4.6 ~~association for which retirement coverage changed under this chapter declines in the~~
4.7 ~~interval between the date of the most recent financial report or statement, and the special~~
4.8 ~~fund disestablishment date, the applicable municipality shall transfer an additional amount~~
4.9 ~~to the State Board of Investment equal to that decline. If more than one municipality is~~
4.10 ~~responsible for the direct management of the fire department, the municipalities shall~~
4.11 ~~allocate the additional transfer amount among the various applicable municipalities~~
4.12 ~~one-half in proportion to the population of each municipality and one-half in proportion~~
4.13 ~~to the market value of each municipality.~~

4.14 Sec. 4. Minnesota Statutes 2009 Supplement, section 353G.08, is amended to read:

4.15 **353G.08 RETIREMENT PLAN FUNDING; DISBURSEMENTS.**

4.16 Subdivision 1. Annual funding requirements. (a) Annually, the executive director
4.17 shall determine the funding requirements of each account in the voluntary statewide
4.18 lump-sum volunteer firefighter retirement plan on or before August 1. The funding
4.19 requirements as directed under this section, must be determined using a mathematical
4.20 procedure developed and certified as accurate by an approved actuary retained by the
4.21 Public Employees Retirement Association and based on present value factors using a six
4.22 percent interest rate, without any decrement assumptions. The funding requirements
4.23 must be certified to the entity or entities associated with the fire department whose active
4.24 firefighters are covered by the retirement plan.

4.25 (b) The overall funding balance of each account for the current calendar year must
4.26 be determined in the following manner:

4.27 (1) The total accrued liability for all active and deferred members of the account as
4.28 of December 31 of the current year must be calculated based on the good time service
4.29 credit of active and deferred members as of that date.

4.30 (2) The total present assets of the account projected to December 31 of the current
4.31 year, including receipts by and disbursements from the account anticipated to occur on or
4.32 before December 31, must be calculated. To the extent possible, the market value of assets
4.33 must be utilized in making this calculation.

4.34 (3) The amount of the total present assets calculated under clause (2) must be
4.35 subtracted from the amount of the total accrued liability calculated under clause (1). If the

5.1 amount of total present assets exceeds the amount of the total accrued liability, then the
5.2 account is considered to have a surplus over full funding. If the amount of the total present
5.3 assets is less than the amount of the total accrued liability, then the account is considered
5.4 to have a deficit from full funding. If the amount of total present assets is equal to the
5.5 amount of the total accrued liability, then the special fund is considered to be fully funded.

5.6 (c) The financial requirements of each account for the following calendar year must
5.7 be determined in the following manner:

5.8 (1) The total accrued liability for all active and deferred members of the account
5.9 as of December 31 of the calendar year next following the current calendar year must be
5.10 calculated based on the good time service used in the calculation under paragraph (b),
5.11 clause (1), increased by one year.

5.12 (2) The increase in the total accrued liability of the account for the following calendar
5.13 year over the total accrued liability of the account for the current year must be calculated.

5.14 (3) The amount of anticipated future administrative expenses of the account must be
5.15 calculated by multiplying the dollar amount of the administrative expenses for the most
5.16 recent prior calendar year by the factor of 1.035.

5.17 (4) If the account is fully funded, the financial requirement of the account for the
5.18 following calendar year is the total of the amounts calculated under clauses (2) and (3).

5.19 (5) If the account has a deficit from full funding, the financial requirement of the
5.20 account for the following calendar year is the total of the amounts calculated under clauses
5.21 (2) and (3) plus an amount equal to one-tenth of the amount of the deficit from full
5.22 funding of the account.

5.23 (6) If the account has a surplus over full funding, the financial requirement of
5.24 the account for the following calendar year is the financial requirement of the account
5.25 calculated as though the account was fully funded under clause (4) and, if the account has
5.26 also had a surplus over full funding during the prior two years, additionally reduced by an
5.27 amount equal to one-tenth of the amount of the surplus over full funding of the account.

5.28 (d) The required contribution of the entity or entities associated with the fire
5.29 department whose active firefighters are covered by the retirement plan is the annual
5.30 financial requirements of the account of the retirement plan under paragraph (c) reduced
5.31 by the amount of any fire state aid payable under sections 69.011 to 69.051 reasonably
5.32 anticipated to be received by the retirement plan attributable to the entity or entities during
5.33 the following calendar year, and an amount of interest on the assets projected to be
5.34 received during the following calendar year calculated at the rate of six percent per annum.
5.35 The required contribution must be allocated between the entities if more than one entity

6.1 is involved. A reasonable amount of anticipated fire state aid is an amount that does not
6.2 exceed the fire state aid actually received in the prior year multiplied by the factor 1.035.

6.3 (e) The required contribution calculated in paragraph (d) must be paid to the
6.4 retirement plan on or before December 31 of the year for which it was calculated. If
6.5 the contribution is not received by the retirement plan by December 31, it is payable
6.6 with interest at an annual compound rate of six percent from the date due until the date
6.7 payment is received by the retirement plan. If the entity does not pay the full amount of
6.8 the required contribution, the executive director shall collect the unpaid amount under
6.9 section 353.28, subdivision 6.

6.10 (f)

6.11 Subd. 2. Cash flow funding requirement. If the executive director determines that
6.12 an account in the voluntary statewide lump-sum volunteer firefighter retirement plan has
6.13 insufficient assets to meet the service pensions determined payable from the account,
6.14 the executive director shall certify the amount of the potential service pension shortfall
6.15 to the municipality or municipalities and the municipality or municipalities shall make
6.16 an additional employer contribution to the account within ten days of the certification.
6.17 If more than one municipality is associated with the account, unless the municipalities
6.18 agree to a different allocation, the municipalities shall allocate the additional employer
6.19 contribution one-half in proportion to the population of each municipality and one-half in
6.20 proportion to the market value of the property of each municipality.

