



**S.F. 935**  
(Pappas)

**H.F. 857**  
(Atkins)

**Executive Summary of Commission Staff Materials**

*Affected Pension Plan(s):* Retirement funding  
*Relevant Provisions of Law:* Minnesota Statutes, Chapters 69 and 297I  
*General Nature of Proposal:* Imposes a homeowners and auto insurance policy surcharge to fund public safety employee retirement plan costs.  
*Date of Summary:* March 1, 2013

**Specific Proposed Changes**

- Provides additional ongoing pension-related funding for public employers, volunteer fire-fighter relief associations, the Public Employees Police and Fire Retirement Plan (PERA-P&F), and the State Patrol Retirement Plan from the proceeds of a \$5 annual surcharge imposed on all homeowners insurance or automobile insurance policies written in the state, collected by the various insurance companies, and apportioned by the Department of Revenue.

**Policy Issues Raised by the Proposed Legislation**

1. Need for the additional pension state aid program.
2. Appropriate duration of the surcharge and state aid program.
3. Potential for tax reciprocity trigger.
4. Appropriateness of the specified allocations of the additional pension state aid.

**Potential Amendments**

S0935-1A is a technical/corrective amendment which revises the allocation to better capture the publicly indicated results of the fire pension aid account, specifies a date for the aid allocations, and requires PERA to report to the Commissioner of Revenue information on PERA-P&F coverage and the statewide volunteer fire plan participation needed to implement the surcharge fire pension aid allocation formula.

S0935-2A sunsets the new revenue and aid program at a date to be specified.

S0935-3A terminates the revenue and aid program when the State Patrol Retirement Plan and PERA-P&F both are 90% funded on a market value of assets basis.



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director *(Signature)*

RE: S.F. 935 (Pappas); H.F. 857 (Atkins): Retirement Funding; Imposing a Homeowners and Auto Insurance Policy Surcharge to Fund Public Safety Employee Retirement Plan Costs

DATE: March 1, 2013

Summary of S.F. 935 (Pappas); H.F. 857 (Atkins)

S.F. 935 (Pappas); H.F. 857 (Atkins) amends Minnesota Statutes, Chapters 69, relating to policy and fire state aid, and 297I, relating to insurance premium taxes, to impose a \$5 per calendar year surcharge on homeowners insurance and automobile insurance policies, with the proceeds from the homeowners insurance surcharge allocated roughly one-third to the fire state aid program and distributed to the statewide lump-sum volunteer firefighter retirement fund or to municipalities or nonprofit firefighting corporations and roughly two-thirds to the Public Employees Police and Fire Retirement Plan (PERA-P&F) and with the proceeds from the automobile insurance surcharge allocated one-third to the police state aid program and distributed to all counties, cities, and state departments employing police officers and two-thirds to PERA-P&F and the State Patrol Retirement Plan distributed on the basis of the number of active member police officers.

Background Information

- **Attachment A:** Current actuarial funded status and funding requirements of PERA-P&F and the State Patrol Retirement Plan and information in composite for the volunteer firefighter relief associations for calendar years 2009 and 2010, the most recent years available.
- **Attachment B:** Information on the historical funded condition and financing requirements of Minnesota volunteer firefighter relief associations allocated by benefit type.
- **Attachment C:** Background information on the fire state aid program.
- **Attachment D:** Background information on the police state aid program.
- **Attachment E:** Minnesota Statutes, Section 297I.05, Subdivision 11.

Corrective/Technical Amendment S0935-1A

The initial drafting of the allocation portion of the newly created surcharge fire pension aid account apparently did not correctly capture the intent of the proponents of the new retirement aid program. **Amendment S0935-1A** revises the allocation to better capture the publicly indicated results of the fire pension aid account. The amendment also specifies a date for the aid allocations from the two accounts, November 1 annually, which is one month after the allocation date for the fire state aid and police state aid programs, on which portions of the new aid allocation depend. The amendment also requires reporting from the Public Employees Retirement Association (PERA) to the Commissioner of Revenue information on Public Employees Police and Fire Retirement Plan (PERA-P&F) coverage and Statewide Lump-Sum Volunteer Firefighter Retirement Plan (PERA-SVF) participation that is needed to implement the surcharge fire pension aid allocation formula.

To demonstrate the tax impact of the surcharge fire pension aid account allocation formula, the following compares the overall impact of the drafted fire surcharge formula and the revised fire surcharge formula under Amendment S0935-1A:

	SF935/HF857, as drafted		Amendment A	
<u>Surcharge Fire Pension Aid Account</u>				
Statewide Volunteer Fire Plan	\$137,990	1.84%	\$137,990	1.84%
Volunteer firefighter relief associations	\$1,844,981	24.60%	\$5,412,010	72.16%
Paid firefighter municipalities	\$608,777	8.12%	\$649,350	8.66%
PERA-P&F	\$4,908,252	65.44%	\$1,300,650	17.34%
Total	\$7,500,000	100.00%	\$7,500,000	100.00%
<u>Surcharge Police Pension Aid Account</u>				
PERA-P&F employers	\$4,645,300	29.97%	\$4,645,300	29.97%
DPS and DNR	\$516,150	3.33%	\$516,150	3.33%
State Patrol Retirement Plan	\$1,033,800	6.67%	\$1,033,800	6.67%
PERA-P&F	\$9,304,650	60.03%	\$9,304,650	60.03%
Total	\$15,500,000	100.00%	\$15,500,000	100.00%

	SF935/HF857, as drafted		Amendment A	
<u>Total Aid Allocation</u>				
Volunteer firefighter plans	\$1,982,971	6.62%	\$5,550,000	24.13%
Municipalities and counties	\$5,254,077	22.84%	\$5,294,630	23.03%
DPS and DNR	\$516,150	2.24%	\$516,150	2.24%
State Patrol Retirement Plan	\$1,033,800	4.49%	\$1,033,800	4.49%
PERA-P&F	\$14,212,902	61.79%	10,065,300	46.11%
Total	\$23,000,000	97.98%	\$23,000,000	100.00%

## Discussion and Analysis

S.F. 935 (Pappas); H.F. 857 (Atkins) provides additional ongoing pension-related funding for public employers, volunteer firefighter relief associations, the Public Employees Police and Fire Retirement Plan (PERA-P&F), and the State Patrol Retirement Plan from the proceeds of a \$5 annual surcharge to be imposed on all homeowners insurance or automobile insurance policies written in the state, collected by the various insurance companies, and apportioned by the Department of Revenue.

The proposed legislation raises a number of pension and related public policy issues for consideration by and possible discussion by the Commission, as follows:

1. Need for the Additional Pension State Aid Program. The policy issue is the question whether or not the actuarial condition of the Public Employees Police and Fire Retirement Plan (PERA-P&F), the State Patrol Retirement Plan, and the various volunteer firefighter relief associations is sufficiently endangered to justify the creation of an additional state aid program to provide additional funding support. Attachment A provides the July 1, 2011, and July 1, 2012, actuarial valuation results of PERA-P&F and of the State Patrol Retirement Plan and discloses that those two retirement plans have significant deficiencies in their contributions in comparison to their actuarial funding requirements (7.94% of covered pay in 2012, up from 4.78% of covered pay in 2011 for PERA-P&F, and 11.52% of covered pay in 2012, up from 5.25% of covered pay in 2011 for the State Patrol Retirement Plan) and provides the funding information for the volunteer firefighter relief associations in composite for calendar years 2010 and 2009, and discloses that those relief associations in aggregate have a funding shortfall (\$4.7 million in calendar year 2010, although down from \$11.5 million in calendar year 2009). In other proposed legislation, both PERA-P&F (see S.F. 447 (Pappas); H.F. 618 (Nelson)) and the State Patrol Retirement Plan (see S.F. 272 (Pappas); H.F. 403 (Nelson)) are seeking various benefit modifications and contribution increases that attempt to stabilize and improve the funded condition and funding results of the two plans.

Minnesota Statutes, Sections 69.771 to 69.776, the 1971 Volunteer Firefighter Relief Association Financing Guidelines Act, requires any funding deficiencies of defined benefit volunteer firefighter relief associations be addressed by the applicable municipality or municipalities. The creation of an additional state aid program would reduce the local property tax increase impact of other local government retirement contribution increases. The additional funding provided to the State Patrol Retirement Plan would be 1.55% of covered pay under the bill as drafted, and would be 1.31% of covered pay under Amendment S0935-1A, assuming that the surcharges raise \$23,000,000 annually.

