

October 26, 1995
Community Room, Cedars of Austin

12th Meeting



LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

October 26, 1995 Meeting

Representative Richard Jefferson, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 9:30 A.M.

Commission members present:

Representatives Jeff Bertram, Richard Jefferson, and Phyllis Kahn

Commission members with an excused absence:

Representative Bob Johnson and Steve Smith; Senators Steven Morse, Lawrence Pogemiller, Phil Riveness, LeRoy Stumpf and Roy Terwilliger

2. **Consideration of Public Testimony Relating to the Operation and Regulation of Volunteer Firefighter Relief Associations and the Benefit Coverage Provided to Volunteer Firefighters**
Rep. Jefferson requested that Commission members and staff introduce themselves to the audience. Rep. Jefferson then asked if anyone in the audience wished to speak on a topic other than volunteer fire issues. Russ Miller, Albert Lea Fire Department, requested an opportunity to speak at the end of this meeting on the topic of a marriage dissolution's effect on pensions.

Leo Reding, a former Pension Commission Chair and member, welcomed the Commission to Austin. He stated that this outstate hearing was an outstanding idea. He testified that he believes the State of Minnesota is unique in using an insurance premium tax to fund volunteer fire pension benefits. He further testified that he is concerned that if concessions are given to insurance companies, the result might be an increase in municipal contributions.

Rep. Kahn asked what Mr. Reding's thoughts were with regard to investment policy. Mr. Reding stated that if a fund can achieve 75 to 80 percent funding, the investment gains will help to keep it solvent. He believes it is important to maintain oversight of the investments of all public pension funds.

Gus Welter, a volunteer firefighter representative for 27 years, testified that he believes it is important to have a definition for the term "volunteer firefighter" in the law. He took exception to the article in the Pioneer Press recently that stated there is no oversight over volunteer firefighter investments. He testified that volunteer firefighters are not opposed to reporting and have done so in the past but they are opposed to the investment performance reporting required in legislation that has passed in the last few years.

Rep. Kahn noted that a list of volunteer fire investment returns show that some of them are substantially underperforming. Some are totally invested in cash. She stated that if these funds run a deficit, the municipality is required to make up the shortfall and if there is a further deficit, the state is requested to increase the tax. Rep. Kahn further stated that in the case of relief associations with defined contribution plans that have underperforming investments, the firefighters are being cheated in their benefits.

Mr. Welter responded that there should be some method of educating relief associations that have investment policies that do not keep pace with inflation. Many relief associations do not consider investing with the State Board of Investment because they do not trust that government will not borrow or take their assets if the State is facing a shortfall. He further stated that the reporting the state now requires is excessive and expensive.

Rep. Bertram stated that he believes retirees want stability and some control and they do not believe they will get that from the State. The Legislature changes every two years and does not provide stability. That is why volunteer firefighters do not want SBI to control their investments. Discussion followed.

Glen Gust, President of the Luverne Volunteer Fire Department Relief Association, stated that he has been a volunteer firefighter for 18 years and is a grocer by trade. He testified that

the Luverne Volunteer Fire Department has 36 members. They used to train once a month but now train weekly and sometimes two and three times a week because they are now involved in rescues and hazardous materials. They are having difficulty with recruitment because of the time commitment required. The board of the relief association manages the investments and they have an investment advisor on call. They do not want the State to run their plan.

Rep. Kahn asked who sets their investment policy. Mr. Gust testified that their investment policy is set in their bylaws. Their return last year was 3.5 percent and this year is in the 20 percent range. Discussion followed.

Rep. Kahn noted that the Luverne Fire Relief Fund has a funding deficit. Mr. Gust testified that they have two types of retirement plans. They formerly had a monthly benefit plan and switched to a lump sum plan. They still have 11 retirees on the monthly benefit plan and this is the reason they have a deficit. He testified that their fund pays \$700 annually for auditing services and \$4,500 every four years for the actuarial valuation required by the State. He agrees with Mr. Welter that the reporting requirements are excessive.