6.21 Subd. 3. Authorized Account Disbursements. The assets of the retirement fund
6.22 may only be disbursed for:

- 6.23 (1) the administrative expenses of the retirement plan;
6.24 (2) the investment expenses of the retirement fund;
6.25 (3) the service pensions payable under section 353G.10, 353G.11, 353G.14, or
6.26 353G.15; ~~and~~
6.27 (4) the survivor benefits payable under section 353G.12; and
6.28 (5) the disability benefit coverage insurance premiums under section 353G.115.

6.29 Sec. 5. Minnesota Statutes 2009 Supplement, section 353G.09, subdivision 3, as added
6.30 by Laws 2009, chapter 169, article 9, section 18, is amended to read:

6.31 Subd. 3. **Alternative pension eligibility and computation.** (a) An active member
6.32 of the retirement plan is entitled to an alternative lump-sum service pension from the
6.33 retirement plan if the person:

- 6.34 (1) has separated from active service with the fire department for at least 30 days;

7.1 (2) has attained the age of at least 50 years or the age for receipt of a service pension
7.2 under the benefit plan of the applicable former volunteer firefighters' relief association
7.3 as of the date immediately prior to the election of the retirement coverage change,
7.4 whichever is later;

7.5 (3) has completed at least five years of active service with the fire department and at
7.6 least five years in total as a member of the applicable former volunteer firefighters' relief
7.7 association or of the retirement plan, but has not rendered at least five years of good time
7.8 service credit as a member of the retirement plan; and

7.9 (4) applies in a manner prescribed by the executive director for the service pension.

7.10 (b) If retirement coverage prior to statewide retirement plan coverage was provided
7.11 by a defined benefit plan volunteer firefighters relief association, the alternative lump-sum
7.12 service pension is the service pension amount specified in the bylaws of the applicable
7.13 former volunteer firefighters' relief association either as of the date immediately prior to
7.14 the election of the retirement coverage change or as of the date immediately before the
7.15 termination of firefighting services, whichever is earlier, multiplied by the total number
7.16 of years of service as a member of that volunteer firefighters' relief association and as
7.17 a member of the retirement plan. If retirement coverage prior to statewide retirement
7.18 plan coverage was provided by a defined contribution plan volunteer firefighters relief
7.19 association, the alternative lump-sum service pension is an amount equal to the person's
7.20 account balance as of the date immediately prior to the date on which statewide retirement
7.21 plan coverage was first provided to the person plus six percent annual compound interest
7.22 from that date until the date immediately prior to the date of retirement.

7.23 Sec. 6. **[353G.115] DISABILITY BENEFIT COVERAGE; AUTHORITY FOR**
7.24 **CASUALTY INSURANCE.**

7.25 (a) Except as provided in paragraph (b), no disability benefit is payable from the
7.26 statewide retirement plan.

7.27 (b) If the board approves the arrangement, disability coverage for statewide
7.28 retirement plan members may be provided through a group disability insurance policy
7.29 obtained from an insurance company licensed to do business in this state. The voluntary
7.30 statewide lump-sum volunteer retirement plan is authorized to pay the premium for the
7.31 disability insurance authorized by this paragraph. The proportional amount of the total
7.32 annual disability insurance premium must be added to the required contribution amount
7.33 determined under section 353G.08.

8.1 Sec. 7. Minnesota Statutes 2008, section 424A.08, as amended by Laws 2009, chapter
8.2 169, article 10, section 45, is amended to read:

8.3 **424A.08 MUNICIPALITY WITHOUT RELIEF ASSOCIATION;**
8.4 **AUTHORIZED DISBURSEMENTS.**

8.5 (a) Any qualified municipality which is entitled to receive fire state aid but which
8.6 has no volunteer firefighters' relief association directly associated with its fire department
8.7 and which has no full-time firefighters with retirement coverage by the public employees
8.8 police and fire retirement plan shall deposit the fire state aid in a special account
8.9 established for that purpose in the municipal treasury. Disbursement from the special
8.10 account may not be made for any purpose except:

8.11 (1) payment of the fees, dues and assessments to the Minnesota State Fire
8.12 Department Association and to the state Volunteer Firefighters' Benefit Association in
8.13 order to entitle its firefighters to membership in and the benefits of these state associations;

8.14 (2) payment of the cost of purchasing and maintaining needed equipment for the
8.15 fire department; and

8.16 (3) payment of the cost of construction, acquisition, repair, or maintenance of
8.17 buildings or other premises to house the equipment of the fire department.

8.18 (b) A qualified municipality which is entitled to receive fire state aid, which has no
8.19 volunteer firefighters' relief association directly associated with its fire department, which
8.20 does not participate in the voluntary lump-sum volunteer firefighter retirement plan under
8.21 chapter 353G, and which has full-time firefighters with retirement coverage by the public
8.22 employees police and fire retirement plan may disburse the fire state aid as provided in
8.23 paragraph (a), for the payment of the employer contribution requirement with respect to
8.24 firefighters covered by the public employees police and fire retirement plan under section
8.25 353.65, subdivision 3, or for a combination of the two types of disbursements.

8.26 (c) A municipality which has no volunteer firefighters' relief association directly
8.27 associated with it and which participates in the voluntary lump-sum volunteer firefighter
8.28 retirement plan under chapter 353G shall transmit any fire state aid that it receives to the
8.29 voluntary lump-sum volunteer firefighter retirement fund.

8.30 Sec. 8. **EFFECTIVE DATE.**

8.31 Sections 1 to 7 are effective the day following final enactment and are retroactive
8.32 to January 1, 2010.