2. Appropriate Duration of the Surcharge and State Aid Program. The policy issue is what is the appropriate duration of the insurance policy surcharge and state aid program created by the proposed legislation. The proposed legislation does not specify a conclusion date for the surcharge or the allocation of its proceeds, making it an ongoing revenue-raising imposition and aid program. There is no certainty that the State Patrol Retirement Plan or PERA-P&F are going to remain in their current poor financial health forever, since both plans were more than 100% funded recently (in 2004 for PERA-P&F and in 2005 for the State Patrol Retirement Plan) and will presumably come about again once the recovery from the 2008-2009 Great Recession gains more momentum and the recent and proposed benefit modifications cover a greater proportion of the memberships of the two plans. When the funded rates improve and the funding deficiencies are eliminated in the future, the additional funding under the proposed legislation could either end as unnecessary, could support future benefit increases, or could be reassigned to some other pension funding need. If the Commission has a point of view on the long-term future of the newly created aid, it would be opportune to address the question at the time of enactment rather than leaving the question to chance.
  - **Amendment S0935-2A** would sunset the new revenue and aid program at a date to be specified.
  - **Amendment S0935-3A** would terminate the revenue and aid program when the State Patrol Retirement Plan and PERA-P&F both are 90% funded on a market value of assets basis.

3. Potential for Tax Reciprocity Trigger. The policy issue is whether or not the proposed insurance policy surcharge will trigger a reciprocal tax by other states on Minnesota-domiciled insurance companies. It is the understanding of the Commission staff that every state has an insurance premium tax law that

requires a retaliatory tax increase be imposed on the premiums in Minnesota charged by an insurance company which is domiciled in a state that increases the premium taxes on insurance written in that state by a Minnesota-domiciled insurance company. In Minnesota, the retaliatory tax statute is Minnesota Statutes, Section 297I.05, Subdivision 11. The Minnesota retaliatory tax statute applies to "taxes, fines, deposits, penalties, licenses, or fees" imposed on insurance if not dedicated to a special purpose or use. The connection between the surcharge, which could otherwise be considered a fee within statutory retaliation likely is exempt because of its connection to the additional pension state aid also established by the proposed legislation, although all premium taxes on fire insurance are dedicated to either firefighter pension or firefighter equipment purposes and all premium taxes on automobile casualty insurance are dedicated to police pension purposes. There are Minnesota precedents for the surcharge in the fire safety premium surcharge found in Minnesota Statutes, Section 297I.06, dedicated for fire safety, and in the first class city fire insurance premium surcharge found in Minnesota Statutes, Section 297I.10, dedicated to restore a deficiency in the special fund of a firefighter relief association.

4. Appropriateness of the Specified Allocations of the Additional Pension State Aid. The policy issue is whether or not the allocations of the revenue raised by the homeowners and automobile insurance policy surcharges specified in the proposed legislation are appropriate. The proposed legislation allocates the revenue raised by the surcharges among all police and firefighter retirement plans and among most of the employing entities. Although apparently prompted by funding problems in the State Patrol Retirement Plan and PERA-P&F, the allocations in the proposed legislation also provide additional funding support for volunteer fire pensions, which are generally well funded, and to offset governmental employer pension contributions. The Commission may desire to take testimony on the rationale for the allocation beneficiaries and allocation proportions.

**Attachment A**  
**Actuarial Valuation Results - Actuarial Value of Assets**

	PERA-P&F		State Patrol Retirement Plan		Volunteer Firefighter Relief Associations	
	FY2012	FY2011	FY2012	FY2011	CY2010	CY2009
<u>Membership</u>						
Active Members	10,865	10,880	823	862	17,187	17,447
Service Retirees	6,463	5,549	733	700	1,455	1,485
Disabilitants	1,095	864	48	48	0	0
Survivors	1,848	1,435	182	184	0	0
Deferred Retirees	1,303	1,335	40	38	3,292	3,365
Nonvested Former Members	<u>971</u>	<u>870</u>	<u>15</u>	<u>15</u>	<u>0</u>	<u>0</u>
Total Membership	22,545	20,933	1,841	1,847	21,934	22,297
<u>Funded Status</u>						
Accrued Liability	\$7,403,295,000	\$6,363,546,000	\$760,955,000	\$700,898,000	\$444,827,324	\$435,929,540
Current Assets	<u>\$5,797,868,000</u>	<u>\$5,274,602,000</u>	<u>\$554,244,000</u>	<u>\$563,046,000</u>	<u>\$439,785,023</u>	<u>\$402,729,534</u>
Unfunded Accrued Liability	\$1,605,427,000	\$1,088,944,000	\$206,711,000	\$137,852,000	\$5,042,301	\$33,200,006
Funding Ratio	78.31%	82.89%	72.84%	80.33%	98.87%	92.38%
<u>Financing Requirements</u>						
Covered Payroll	\$807,180,000	\$796,689,000	\$66,592,000	\$66,035,000	\$0	\$0
Benefits Payable	\$386,208,000	\$342,219,000	\$50,007,000	\$47,844,000	\$28,519,543	\$31,680,244
Normal Cost	20.56% \$165,955,000	19.77% \$157,490,000	21.63% \$14,404,000	22.91% \$15,127,000	\$25,146,783	\$25,072,627
Administrative Expenses	0.11% \$888,000	0.10% \$797,000	0.24% \$160,000	0.14% \$92,000	\$4,628,196	\$2,422,963
Amortization	<u>12.70%</u> <u>\$102,512,000</u>	<u>8.91%</u> <u>\$70,985,000</u>	<u>20.65%</u> <u>\$13,751,000</u>	<u>13.20%</u> <u>\$8,717,000</u>	<u>\$5,760,077</u>	<u>\$7,748,890</u>
Total Requirements	33.37% \$269,355,000	28.78% \$229,272,000	42.52% \$28,315,000	36.25% \$23,936,000	\$35,535,056	\$35,244,480
Employee Contributions	9.60% \$77,489,000	9.60% \$76,482,000	12.40% \$8,257,000	12.40% \$8,188,000	\$0	\$0
Employer Contributions	14.40% \$116,234,000	14.40% \$114,723,000	18.60% \$12,386,000	18.60% \$12,283,000	\$13,156,918	\$7,842,305
Employer Add'l Cont.	1.43% \$11,559,000	0.00% \$0	0.00% \$0	0.00% \$0	\$0	\$0
Direct State Funding	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	\$17,077,564	\$15,377,359
Other Govt. Funding	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	\$569,548	\$535,435
Administrative Assessment	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Contributions	25.43% \$205,282,000	24.00% \$191,205,000	31.00% \$20,643,000	31.00% \$20,471,000	\$30,804,030	\$23,755,099
Total Requirements	33.37% \$269,355,000	28.78% \$229,272,000	42.52% \$28,315,000	36.25% \$23,936,000	\$35,535,056	\$35,244,480
Total Contributions	<u>25.43%</u> <u>\$205,282,000</u>	<u>24.00%</u> <u>\$191,205,000</u>	<u>31.00%</u> <u>\$20,643,000</u>	<u>31.00%</u> <u>\$20,471,000</u>	<u>\$30,804,030</u>	<u>\$23,755,099</u>
Deficiency (Surplus)	7.94% \$64,073,000	4.78% \$38,067,000	11.52% \$7,672,000	5.25% \$3,465,000	\$4,731,026	\$11,489,381

**Background Information on the  
Historical Funded Condition and Financing Requirements of  
Minnesota Volunteer Firefighter Relief Associations**

The following presents aggregate information on volunteer firefighter relief associations as assembled by the staff of the Legislative Commission on Pensions and Retirement (1974 and 1977) from fire state aid qualification information obtained by the Insurance Department and by the Office of the State Auditor (1980 through 2010):

		Number of Plans, 1974-1990									
		1974	1977	1980	1982	1984	1986	1987	1988	1989	1990
Lump Sum:											
Under \$50/yr		134	110	72	28	23	11	12	8	10	10
\$50-\$100/yr		122	116	79	68	60	39	33	28	25	23
\$100-\$200/yr		122	118	131	133	132	99	88	85	62	50
\$200-\$300/yr		5	45	81	83	88	115	123	108	114	108
\$300+/yr		7	57	124	18	237	277	293	331	355	379
Total Lump Sum		390	446	487	330	540	541	549	560	566	570
Monthly Benefit:											
Under \$2/mo/yr		41	16	3	0	6	8	--	--	--	--
Over \$1.99/mo/yr		10	32	26	24	23	22	33	30	28	27
Total Monthly		51	48	29	24	29	30	33	30	28	27
Mo/Lump Sum Combination		--	--	--	--	--	--	--	--	--	--
Defined Contribution		52	54	45	56	68	66	66	72	68	67
No Benefits		42	27	33	8	5	7	2	1	2	--
Total		535	575	594	580	642	641	650	663	664	664