Rep. Kahn stated that benefits for relief associations in this area range from \$50 per year of service for Lake Wilson and Lissmore to \$1,100 per year of service for Pipestone. She questioned whether volunteer firefighters are satisfied with that kind of variation. Mr. Gust responded that he is not in a position to comment on that issue and does not know what other relief associations do with their state aid. Lawrence A. Martin, LCPR Executive Director, stated that by law if a municipality has a relief association, all the fire state aid money must be used to support the relief association. Rep. Kahn noted that the municipal contribution in Luverne is quite high in comparison to other municipalities and she questioned whether this is a concern to Luverne citizens. Mr. Gust stated that the Luverne city charter requires 35 firefighters plus a chief and assistant chief in comparison to Pipestone which has 28 and Clayton which has 22 firefighters, and this might be one of the reasons the municipal contribution is high in Luverne.

John Shepard, Treasurer of the Spring Valley Volunteer Firefighters Relief Association in Fillmore County, testified that they appreciated the increase in the premium tax on fire insurance. He further testified that there are two mutual insurance companies in their community affected by the increase in the premium tax. The issue has been very divisive and has left bitter feelings. The mutual insurance companies want the 1995 legislation repealed. A Winona County mutual insurance company indicated that they had been paying \$9,000 in the pre-1988 years but after the change in premium taxes from 2% to 1/2%, they paid \$2,600. Mr. Shepard testified that recruitment has become a problem. Volunteer firefighters now must make a major time commitment due to the training requirements of the job. He also testified that the Spring Valley Volunteer Fire Department has a high volume of calls in comparison to other smaller towns around them and this may be the reason for the wide variance in the benefits that are provided. Mr. Shepard testified that they do not have an investment policy and that they ended last year with \$254,000 in assets. Their assets this year have increased by 16% to 17% and they do not hire outside investment advisors. They currently have one quarter of their assets invested in one mutual fund and another quarter invested in another mutual fund which they watch and compare frequently. They are lay people and do not know how to write an investment policy. They report to the membership and if the membership is satisfied with the adequacy of investments that is what is important. He testified that they are paying a benefit of \$850 per year of service. When filling out the State Auditor's Schedule II report last year, Spring Valley would have been entitled to pay a benefit of \$900 per year of service but this year, due to a change in Minnesota Statutes, Section 424A, they would only be entitled to pay a benefit of \$800 so they are currently exceeding the maximum benefit amount. He stated that their municipality does not contribute to the relief association but may be willing to make a contribution. He also testified that they would like to provide a COLA but cannot due to the maximum benefit cap.

Rep. Kahn questioned the limits on raising the lump sum benefit in the case of a relief association that is more than 100% funded and does not have a municipal contribution. Mr. Martin responded that Minnesota Statutes, Section 424A.02, has a flexible service pension maximum table which provides for a maximum benefit based on the average funding received per firefighter over the last three year period. He noted that volunteer fire relief associations have three potential sources of funding, fire state aid, investment gains, and a municipal contribution. The average fire state aid increase in 1996 should be approximately 17%. Discussion followed.

Mr. Shepard testified that in order for the Spring Valley Fire Relief Association to increase

benefits, state law requires the city council to approve the increase by unanimous vote. One abstention or no vote would deny the increase. Rep. Bertram stated that he would like the Commission to look into that law as volunteer firefighters may also be city council members and may want to abstain from voting on matters that they believe may represent a conflict of interest.

Wayne Anderson, Secretary of the Champlin Volunteer Firefighters Relief Association and a paid firefighter for the Coon Rapids Fire Department, testified that their members carefully watch their relief association's investment returns. He testified that their members have never been concerned with the benefits other departments receive because volunteer firefighters understand other departments have different requirements. He testified that the reporting required of volunteer firefighters should be simplified so that it is less costly to produce and a more valuable tool for the firefighters. He suggested that all 700 volunteer fire funds should not be punished because of a small group of problem funds.

