



SF xxxx; HF 2395 (Huot): Firefighter Relief Associations; Increasing the Maximum Lump-Sum Pension Amount for Each Year of Service

Prepared by: *Aleena Wilson, Analyst*
Susan Lenczewski

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Introduction

- Affected Plans:** Defined benefit firefighter relief associations that pay lump sum pensions
- Laws Amended:** [Minnesota Statutes, Section 424A.02, subdivision 3](#)
- Brief Description:** The bill increases the maximum benefit level permitted in calculating lump sum pension amounts for firefighters covered by defined benefit relief associations that pay lump sum pensions, from \$15,000 to \$20,000.

Background

The retirement plans administered by firefighter relief associations may be either a defined benefit plan or a defined contribution plan. A defined benefit relief association may pay either a lump sum pension or a monthly annuity or may offer both. Most defined benefit relief associations are lump sum plans, which means that they pay retirement benefits as a one-time lump sum payment to members upon retirement. The lump sum benefit is equal to years of service multiplied by the benefit level in effect, under the relief association's bylaws, at the time of the member's separation from active service.

Minnesota Statutes, section 424A.02, subdivision 3, paragraph (a), clause (2), states that the maximum lump sum pension amount per year of service is the lesser of \$15,000 or the maximum lump-sum service pension amount that could be adopted by the relief association as a bylaws amendment under Section 424A.092, subdivision 6, paragraph (e).

Making changes to a relief association's benefit level

A relief association may amend its bylaws to increase the benefit level (also referred to as the "service pension amount") only if the board of trustees of the relief association prepares an estimate of the expected change to the accrued liability and the overall funding balance of the special fund resulting from the amendment. See [Minn. Stat. § 424A.092, subd. 6, para. \(a\)](#).

Under section 424A.092, subdivision 6, paragraph (e), the estimate must demonstrate that increasing the maximum lump-sum pension amount will not cause:

- (1) the amount of the resulting increase in the accrued liability of the special fund to exceed 90 percent of the amount of the surplus over full funding reported in the prior year;
- (2) an increase in the minimum obligation of the municipality for the upcoming calendar year; and
- (3) the special fund of the relief association to have a deficit from full funding on the day immediately following the adoption of the amendment.

After reviewing the estimate, the bylaws amendment needs to be officially approved during a meeting of the board of trustees. See [Considerations When Making Benefit Changes, STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR, 2 \(Revised Nov. 2024\)](#). Once there is board approval, the municipality must then ratify the board-approved amendment increasing the maximum lump-sum pension amount. The city council or town board can choose to ratify the benefit level change or choose not to ratify the change.

If the bylaws containing the benefit level change are ratified by the municipality, the benefit level is guaranteed by the municipality, and the municipality assumes responsibility for ensuring the special fund has sufficient assets to cover approved benefit levels.

Current benefit levels

For a lump-sum plan, the benefit level is the lump-sum amount determined by the relief association. Benefit levels vary greatly among relief associations in Minnesota. Typically, relief associations with more assets and larger fire state aid payments are able to offer higher benefits to their members. As reported in [Financial and Investment Report of Fire Relief Associations, STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR, 28-29 \(for the year ended December 31, 2023\)](#) (OSA Report), which is the most recent year for which this data is available:

- The average [mean] benefit level for lump-sum plans was \$2,594, a 1.3 percent increase from the 2022 average of \$2,560.
- Only 32.0 percent of lump-sum plans offered a benefit level higher than the 2023 average of \$2,594.
- The median benefit level for lump-sum plans was \$1,850 in 2023.

According to the OSA Report, in 2023, the lump-sum plans with the highest benefit level were the Brainerd Relief Association, which offered a \$14,000 benefit level, and the Maplewood Relief Association, which offered a \$13,875 benefit. The lump-sum plans with the lowest benefit levels were the Bruno Fire Relief Association, which offered \$100 per year of service, and the Bigelow and Sedan relief associations, which offered \$200 per year of service. The monthly/lump-sum combination plans (plans which pay both a lump sum and a monthly annuity) with the highest benefit levels were Minnetonka at \$13,500 and Eden Prairie at \$12,400.