		Number of Plans, 1991-2000									
		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Lump Sum:											
Under \$50/yr		9	13	12	10	10	8	7	--	--	--
\$50-\$100/yr		19	17	16	16	13	13	10	13	13	10
\$100-\$200/yr		55	60	59	55	49	39	45	36	26	20
\$200-\$300/yr		99	84	79	78	74	67	61	51	42	35
\$300+/yr		396	419	429	439	453	445	470	492	512	530
Total Lump Sum		578	593	595	598	599	572	593	592	593	595
Monthly Benefit:											
Under \$2/mo/yr		--	--	--	--	--	--	--	--	--	--
Over \$1.99/mo/yr		26	29	27	12	10	7	8	7	5	5
Total Monthly		26	29	27	12	10	7	8	7	5	5
Mo/Lump Sum Combination		--	--	2	15	15	16	16	16	23	18
Defined Contribution		66	72	73	74	76	76	80	84	85	87
No Benefits		--	--	--	--	--	--	--	--	--	--
Total		671	694	697	699	700	671	697	699	706	705

		Number of Plans, 2001-2010									
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Lump Sum:											
Under \$50/yr		--	--	1	3	3	5	5	4	5	4
\$50-\$100/yr		6	7	3	6	6	4	6	6	4	3
\$100-\$200/yr		19	16	14	13	12	4	8	7	8	5
\$200-\$300/yr		30	24	24	21	14	13	11	10	13	8
\$300+/yr		539	549	535	526	528	564	563	564	569	569
Total Lump Sum		594	596	577	569	563	590	593	591	599	589
Monthly Benefit:											
Under \$2/mo/yr		--	--	--	--	--	--	--	--	--	--
Over \$1.99/mo/yr		5	5	5	5	5	5	5	5	5	5
Total Monthly		5	5	5	5	5	5	5	5	5	5
Mo/Lump Sum Combination		18	18	20	18	19	18	19	18	18	17
Defined Contribution		88	89	84	87	86	87	91	92	92	91
No Benefits		--	--	--	--	--	--	--	--	--	--
Total		705	708	686	679	673	700	708	706	714	702

The numbers presented above and below depend on filings by the applicable volunteer firefighter relief associations as part of the fire state aid program and, because there is a cut-off publication date for the reports from the Office of the State Auditor, there is some potential slippage in the information over time.

There is a significant trend in volunteer firefighter relief associations growing from low benefit amounts to higher benefit amounts over the 35-year period, with 62.61% of volunteer firefighter relief associations either under \$200 per year of service lump sum or \$40 per month with 20 years of service monthly annuity in 1977 and with 96.60% of lump sum volunteer firefighter relief associations currently providing a service pension over \$300 per year of service and with 100% of monthly benefit volunteer firefighter relief associations providing a service pension in excess of \$40 per month with 20 years of service in 2010. Over the period 1984-2010, the number of volunteer firefighter relief associations providing lump sum service pensions has been reasonably consistent, but there has been a significant drop in the number of volunteer firefighter relief associations providing monthly benefit service pensions, an emergence of volunteer firefighter relief associations providing a combination of monthly benefit and lump sum service pensions, a modest growth in the number of volunteer firefighter relief associations providing "split-the-pie" or defined contribution service pensions, and the apparent disappearance of volunteer firefighter relief associations which provide no service pension coverage.

## Membership, 1974-1990

Members	1974	1977	1980	1982	1984	1986	1987	1988	1989	1990
<b>Actives:</b>										
Lump Sum	9,052	10,915	10,834	12,523	12,980	12,859	13,179	13,406	13,720	14,112
Monthly	1,549	1,592	745	812	1,092	1,125	1,305	1,252	1,178	1,174
Combination	--	--	--	--	--	--	--	--	--	--
Defined Contrib.	1,042	1,256	401	1,207	1,449	1,345	1,411	1,520	1,460	1,434
No Benefits	820	558	278	114	63	83	35	20	37	--
<b>Total Actives</b>	<b>12,463</b>	<b>14,321</b>	<b>12,258</b>	<b>14,656</b>	<b>15,584</b>	<b>15,412</b>	<b>15,930</b>	<b>16,198</b>	<b>16,395</b>	<b>16,720</b>
<b>Deferreds:</b>										
Lump Sum		139	170	296	381	451	609	520	558	639
Monthly		117	68	32	39	50	61	67	76	92
Combination		--	--	--	--	--	--	--	--	--
Defined Contrib.		12	3	9	18	29	26	29	36	68
No Benefits		--	8	0	0	0	0	0	0	--
<b>Total Deferreds</b>		<b>268</b>	<b>249</b>	<b>337</b>	<b>438</b>	<b>530</b>	<b>696</b>	<b>616</b>	<b>670</b>	<b>799</b>
<b>Retirees:</b>										
Lump Sum		--	527	363	410	177	124	177	173	165
Monthly		400	249	302	413	444	547	493	483	472
Combination		--	--	--	--	--	--	--	--	--
Defined Contrib.		--	38	3	20	1	1	18	19	23
No Benefits		--	67	0	0	0	0	0	0	--
<b>Total Retirees</b>		<b>400</b>	<b>881</b>	<b>668</b>	<b>843</b>	<b>622</b>	<b>672</b>	<b>688</b>	<b>675</b>	<b>660</b>
<b>Total Members:</b>										
Lump Sum		11,054	11,531	13,182	13,771	13,487	13,912	14,103	16,395	14,916
Monthly		2,109	1,062	1,146	1,544	1,619	1,913	1,812	1,737	1,738
Combination		--	--	--	--	--	--	--	--	--
Defined Contrib.		1,268	442	1,219	1,487	1,375	1,438	1,567	1,515	1,525
No Benefits		558	353	114	63	83	0	20	37	--
<b>Total Members</b>		<b>14,989</b>	<b>13,388</b>	<b>15,661</b>	<b>16,865</b>	<b>16,564</b>	<b>17,263</b>	<b>17,502</b>	<b>19,684</b>	<b>18,179</b>

## Membership, 1991-2000

Members	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Actives:</b>										
Lump Sum	14,049	13,583	14,051	14,187	14,189	13,655	14,022	13,854	12,612	13,244
Monthly	1,200	1,210	1,218	525	464	307	313	324	208	208
Combination	--	--	100	735	726	807	775	746	879	840
Defined Contrib.	1,407	1,594	1,565	1,647	1,721	1,727	1,972	2,033	2,039	2,106
No Benefits	--	--	--	--	--	--	--	--	--	--
<b>Total Actives</b>	<b>16,656</b>	<b>16,387</b>	<b>16,934</b>	<b>17,094</b>	<b>17,100</b>	<b>16,496</b>	<b>17,082</b>	<b>16,957</b>	<b>15,738</b>	<b>16,398</b>
<b>Deferreds:</b>										
Lump Sum	718	841	945	1,074	1,222	1,333	1,538	1,640	1,660	1,801
Monthly	78	88	100	62	57	45	44	56	34	29
Combination	--	--	1	64	80	89	79	90	114	157
Defined Contrib.	39	122	150	171	188	166	508	266	528	666
No Benefits	--	--	--	--	--	--	--	--	--	--
<b>Total Deferreds</b>	<b>835</b>	<b>1,051</b>	<b>1,196</b>	<b>1,371</b>	<b>1,547</b>	<b>1,633</b>	<b>2,169</b>	<b>2,052</b>	<b>2,336</b>	<b>2,653</b>

## Membership, 1991-2000

Members	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Retirees:										
Lump Sum	214	148	173	187	184	90	76	56	36	316
Monthly	494	527	566	312	261	198	207	206	153	164
Combination	--	--	26	271	267	312	349	344	424	413
Defined Contrib.	23	14	8	6	7	5	5	11	17	62
No Benefits	--	--	--	--	--	--	--	--	--	--
Total Retirees	731	689	773	776	719	605	637	617	630	955
Total Members:										
Lump Sum	14,981	14,572	15,169	15,448	15,595	15,078	15,636	15,550	14,308	15,361
Monthly	1,772	1,825	1,884	899	782	550	564	586	395	401
Combination	--	--	127	1,070	1,073	1,208	1,203	1,180	1,417	1,410
Defined Contrib.	1,469	1,730	1,723	1,824	1,916	1,898	2,485	2,310	2,584	2,834
No Benefits	--	--	--	--	--	--	--	--	--	--
Total Members	18,222	18,127	18,903	19,241	19,366	18,734	19,888	19,626	18,704	20,006