Mr. Martin questioned why Anoka/Champlin jumped in 1991 from \$85,000 to \$102,000 in assets and then back down again. Mr. Anderson testified that they noticed the spike in assets also but have not determined the reason for the asset jump.

John Maczko, member of the Mendota Heights Volunteer Firefighters Relief Association and a Director with the MN State Fire Department Association, testified that all the relief associations are governed by state law and by municipal governments and are closely scrutinized by their local officials and the members of their fire departments. He testified that if the local municipality approves of additional funding for a well funded relief association in excess of the state aid provided as a show of support to their volunteer firefighters, this should be permitted without being restricted by a statutorily imposed benefit cap. Mr. Maczko testified that the Mendota Heights relief association members discussed and agreed to a low risk investment policy and made a decision to invest in community banks and they do not believe they should be penalized for that decision. He testified that in their view quarterly reporting is excessive and reports should be limited to annual data. He also testified that a strong volunteer fire pension is a good retention tool. The city investment in training and equipping a volunteer firefighter is high and it benefits the municipality to retain their current firefighters.

Jerry Rosendahl, Owatonna Fire Chief and Vice President of the Minnesota State Fire Chiefs Association, testified that the current reporting requirements are a significant burden on their relief association. The treasurer of their relief association is the Senior Vice President of Norwest Bank in Owatonna and he considers the required reports to be very difficult to complete. They would support reporting that had a specific goal and purpose and they prefer education over regulation.

Rep. Kahn stated that Owatonna Fire is 100% invested in cash and does have an unfunded liability. She questioned whether they have considered other investments when they compare their returns to other relief association's returns. Mr. Rosendahl testified that their board has considered other investments and has decided to remain very conservative. Rep. Kahn asked whether the Owatonna board is aware of what portion of the local bank's investment portfolio is invested locally or whether the bank complies with the Community Reinvestment Act. Mr. Rosendahl testified that they do not have that information. Rep. Bertram stated that he does not fault a relief association for having a conservative investment policy. Rep. Kahn stated that it might be helpful to get a definition of what constitutes a conservative investment policy. She believes that a conservative investment policy would provide 70% of a plan's growth from investment gains and 30% from member contributions. She further stated that she would like to see that become a standard and if a plan did not meet that goal they would be deficient in their fiduciary duty. Mr. Rosendahl testified that if that was set as a standard he believes that education rather than regulation would be a more proactive method of dealing with volunteer fire funds.

Tim Farmer, current Chief and a 20 year member of the Coon Rapids Volunteer Fire Department, testified that they have never received municipal contributions, their income is totally from state aid and investment gains. They now have a professional investment advisor, their board members do participate in several pension fund related educational programs and conferences and they have established an investment policy. He testified that the pension benefits Coon Rapids provides are not as important for recruitment but are very important as a retention tool. He agreed with the previous speakers regarding quarterly reporting being excessive and not very useful. He testified that they do not want the State to control their pension funds. They are concerned every year during the Legislative Session regarding what

changes might be imposed on them. They want stability. They changed from a defined benefit plan to a defined contribution plan so that they could provide a benefit above the cap. Discussion followed.

3. Consideration of Public Testimony on Other Public Pension Topics

Russ Miller, Albert Lea Firefighter, testified regarding the division of pension benefits in a marriage dissolution. They have asked Representative Ron Kraus to introduce legislation next session that would permit 33% of the pension a person earned while married to be an undivided asset in a marriage dissolution and to permit 67% of the pension earned while married to be a dividable asset. Mr. Martin stated that there is no state law requiring a 50/50 division of pension assets but state law does consider pension benefits to be a marital asset and therefore subject to division. The parties can control the division and the division must be against other assets. Discussion followed.

Rep. Jefferson acknowledged that Rep. Dennis Ozment had joined the panel during the meeting. Rep. Ozment stated that he is a retired professional Minneapolis firefighter.

Rep. Jefferson thanked everyone in attendance at the Austin meeting for their participation.

The meeting adjourned at 11:45 A.M.


Jean Lieb Gott, Secretary