Section- by- Section Summary

SFxxxx/[HF2395](#) consists of one section that amends Minnesota Statutes, Section 424A.02, subdivision 3, to replace “\$15,000” with “\$20,000” in two places, which increases the maximum lump sum pension amount from \$15,000 to \$20,000 per year for each year of service for defined annuity lump sum relief associations. The bill is effective the day following final enactment.

Discussion and Analysis

Who is affected by the bill?

We understand that two relief associations, Apple Valley and Inver Grove Heights, are seeking the increase in the maximum benefit level. According to an email dated September 30, 2024, from Rose Hennessy-Allen, Pension Director at the Office of the State Auditor, the Apple Valley and Inver Grove Heights Fire Relief Associations *“are at, or soon will be at, the \$15,000 per year of service maximum. Both relief associations are well funded, receive voluntary contributions from their affiliated cities to support benefits, and receive relatively high fire state aid amounts. They would like to be able to increase their benefit levels beyond the current maximum so that state aid and city contributions coming in can be paid to firefighters, rather than just increase their surpluses.”*

The following table shows the relief associations with the lump-sum benefit amounts above \$9,999 as of December 31, 2023:

Relief Association	Benefit Amount
Apple Valley	\$11,000
Bayport	\$10,000
Bemidji	\$10,000
Brainerd	\$14,000
Brooklyn Center	\$12,000
Detroit Lakes	\$10,300
Eden Prairie	\$12,400
Elko New Market	\$11,785
Excelsior	\$11,050
Golden Valley	\$13,000
Inver Grove Heights	\$13,875
Lakeville	\$12,000
Minnetonka	\$13,500
New Brighton	\$10,500
Northfield	\$13,000
Owatonna	\$13,850
Prior Lake	\$10,500
Shakopee	\$10,825

Source: [Financial and Investment Report of Fire Relief Associations, STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR, 109–121 \(For the year ended December 31, 2023\).](#)

In 2023, more than 3/4 of all lump-sum plans had a benefit amount of less than \$6,000 per year of service. Therefore, if the lump-sum maximum is increased on a statewide level, very few relief associations would be impacted by the change. However, the relief associations offering the \$15,000 maximum, or getting close, would be interested in an increased maximum. Increasing the maximum does not mean that a relief association will be able to amend the bylaws to provide that amount.

Additionally, not many relief associations will be able to increase the maximum lump-sum pension amount due to the complexities of amending their bylaws as explained above. Specifically, providing a detailed estimate of the cost of the change and getting the amendment approved by the board of trustees and the municipality.

Overfunding of relief associations

Many relief associations are over-funded. For lump-sum plans in 2023, the average funding ratio was 145.8 percent per plan, an increase from the 2022 average of 134.4 percent. See [Financial and Investment Report of Fire Relief Associations, STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR, 27 \(For the year ended December 31, 2023\)](#) (OSA Report). Because so few relief associations are anywhere near the current \$15,000 lump-sum benefit maximum, it is unlikely that this bill will do much to address the overfunding concern. However, it may reduce overfunding for a handful of relief associations.

Benefit equity

As reported in the OSA Report, in 2023, relief associations in Dakota County had the highest average lump-sum benefit level of any county, yet the average was still only \$8,289 per year of service. The bill would permit a small number of relief associations (6 to 18) to increase their lump-sum benefit amount to nearly 2.5 times the average of the highest county. This may cause unintended consequences relating to recruitment and retention. Volunteer firefighters with benefits from relief associations with the highest lump-sum benefit amounts will receive benefits that are significantly higher than firefighters from neighboring departments. For example, the cities of Lonsdale and Elko New Market which are about 11 miles apart; yet in 2023, while firefighters in Shakopee accrued \$11,785 per year of service in retirement benefits, firefighters in Lonsdale accrued only \$3,900 per year of service.

Other factors may affect benefit equity, such as call volume and average number of hours worked. The Commission may wish to gather additional evidence to determine if or how benefit inequity between neighboring municipalities affects recruitment and retention.