## Membership, 2001-2010

Members	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Actives:										
Lump Sum	13,691	13,767	13,638	13,545	13,406	13,943	14,032	14,055	14,134	13,946
Monthly	206	159	188	197	199	183	182	187	187	176
Combination	790	847	898	824	866	861	883	854	836	827
Defined Contrib.	2,182	2,222	2,136	2,201	2,202	2,249	2,300	2,291	2,290	2,238
No Benefits	--	--	--	--	--	--	--	--	--	--
Total Actives	16,869	16,995	16,860	16,767	16,673	17,236	17,397	17,387	17,447	17,187
Deferreds:										
Lump Sum	1,948	2,042	2,041	2,021	2,001	2,135	2,201	2,114	2,271	2,186
Monthly	31	19	30	29	24	31	27	24	33	32
Combination	196	216	243	242	240	215	206	177	237	207
Defined Contrib.	722	738	781	775	762	721	841	464	824	867
No Benefits	--	--	--	--	--	--	--	--	--	--
Total Deferreds	2,897	3,015	3,095	3,067	3,027	3,102	3,275	2,779	3,365	3,292
Retirees:										
Lump Sum	538	507	515	539	473	568	583	583	713	650
Monthly	178	149	188	197	208	208	215	214	222	234
Combination	400	392	439	417	417	412	468	448	466	462
Defined Contrib.	58	64	67	68	87	70	93	104	84	109
No Benefits	--	--	--	--	--	--	--	--	--	--
Total Retirees	1,174	1,112	1,209	1,221	1,185	1,258	1,359	1,349	1,485	1,455
Total Members:										
Lump Sum	16,177	16,316	16,194	16,105	15,880	16,656	16,816	16,752	17,118	16,782
Monthly	415	327	406	423	431	422	424	425	442	442
Combination	1,386	1,455	1,580	1,483	1,523	1,488	1,557	1,479	1,539	1,496
Defined Contrib.	2,962	3,024	2,984	3,044	3,051	3,040	3,234	2,859	3,198	3,214
No Benefits	--	--	--	--	--	--	--	--	--	--
Total Members	20,940	21,122	21,164	21,055	20,885	21,606	22,031	21,515	22,297	21,934

Over the period 1977-2010, there was considerable consistency in the share of the total volunteer firefighter relief association active membership covered by lump sum relief associations (76.22% in 1977 as compared to 81.14% in 2010), but a huge decline in the share of the total volunteer firefighter relief association active membership covered by a monthly benefit relief association (11.11% in 1977 as compared to 1.02% in 2010 without considering combination relief associations or to 5.84% with the inclusion of combination relief associations in 2010), and a rough doubling from 1977 to 2010 in the share of the total volunteer firefighter relief association active membership covered by a defined contribution relief association. There has been a huge growth in the number of deferred volunteer firefighter relief association members over the period 1977-2002, especially between 1996-1997, 2000-2001, 2001-2002, and 2005-2007, and with the biggest growth in the number of deferred members in defined contribution volunteer firefighter relief associations through 2007. The small number of total deferred volunteer firefighter relief association members in 1977 is consistent with the modest attention shown to deferred volunteer firefighter issues in the 1979 recodification of volunteer firefighter relief association laws (*see Laws 1979, Ch. 201*), but the growth in the number of deferred volunteer firefighters correlates with the greater demands for changes in the regulation of deferred volunteer firefighter relief association service pensions. Because retired members in volunteer firefighter relief association providing lump sum service pensions are not always tracked, the retired membership and total membership results are not wholly reliable.



## Liabilities, Assets, Fire State Aid, and Municipal Contributions, 1977-1989

	1977	1980	1982	1984	1986	1987	1988	1989
<b>Accrued Liabilities:</b>								
Lump Sum	14,278,898	29,501,934	40,937,006	52,985,939	59,057,471	60,643,988	68,071,179	78,070,344
Monthly	9,041,863	7,547,661	10,621,672	46,490,469	25,044,975	34,347,349	35,320,800	37,432,078
Combination	--	--	--	--	--	--	--	--
Defined Cont.	1,444,286	1,219,645	2,094,808	4,417,375	5,927,094	6,449,852	8,704,595	9,581,000
Total Accrued Liab.	24,765,047	38,269,240	53,653,486	103,893,783	90,029,540	101,441,189	112,096,574	125,083,422
<b>Assets:</b>								
Lump Sum	15,054,337	29,791,110	40,565,620	51,654,774	61,032,069	62,395,065	69,774,320	80,004,613
Monthly	8,211,852	7,250,784	9,900,259	31,055,648	23,220,944	31,624,291	32,759,213	34,603,998
Combination	--	--	--	--	--	--	--	--
Defined Cont.	1,444,286	1,219,645	2,094,808	4,417,375	5,927,094	6,449,852	8,704,595	9,581,000
Total Assets	24,710,475	38,261,539	52,560,687	87,127,797	90,180,107	100,469,208	111,238,128	124,189,611
<b>Normal Cost:</b>								
Lump Sum	1,470,015	498,536	3,926,658	5,212,341	5,058,195	5,273,113	4,994,302	5,964,120
Monthly	463,651	337,988	515,211	1,503,450	934,147	957,484	859,673	755,699
Combination	--	--	--	--	--	--	--	--
Defined Cont.	151,019	500	8,769	32,776	504,008	539,181	632,067	616,205
Total Normal Cost	2,084,685	837,024	4,450,638	6,748,567	6,496,350	6,769,778	6,486,042	7,336,024
<b>Fire State Aid:</b>								
Lump Sum	1,419,035	2,912,095	3,690,695	4,047,173	4,512,805	4,552,052	4,733,327	4,881,199
Monthly	602,368	581,600	693,007	1,276,954	1,320,346	1,700,437	1,684,158	1,609,808
Combination	--	--	--	--	--	--	--	--
Defined Cont.	143,460	166,375	205,638	334,357	430,992	436,382	550,993	533,395
Total Fire St Aid	2,164,863	3,660,070	4,589,340	5,658,484	6,264,143	6,688,871	6,968,478	7,024,402
<b>Municipal Contribution:</b>								
Lump Sum	357,973	664,700	834,832	1,197,277	1,299,731	1,176,333	1,246,509	1,557,416
Monthly	277,370	164,259	284,988	2,434,045	441,115	751,488	620,926	633,533
Combination	--	--	--	--	--	--	--	--
Defined Cont.	21,569	11,296	26,879	36,797	73,016	102,799	81,074	82,810
Total Municipal Contr.	656,912	840,255	1,146,699	3,668,119	1,813,862	2,030,620	1,948,509	2,273,759

## Liabilities, Assets, Fire State Aid, and Municipal Contributions, 1990-1996

	1990	1991	1992	1993	1994	1995	1996
<b>Accrued Liabilities:</b>							
Lump Sum	86,588,461	92,771,460	94,145,127	102,546,702	107,486,014	113,855,616	119,936,745
Monthly	39,749,215	44,543,835	47,327,072	52,161,236	28,830,599	24,678,407	14,839,392
Combination	--	--	--	2,454,593	27,615,459	28,819,704	38,743,123
Defined Cont.	10,434,995	11,349,299	16,586,370	18,095,687	17,590,749	25,919,681	28,832,841
Total Accrued Liab.	136,772,671	148,664,594	158,058,569	175,258,218	181,522,821	193,273,408	202,352,101
<b>Assets:</b>							
Lump Sum	86,825,688	95,265,007	95,375,295	105,920,681	105,073,259	122,226,938	133,172,234
Monthly	36,463,717	40,225,667	46,002,578	47,765,817	27,362,519	22,953,953	13,813,247
Combination	--	--	--	2,196,505	21,609,884	25,008,817	37,619,149
Defined Cont.	10,434,995	11,349,299	16,586,370	18,095,687	17,590,749	25,919,681	28,832,841
Total Assets	133,724,400	146,839,973	157,964,243	173,978,690	171,636,411	196,109,389	213,437,471
<b>Normal Cost:</b>							
Lump Sum	8,224,582	9,004,068	8,965,833	9,921,518	10,211,254	10,869,651	11,214,171
Monthly	1,355,894	1,575,915	1,600,109	1,625,173	875,806	686,563	346,433
Combination	--	--	--	120,725	939,552	981,755	1,322,315
Defined Cont.	611,359	603,678	919,866	855,696	928,280	1,411,551	2,098,195
Total Normal Cost	10,191,835	11,183,661	11,485,808	12,523,112	12,954,892	13,949,520	14,981,114
<b>Fire State Aid:</b>							
Lump Sum	4,805,462	4,929,212	4,739,140	4,242,494	4,950,397	5,211,582	8,060,595
Monthly	1,620,559	1,667,813	1,801,399	1,548,161	858,681	689,483	512,496
Combination	--	--	--	154,328	934,346	995,205	1,486,949
Defined Cont.	517,789	504,419	774,684	707,024	782,147	1,172,687	1,536,620
Total Fire St Aid	6,943,810	7,101,444	7,315,223	6,652,007	7,525,571	8,068,957	11,596,660
<b>Municipal Contribution:</b>							
Lump Sum	1,842,447	1,858,245	2,281,421	2,613,573	2,691,177	2,803,095	3,276,302
Monthly	739,970	849,286	1,085,807	1,223,934	613,418	724,911	341,465
Combination	--	--	--	37,957	680,895	870,130	1,029,153
Defined Cont.	93,570	99,259	145,182	148,672	146,133	238,864	561,575
Total Municipal Contr.	2,675,987	2,806,790	3,512,410	4,024,136	4,131,623	4,637,000	5,208,495

## Liabilities, Assets, Fire State Aid, and Municipal Contributions, 1997-2003

	1997	1998	1999	2000	2001	2002	2003
<b>Accrued Liabilities:</b>							
Lump Sum	130,642,738	145,966,781	150,761,568	171,611,378	186,795,976	192,569,597	194,794,196
Monthly	17,085,291	20,340,226	14,338,052	15,008,219	16,915,086	12,923,387	17,273,137
Combination	39,644,188	42,204,240	54,526,028	54,173,717	57,952,711	62,876,598	64,965,158
Defined Cont.	38,390,049	44,757,368	50,606,325	47,427,772	47,259,294	43,432,178	52,255,072
Total Accrued Liab.	225,762,266	253,268,615	270,231,973	288,221,086	308,923,067	311,801,760	329,287,563
<b>Assets:</b>							
Lump Sum	153,037,774	172,113,829	179,343,843	183,279,497	179,424,046	165,317,015	191,684,693
Monthly	16,602,144	20,504,773	14,132,149	13,960,203	13,385,232	9,532,988	14,070,080
Combination	40,851,421	43,579,741	59,072,419	55,443,773	51,172,825	47,442,209	58,629,038
Defined Cont.	38,390,049	44,757,368	50,606,325	47,427,772	47,259,294	43,432,178	52,255,072
Total Assets	248,881,388	280,955,711	303,154,736	300,111,245	291,241,397	265,724,390	316,638,883
<b>Normal Cost:</b>							
Lump Sum	12,219,929	13,311,487	13,514,162	15,189,092	16,483,865	16,892,504	17,049,848
Monthly	358,792	470,770	284,860	312,019	340,067	261,434	306,217
Combination	1,269,951	1,307,322	1,515,019	1,662,901	1,674,601	1,844,560	1,949,341
Defined Cont.	2,684,271	2,553,138	2,640,890	2,753,206	3,004,038	3,288,331	3,759,743
Total Normal Cost	16,532,943	17,642,717	17,954,931	19,917,218	21,502,571	22,286,829	23,065,149
<b>Fire State Aid:</b>							
Lump Sum	7,140,394	7,731,336	7,391,107	7,937,916	8,644,841	9,378,276	11,297,078
Monthly	554,859	643,057	379,802	395,685	426,640	418,469	611,511
Combination	1,434,117	1,386,971	1,765,592	1,753,859	1,789,869	2,148,174	2,656,437
Defined Cont.	1,855,313	2,038,308	2,091,608	2,212,814	2,385,099	2,639,147	3,206,483
Total Fire St Aid	10,984,683	11,799,672	11,628,109	12,300,274	13,246,449	14,584,066	17,771,509
<b>Municipal Contribution:</b>							
Lump Sum	2,680,940	2,442,795	2,360,961	2,375,285	2,732,044	4,202,331	4,806,194
Monthly	305,466	353,220	273,287	279,476	309,149	176,255	307,461
Combination	1,010,042	1,029,535	1,113,773	1,069,335	1,106,226	1,351,792	1,553,591
Defined Cont.	828,958	514,830	549,282	540,392	618,939	649,184	553,260
Total Municipal Contr.	4,825,406	4,340,380	4,297,303	4,264,488	4,766,358	6,379,562	7,220,506

## Liabilities, Assets, Fire State Aid, and Municipal Contributions, 2004-2010

	2004	2005	2006	2007	2008	2009	2010
<b>Accrued Liabilities:</b>							
Lump Sum	203,853,989	213,118,264	231,926,073	251,981,586	263,361,245	260,646,854	259,432,719
Monthly	17,553,960	17,955,395	19,099,696	20,339,123	21,063,656	21,560,679	22,172,895
Combination	66,391,848	71,303,719	72,001,594	77,431,237	79,378,310	80,249,377	82,040,956
Defined Cont.	59,427,576	63,913,404	72,770,246	79,281,167	60,578,401	73,472,630	81,180,754
Total Accrued Liab.	347,227,373	366,290,782	395,797,609	429,033,113	424,381,612	435,929,540	444,827,324
<b>Assets:</b>							
Lump Sum	212,747,877	225,090,170	259,293,564	278,475,236	215,355,660	243,989,115	264,075,431
Monthly	15,517,757	16,703,427	18,847,441	20,332,280	16,198,872	21,560,679	20,722,926
Combination	63,251,682	68,547,108	71,325,838	78,416,917	56,178,110	80,249,377	73,805,912
Defined Cont.	59,427,576	63,913,404	72,770,246	79,281,167	60,578,401	73,472,630	81,180,754
Total Assets	350,944,892	374,254,109	422,237,089	456,505,600	348,311,043	402,729,534	439,785,023
<b>Normal Cost:</b>							
Lump Sum	17,789,289	18,575,701	20,032,670	21,807,598	22,809,822	22,469,022	22,539,626
Monthly	328,271	363,133	357,569	369,740	379,526	376,156	375,201
Combination	1,868,049	1,966,756	1,865,294	2,280,932	2,321,993	2,227,449	2,231,956
Defined Cont.	4,644,018	4,655,090	5,068,303	4,785,144	4,513,026	4,057,170	4,317,198
Total Normal Cost	24,629,627	25,560,680	27,323,836	29,243,414	30,024,367	29,129,797	29,463,981
<b>Fire State Aid:</b>							
Lump Sum	14,484,884	14,064,593	15,456,748	13,812,683	12,031,502	10,108,885	11,458,340
Monthly	800,985	756,976	806,357	700,644	598,168	514,647	535,827
Combination	3,370,816	3,260,210	3,186,403	2,872,382	2,414,573	2,045,048	2,099,338
Defined Cont.	4,111,912	3,993,034	4,228,956	3,736,552	3,246,341	2,708,779	2,984,058
Total Fire St Aid	22,768,597	22,074,813	23,678,464	21,122,261	18,290,584	15,377,359	17,077,564
<b>Municipal Contribution:</b>							
Lump Sum	5,562,093	4,140,141	4,036,956	4,063,363	4,030,479	4,513,978	8,387,556
Monthly	386,110	511,574	488,211	502,135	616,359	585,188	626,372
Combination	1,331,760	1,239,171	1,238,386	1,190,737	1,382,615	1,394,748	2,851,507
Defined Cont.	532,106	662,056	839,347	1,048,592	1,266,685	1,348,391	1,291,483
Total Municipal Contr.	7,812,069	6,552,942	6,602,900	6,804,827	7,296,138	7,842,305	13,156,918

Over the period 1977-2010, there has been an 18-fold increase in volunteer firefighter relief association accrued liabilities. For defined contribution volunteer firefighter relief associations, the relief association accrued liability by definition is always equal to the relief association assets.

There has been a general growth in volunteer firefighter relief association assets over the 30-year period, until 2000-2001, when there was a general decline in the size of volunteer firefighter relief association assets during a recession and there was a resumption of growth after 2002 until 2007, with a significant decline in 2008, followed by growth in 2009 and 2010.

There also has been a significant increase in the normal cost of volunteer firefighter relief associations over the period 1977 to 2009, especially in lump sum volunteer firefighter relief associations with more than a 17-fold increase. For defined contribution volunteer firefighter relief associations, the indicated normal cost figure is the sum of the relief association's fire state aid and municipal contributions.

Fire state aid for volunteer firefighter relief associations has grown considerably over the period 1977-2006, but has declined in 2007, 2008, and 2009 before beginning to rebound in 2010. The average amount of fire state aid per active member in 2010 was \$993.63, with the average amount of fire state aid per active member was \$821.62 for lump sum volunteer firefighter relief associations, \$3,044.47 for monthly benefit volunteer firefighter relief associations, \$2,538.50 for combination volunteer firefighter relief associations, and \$1,333.36 for defined contribution volunteer firefighter relief associations. The average per active member fire state aid amounts in 1977 were \$378 for monthly benefit volunteer firefighter relief associations, \$130.01 for lump sum volunteer firefighter relief associations, and \$114 for defined contribution volunteer firefighter relief associations.

Total municipal contributions to volunteer firefighter relief associations also grew at over the period 1977-2010. The average amount of municipal contribution per active firefighter in 2010 varies, following essentially the same pattern as with the average amount of fire state aid per active member, with combination volunteer firefighter relief associations receiving an average per active member of \$765.52 in municipal contributions, with monthly benefit volunteer firefighter relief associations receiving an average per active member of \$3,558.93 in municipal contributions, with lump sum volunteer firefighter relief associations receiving an average per active member of \$601.43 in municipal contributions, and with defined contribution volunteer firefighter relief associations receiving an average per active member of \$602.50 in municipal contributions. The average per active member municipal contribution amounts in 1977 were \$32.80 for lump sum volunteer firefighter relief associations, \$174.23 for monthly benefit volunteer firefighter relief associations, and \$17.17 for defined contribution volunteer firefighter relief associations.

## Background Information on the Elements of the Fire State Aid Program

1. Establishment. The fire state aid program was initially established in 1885 (Laws 1885, Ch. 187). The program is currently codified in Minnesota Statutes, Sections 69.011 through 69.051.

The 1885 fire state aid program dedicated one half of the premium taxes (essentially 1% of premiums) collected by the state from fire insurance companies as fire state aid. The allocation of the fire state aid was on the basis of the amount of premiums received by the fire insurance companies for each city, town, village, or other municipal corporation that had previously filed a certificate of the existence of an organized fire department that had been in existence for at least one year and that had at least one fire engine, hook and ladder truck, or hose cart. The municipal certification, prepared by the municipal recorder or clerk, was required annually, no later than October 31, and was to include information on the number of fire engines possessed by the fire department, the number of hook and ladder trucks and hose carts actually used by the fire department, the system of water supply used by the fire department, and any additional information the insurance commissioner required. Fire insurance companies were required, by the subsequent July 1, to complete an insurance commissioner form that listed the various towns entitled to receive fire state aid by reporting the amount of the prior year's annual fire insurance premiums received in each of the named towns, cities, villages or other municipal corporations.

The fire state aid was initially intended to assist municipal and other fire departments in obtaining firefighting equipment and in providing firefighter pension coverage. The 1885 fire state aid was payable to the city, town, village, or municipal corporation treasurer and was required to be placed in a special municipal fund and expended, first, for the support and relief of firefighters who were injured or disabled in the line of duty and, second, for equipping and maintaining the fire department. In 1903 (Laws 1903, Chapter 20), the fire state aid program was revised. The principal revisions were an increase in the amount of the fire insurance premium tax that was dedicated to the program from one half of the premium taxes collected to the total amount, the inclusion of the widow and orphans of firefighters as a permissible fire state aid expenditure, the expansion of fire state aid expenditure requirements to include firefighters who became sick or who were injured or disabled other than while on duty, the addition of a requirement that a municipality's fire state aid be paid directly to the relief association treasurer if there is an incorporated fire department relief association in the municipality that was organized with municipal consent, and the addition of a requirement that the public examiner examines the books of the relief association periodically. The fire state aid program was also clarified by the 1903 legislation as applicable to partially paid and partially volunteer fire departments as well as to organized fire departments. In 1943 (Laws 1943, Chapter 328), for municipalities and nonprofit firefighting corporations with fire pension coverage, the fire state aid was dedicated to fire pension funding.

Fire state aid is payable to municipalities and fire departments with paid or volunteer firefighters or with a combination of paid and volunteer firefighters.

2. Source of Fire State Aid Revenue. Since 1995, the fire state aid program has been primarily funded from a premium tax on various types of minimum coverage, primarily fire insurance. For the fire state aid program, the dedicated revenue is the greater of either 107% of the fire, lightning, sprinkler leakage, and extended coverage insurance premium taxes collected or an amount equal to 1% of the fire, lightning, sprinkler leakage, and extended coverage premiums written by town and farmers' mutual insurance companies and by mutual property and casualty companies with assets not exceeding \$5 million and to 2% of the fire, lightning, sprinkler leakage, and extended coverage premiums written by all other fire risk insurers. The fire state aid program includes modifications in 1969, 1988, 1991, 1995, and 1996.

The 1969 Legislature (Laws 1969, Ch. 1001) extended the premium tax dedicated to the fire state aid program beyond fire insurance premium taxes paid by domestic mutual insurance companies to include township and farmers' insurance companies and to include lightning and sprinkler leakage insurance coverage, but excluded automobile and ocean marine fire business. Nonprofit firefighting corporations that have a relief association or a retirement plan were also included in the fire state aid allocation. The fire state aid apportionment method also changed from a system based on the geographical location of the insured property to a system with the geographical location of the insured property to a system with one half based on the relative population size, based on the last federal census, and one half based on the relative property value.

In 1988 (Laws 1988, Ch. 719, Art. 2, Secs. 1-5), the Legislature began altering the fire insurance premium tax base, the fire insurance premium tax rates, and the relationship between tax revenues and fire state aid. In 1988, the Legislature created a uniform premium tax base for all insurance companies but created differential tax rates.

In 1991 (Laws 1991, Ch. 291, Art. 13), the Legislature reversed the prior (1988) policy of insulating fire state aid recipients from changes in tax collections and the tax amounts dedicated to the program were limited to the amount generated by the actual fire insurance premium tax rates in effect, which for mutual insurance companies under \$1.6 billion in assets as of December 1, 1989, is less than 2% on insurance premiums reported for fire, lightning, sprinkler damage, and extended coverage.

In 1995 (Laws 1995, Ch. 264, Art. 9), the various insurance premium taxes were increased and the revenue available for the fire state aid program was also increased. The 1995 Legislature increased the insurance premium tax rates for town and farmers' mutual insurance companies and for mutual property casualty companies with assets no greater than \$1.6 billion. The pre-1995 insurance premium tax rate for these mutual insurance companies was .05% of the amount of all premiums. The rate was increased by the 1995 Legislature to 2% of all life insurance premiums, 1% of all other insurance premiums for all town and farmers' mutual insurance companies and for the smaller mutual property and casualty companies (assets of no more than \$5 million) and 1.26% of all other insurance premiums for the larger mutual property and casualty companies (assets over \$5 million and no greater than \$1.6 billion). The 1995 Legislature increased the insurance premium tax revenue dedicated to the fire state aid program and the police state aid program. For the fire state aid program, the dedicated revenue was increased from the amount of insurance premium taxes collected on fire, lightning, sprinkler leakage, and extended coverage insurance, to the greater amount of either 107% of the fire, lightning, sprinkler leakage, and extended coverage insurance premium taxes collected or an amount equal to 1% of the fire, lightning, sprinkler leakage, and extended coverage premiums written by town and farmers' mutual insurance companies and by mutual property and casualty companies with assets not exceeding \$5 million and to 2% of the fire, lightning, sprinkler leakage, and extended coverage premiums written by all other fire risk insurers.

In 1996 (Laws 1996, Ch. 438, Art. 4, Secs. 2 & 9), the Legislature decided to implement a minimum fire state aid floor for volunteer firefighter relief associations that currently receive a disproportionately small amount of fire state aid on a per active member (1993 count) basis. The fire state aid floor is funded from sources other than the insurance premium tax structure. Thirty percent of any unallocated amortization or supplemental amortization state aid (caused by payment of a 13th check by the Minneapolis Police or Minneapolis Fire Relief Associations, or by a police or paid fire relief association or consolidation account reaching full funding) is to be used to establish a minimum fire state aid amount for volunteer fire relief associations. The aid is to be allocated to the relief associations so that all municipalities or fire departments with volunteer firefighter relief associations receive in total at least a minimum fire state aid amount per 1993 active volunteer firefighter, based on a maximum of 30 firefighters. The amount of the minimum fire state aid is a function of the amount of the funding available.

A minimum fire state aid floor, funded from a portion of local police and paid fire relief association amortization aid or supplemental amortization aid that has been freed up by fully funded local police and paid fire pension plans, targeted at volunteer firefighter relief associations that would otherwise receive a disproportionately small amount of fire state aid on a per-active-member basis, was established in 1996 and is added to the initial fire state aid amount.

Total fire state aid, including the minimum fire state aid floor since 1996, has increased over time, as follows:

Year	Total Fire State Aid	Annual Percentage Increase	Aid to Volunteer Firefighters	Annual Percentage Increase	Aid to Paid Firefighters	Annual Percentage Increase
1988	\$10,840,404	--	\$7,528,581	--	\$3,311,823	--
1989	10,923,145	0.76%	7,601,263	0.96%	3,321,882	0.30%
1990	10,872,111	(0.47)	7,508,647	(1.22)	3,363,464	1.25
1991	10,491,446	(3.50)	7,650,439	1.89	2,841,532	(15.52)
1992	10,530,014	0.37	7,716,007	0.85	2,814,007	(0.97)
1993	9,997,957	(5.05)	7,349,215	(4.75)	2,648,742	(5.88)
1994	10,665,543	6.68	7,869,847	7.08	2,795,696	5.55
1995	11,336,631	6.29	8,405,060	6.80	2,931,571	4.86
1996	14,797,126	30.52	11,006,256	30.95	3,790,870	29.31
1997	15,148,160	2.37	11,476,519	4.27	3,671,641	(3.15)
1998	16,088,768	6.21	11,976,222	4.35	4,112,546	12.01
1999	16,682,376	3.69	12,419,342	3.70	4,263,034	3.66
2000	17,265,502	7.31	12,879,980	3.71	4,385,522	2.87

Year	Total Fire State Aid	Annual Percentage Increase	Aid to Volunteer Firefighters	Annual Percentage Increase	Aid to Paid Firefighters	Annual Percentage Increase
2001	17,964,376	4.05	13,595,203	5.55	4,369,173	(0.37)
2002	19,912,608	10.84	14,930,886	9.82	4,981,722	14.02
2003	24,343,081	22.25	18,185,901	21.80	6,157,180	23.60
2004	31,206,380	28.19	23,331,575	28.29	7,874,805	27.90
2005	30,461,385	(2.39)	22,746,982	(2.51)	7,714,403	(2.04)
2006	32,357,893	6.22	24,255,625	6.63	8,102,268	5.03
2007	28,299,538	(12.64)	20,972,309	(13.63)	7,327,229	(9.54)
2008	24,400,838	(13.77)	17,659,980	(15.79)	6,740,858	(8.01)
2009	20,136,318	(17.47)	14,833,602	(16.01)	5,302,716	(21.33)
2010	21,202,016	5.29	15,680,158	5.71	5,521,858	4.13
2011	22,851,092	7.78	17,697,937	12.87	5,153,155	(6.68)
2012	22,862,506	0.05	17,604,169	(0.53)	5,258,337	2.04

3. Qualification Requirements for Receipt of Fire State Aid. Before 1969, fire state aid was provided to municipalities that had an organized fire department upon the filing of a certificate by the municipal clerk stating that the fire department exists, stating that the fire department does not employ any minor under age 18, and indicating the fire department's water supply, the number for fire department organized companies, the number of fire department engines and trucks, the number of hose carts in use, and the number of hose feet in use.

In 1969, the qualifications for fire state aid were increased. Municipalities and independent nonprofit firefighting corporations using paid, volunteer, or a combination of paid and volunteer firefighters can qualify to receive state aid. To determine which municipalities and independent nonprofit firefighting corporations qualify for the aid, the municipal clerk or the secretary of the nonprofit firefighting corporation, if appropriate, and fire chief certify by March 15 of each year to the Department of Revenue that a municipal fire department or nonprofit firefighting corporation exists which meets minimum required standards for the aid. These standards include a requirement that the fire department or nonprofit firefighting corporation be in existence at least one year, that it have at least ten paid or volunteer firefighters, that regularly scheduled meetings are held for training and equipment maintenance, and that the department has at least one fire truck and other necessary firefighting equipment.

4. Allocation of Fire State Aid. Initially, fire state aid was allocated to the various municipalities and independent nonprofit firefighting corporations based on the amount of fire insurance written in that firetown, as identified by the various insurance agents and insurance companies. The allocation method eventually proved problematic, in part because of errors made by insurance company agents in identifying applicable firetowns.

In 1969, the allocation method was shifted to a combination of population ranking and property value ranking. One half of the fire state aid was distributed in proportion to the population according to the last federal census and one half was distributed in proportion to property market values, excluding mineral values but including tax-exempt property. This allocation method reflected an assumption that local property values and population relative to the whole state reflect the relative need for fire protection services.

In 1996, for municipalities and independent nonprofit firefighting corporations with wholly volunteer fire departments, and additional allocation of aid is made to bring the municipal or corporation total up to the minimum volunteer firefighter fire state aid amount multiplied by the total number of active volunteer firefighters to a maximum of 30 firefighters.

5. Permissible Use of Fire State Aid. 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.

## Background Information on Police State Aid – A Brief Overview

Cities and other local units of government receive considerable state aid to help these units of government meet their public pension obligations. There are four different aids specifically for police pension purposes, although not all local police and fire pension plans and consolidation accounts qualify for all four. The four aids are state police aid, amortization aid, supplemental amortization aid, and additional amortization aid.

1. Police State Aid. The police state aid program is the primary police aid program and is funded principally from a portion of the automobile insurance premium taxes collected by the State of Minnesota. The aid is distributed on a per-officer basis, and in recent years has exceeded \$6,000 per police officer. Excess police state aid is used to finance the additional amortization aid program. Excess police state aid occurs when the police state aid to a given government unit is in excess of the amount needed to fully cover the employer contribution requirement for that employer's police officers.

In the last few years, the contribution requirements for Public Employees Police and Fire Plan (PERA-P&F) have increased considerably, due in part to increased utilization of disability benefits under that plan and increased life expectancies. In 2006, the employee contribution rate was 10.5% of pay, but has been increased to 14.1% of pay in 2009 and thereafter. This will increase the dollar amounts needed to meet the PERA P&F employer contribution amounts and will result in less excess police state aid.

2. Amortization State Aid. The local police and paid fire relief association amortization state aid was established in 1980 (Laws 1980, Ch. 607, Art. XV, Sec. 5). In that year local police and salaried firefighter relief associations were closed to new members, with all new hires were redirected to PERA-P&F. Since the local relief associations would eventually terminate due to closing the plans to new members, there was a need to address funding and bring closure to their actuarial accrued liabilities. The plans were required in 1980 to amortize their unfunded actuarial accrued liabilities by the year 2010. As additional state assistance, the amortization aid program was established. The aid was funded from the general fund and was designed to cover a portion of the annual amortization requirement, given the unfunded actuarial accrued liabilities that existed as of the 1978 actuarial valuation of the fund. The amortization aid to the relief association equaled the difference between the full amortization requirement on the relief association's 1978 unfunded actuarial accrued liability and the interest only requirement on the same unfunded actuarial accrued liability. The aid was meant to be a fixed amount, leaving local governments responsible for any increases in unfunded actuarial accrued liabilities due to future poor investment returns, high expenses, benefit improvements, mortality losses, or any other cause that acts to increase unfunded actuarial accrued liabilities. The intent was to provide some state assistance while still providing incentives for prudent local management of the assets of the fund.

The amortization aid program originally distributed over \$6 million annually, but amounts have declined considerably over time, as various local police and paid firefighter retirement funds no longer qualified for the aid. The aid to a given recipient terminates when the pension fund becomes fully funded. By 2007, the total amortization aid paid to all eligible police pension funds had declined to slightly over \$200,000. If a relief association or consolidation account becomes fully funded, amortization aid terminates.

3. Supplemental Amortization State Aid. The supplemental amortization aid program commenced in 1984 as a way to provide some additional aid to organizations which qualify for amortization aid. The total amortization aid for distribution was originally \$1 million annually. If an organization loses eligibility for amortization aid, this aid also terminates.
4. Additional Amortization State Aid. The additional amortization aid program is funded from the state policy aid program, using half of any excess police state aid. The additional amortization aid program was created in 1995 and aid was first paid in 1997. When it was enacted, for a local police or paid fire relief association to qualify for additional amortization aid the local relief association had to comply with the 1969 Police and Paid Fire Relief Association Financing Guidelines Act, Minnesota Statutes, Section 69.77, and had to have an unfunded actuarial accrued liability in the most recent actuarial valuation report. Additional amortization state aid was allocated in proportion to the relationship that each local police or paid fire relief association or local police or paid fire consolidation account's unfunded actuarial accrued liability bears to the total unfunded actuarial accrued liability of all eligible relief associations or consolidation accounts. Additional amortization state aid totaled \$3.2 million in 1997, increased to \$8.67 million in 2001, and was not paid in 2009, 2010, and 2011.

The eligible organizations for additional amortization aid was revised in 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 15-18) and 2000 (Laws 2000, Ch. 461, Art. 9, Sec. 1). Under these revised procedures, beginning in 2000 64.5% of the additional amortization aid was allocated to municipalities with relief associations consolidating with PERA-P&F and which had to make additional contributions to PERA because of the relatively low funding condition of the consolidation accounts; 34.2% is allocated to Minneapolis to help cover amortization requirements for its two relief associations; and 1.3% is allocated to Virginia to help amortize the Virginia Fire Department Relief Association. If there was no unfunded liability in the Minneapolis relief associations or Virginia fire, the aid that would have gone to those organizations is reallocated to the St. Paul Teachers Retirement Fund Association (SPTRFA), and to the Teachers Retirement Association (TRA) on behalf of the Minneapolis Teachers Retirement Fund Association (MTRFA) which consolidated into TRA, and to provide additional financing for the minimum floor volunteer fire aid. As excess police state aid has decreased by virtue of changes in the automobile casualty insurance premium tax collections, increasing numbers of police officers employed, increasing police salaries, and increasing PERA-P&F retirement plan employer contribution rates, additional amortization state aid has not been paid.

# 2012 Minnesota Statutes

## 297I.05 TAX IMPOSED.

**Subd. 11. Retaliatory provisions.** (a) If any other state or country imposes any taxes, fines, deposits, penalties, licenses, or fees upon any insurance companies of this state and their agents doing business in another state or country that are in addition to or in excess of those imposed by the laws of this state upon foreign insurance companies and their agents doing business in this state, the same taxes, fines, deposits, penalties, licenses, and fees are imposed upon every similar insurance company of that state or country and their agents doing or applying to do business in this state.

(b) If any conditions precedent to the right to do business in any other state or country are imposed by the laws of that state or country, beyond those imposed upon foreign companies by the laws of this state, the same conditions precedent are imposed upon every similar insurance company of that state or country and their agents doing or applying to do business in that state.

(c) For purposes of this subdivision, "taxes, fines, deposits, penalties, licenses, or fees" means an amount of money that is deposited in the general revenue fund of the state or other similar fund in another state or country and is not dedicated to a special purpose or use or money deposited in the general revenue fund of the state or other similar fund in another state or country and appropriated to the commissioner of commerce or insurance for the operation of the Department of Commerce or other similar agency with jurisdiction over insurance. Taxes, fines, deposits, penalties, licenses, or fees do not include:

(1) special purpose obligations or assessments imposed in connection with particular kinds of insurance, including but not limited to assessments imposed in connection with residual market mechanisms; or

(2) assessments made by the insurance guaranty association, life and health guarantee association, or similar association.

(d) This subdivision applies to taxes imposed under subdivisions 1, 3, 4, 6, and 12, paragraph (a), clauses (1) and (2).

(e) This subdivision does not apply to insurance companies organized or domiciled in a state or country, the laws of which do not impose retaliatory taxes, fines, deposits, penalties, licenses, or fees or which grant, on a reciprocal basis, exemptions from retaliatory taxes, fines, deposits, penalties, licenses, or fees to insurance companies domiciled in this state.



1.1 ..... moves to amend S.F. No. 935; H.F. No. 857, as follows:

1.2 Page 1, line 12, after "account" insert "each November 1"

1.3 Page 1, delete lines 13 to 25 and insert:

1.4 "(1) 17.342 percent as supplemental state pension funding paid to the executive  
1.5 director of the Public Employees Retirement Association for deposit in the public  
1.6 employees police and fire retirement fund established by section 353.65, subdivision 1;

1.7 (2) 8.658 percent to municipalities employing firefighters with retirement coverage  
1.8 by the public employees police and fire retirement plan, allocated in proportion to  
1.9 the relationship that the preceding June 30 number of firefighters employed by each  
1.10 municipality who have public employees police and fire retirement plan coverage bears  
1.11 to the total preceding June 30 number of municipal firefighters covered by the public  
1.12 employees police and fire retirement plan; and

1.13 (3) 74 percent for municipalities other than the municipalities receiving a  
1.14 disbursement under clause (2) which qualified to receive fire state aid in that calendar year,  
1.15 allocated in proportion to the most recent amount of fire state aid paid under subdivision 7  
1.16 for the municipality bears to the most recent total fire state aid for all municipalities other  
1.17 than the municipalities receiving a disbursement under clause (2) paid under subdivision  
1.18 7, with the allocated amount for fire departments participating in the voluntary statewide  
1.19 lump-sum volunteer firefighter retirement plan paid to the executive director of the Public  
1.20 Employees Retirement Association for deposit in the fund established by section 353G.02,  
1.21 subdivision 3, and credited to the respective account and with the balance paid to the  
1.22 treasurer of each municipality for transmittal within 30 days of receipt to the treasurer of  
1.23 the applicable volunteer firefighter relief association for deposit in its special fund."

1.24 Page 2, line 3, after "account" insert "each November 1"

1.25 Page 2, after line 11, insert:

1.26 "(c) On or before October 15, annually, the executive director of the Public  
1.27 Employees Retirement Association shall report to the commissioner the following:

1.28 (1) the municipalities which employ firefighters with retirement coverage by the  
1.29 public employees police and fire retirement plan;

1.30 (2) the number of firefighters with public employees police and fire retirement plan  
1.31 employed by each municipality;

1.32 (3) the fire departments covered by the voluntary statewide lump-sum volunteer  
1.33 firefighter retirement plan; and

1.34 (4) any other information requested by the commissioner to administer the surcharge  
1.35 fire pension aid account."

1.1 ..... moves to amend S.F. No. 935; H.F. No. 857, as follows:

1.2 Page 2, after line 31, insert:

1.3 "Subd. 4. **Surcharge termination date.** The surcharge imposed under subdivision

1.4 1 terminates on December 31, ....."

1.1 ..... moves to amend S.F. No. 935; H.F. No. 857, as follows:

1.2 Page 2, after line 31, insert:

1.3 "Subd. 4. **Surcharge termination.** The surcharge imposed under subdivision  
1.4 1 ends on the December 31 next following the actuarial valuation date on which the  
1.5 assets of the retirement plan on a market value equals or exceeds 90 percent of the total  
1.6 actuarial accrued liabilities of the retirement plan as disclosed in an actuarial valuation  
1.7 prepared under section 356.215 and the Standards for Actuarial Work promulgated by the  
1.8 Legislative Commission on Pensions and Retirement, for the State Patrol retirement plan  
1.9 or the public employees police and fire retirement plan, whichever occurs last."

SENATE  
STATE OF MINNESOTA  
EIGHTY-EIGHTH LEGISLATURE

S.F. No. 935

(SENATE AUTHORS: PAPPAS, Rest, Skoe, Rosen and Metzen)

DATE	D-PG	OFFICIAL STATUS
02/28/2013		Introduction and first reading Referred to Commerce

1.1 A bill for an act  
 1.2 relating to public pensions; imposing an insurance surcharge; modifying pension  
 1.3 aids; providing pension funding; amending Minnesota Statutes 2012, section  
 1.4 69.021, by adding a subdivision; proposing coding for new law in Minnesota  
 1.5 Statutes, chapter 297I.

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

1.7 Section 1. Minnesota Statutes 2012, section 69.021, is amended by adding a  
 1.8 subdivision to read:

1.9 Subd. 12. Surcharge aid accounts. (a) A surcharge fire pension aid account is  
 1.10 established in the general fund to receive amounts as provided under section 297I.07,  
 1.11 subdivision 3, clause (1). The commissioner shall administer the account and allocate  
 1.12 money in the account as follows:

1.13 (1) the commissioner shall determine the increase in fire state aid for each recipient  
 1.14 under subdivision 7 if the money in the account was added to the entitlement amount of  
 1.15 fire state aid determined under subdivision 5, paragraph (a), for the fiscal year, and shall  
 1.16 pay the resulting increase in fire state aid for the fire departments that are members of  
 1.17 the voluntary statewide lump-sum volunteer firefighter retirement plan to the executive  
 1.18 director of the Public Employees Retirement Association for deposit in the applicable  
 1.19 accounts in the voluntary statewide lump-sum volunteer firefighter retirement fund; and

1.20 (2) the balance not paid under clause (1) must be paid as follows:

1.21 (i) one-third as additional fire state aid under subdivision 7 to municipalities and fire  
 1.22 departments other than those for which aid was paid under clause (1); and

1.23 (ii) two-thirds to the executive director of the Public Employees Retirement  
 1.24 Association for deposit as a supplemental state pension funding aid in the public  
 1.25 employees police and fire retirement fund established by section 353.65, subdivision 1.

2.1 (b) A surcharge police pension aid account is established in the general fund  
 2.2 to receive amounts as provided by section 297L.07, subdivision 3, clause (2). The  
 2.3 commissioner shall administer the account and allocate money in the account as follows:

2.4 (1) one-third to be distributed as police state aid as provided under subdivision 7a; and

2.5 (2) two-thirds to be apportioned, on the basis of the number of active police officers  
 2.6 certified for police state aid receipt under section 69.011, subdivisions 2 and 2b, between:

2.7 (i) the executive director of the Public Employees Retirement Association for  
 2.8 deposit as a supplemental state pension funding aid in the public employees police and fire  
 2.9 retirement fund established by section 353.65, subdivision 1; and

2.10 (ii) the executive director of the Minnesota State Retirement System for deposit as a  
 2.11 supplemental state pension funding aid in the state patrol retirement fund.

2.12 **EFFECTIVE DATE.** This section is effective beginning in the fiscal year beginning  
 2.13 July 1, 2013.

2.14 Sec. 2. **[297L.07] SURCHARGE ON HOMEOWNERS AND AUTO POLICIES.**

2.15 Subdivision 1. **Surcharge on policies.** (a) Each licensed insurer engaged in writing  
 2.16 insurance shall collect a surcharge equal to \$5 per calendar year for each policy issued  
 2.17 or renewed during that calendar year for:

2.18 (1) homeowners insurance authorized in section 60A.06, subdivision 1, clause  
 2.19 (1)(c); and

2.20 (2) automobile insurance as defined in section 65B.14, subdivision 2.

2.21 (b) The surcharge amount collected under this subdivision must not be considered  
 2.22 premium for any other purpose. The surcharge amount must be separately stated on either a  
 2.23 billing or policy declaration or document containing similar information sent to an insured.

2.24 Subd. 2. **Collection and administration.** The commissioner shall administer the  
 2.25 surcharge imposed by this section in the same manner as the taxes imposed by this chapter.

2.26 Subd. 3. **Deposit of revenues.** The commissioner shall deposit revenues from the  
 2.27 surcharge under this section as follows:

2.28 (1) amounts from the surcharge imposed under subdivision 1, paragraph (a), clause  
 2.29 (1), in a surcharge fire pension aid account in the general fund; and

2.30 (2) amounts from the surcharge imposed under subdivision 1, paragraph (a), clause  
 2.31 (2), in a surcharge police pension aid account in the general fund.

2.32 **EFFECTIVE DATE.** This section is effective for policies issued after June 30, 2013.