Plan Description

Statewide Volunteer Firefighter Retirement Plan

Legislation passed in 2009 created a **Statewide Volunteer Firefighter Retirement Plan** (**SVFRP**, referred to as "the Plan" in this document) for volunteer firefighters who provide service to a municipal fire department or an independent nonprofit firefighting corporation. The Plan is voluntary, and open to fire departments as a replacement of their existing volunteer firefighter retirement plan. It is also open to municipalities currently without a volunteer firefighter retirement plan. The Plan is codified as Minnesota Statutes Chapter 353G.

The purpose of this Plan Description is to provide information to volunteer firefighters, relief associations and municipalities about the Plan. It includes information about how the Plan is funded, how benefits are determined, and how an entity elects to join the Plan.

Background

Several relief associations asked the State to create a statewide plan so that they could concentrate on fighting fires rather than administering a retirement plan. They did not like having to pay for an annual audit, and did not like all the paperwork involved in administering the plan. They also believed the State Board of Investment could get better investment returns, which would reduce their required contributions. Depending on the perspective of the relief association, there are several advantages and disadvantages of joining the statewide plan.

Advantages

Although the new Statewide Plan may not be right for all fire departments, there are several advantages of joining the Plan for many entities.

First, the assumed investment earnings rate of 6% in the Statewide Plan is higher than the 5% rate set in statute for local relief associations. When determining the municipality's required contribution amount, the Statewide Plan is allowed to assume that more of the contribution will be covered by investment earnings, thus reducing the amount required to be provided by the municipality.

Second, once a fire department's volunteers are covered by the Statewide Plan, the fire relief association board (FRAB) will no longer be obligated to assemble and file many of the various financial reports and statements with the State Auditor's Office, as is currently required by law. The FRAB will need to file one last set of reports in the year they join the plan, but PERA will handle all of the paperwork in subsequent years.

Third, once a fire departments' volunteers are covered by the Statewide Plan, the FRAB will no longer be required to pay for an outside audit or attestation by a CPA. The FRAB (or municipality) will need to conduct one last audit or attestation in the year they join the plan, but then will be relieved of that responsibility.

Fourth, the relief association will no longer need to invest the assets of the special fund. The State Board of Investment will take over that responsibility using professional portfolio managers. Since they are able to pool the assets of several entities together when investing, they are often able to take advantage of efficiencies and asset size to negotiate better returns.

Fifth, the relief association will no longer need to be in the business of paying benefits and filing the paperwork necessary to receive the Department of Revenue reimbursement for the supplemental piece of the benefit.

Sixth, in most cases the volunteer firefighters will join the plan at a benefit level equal to or higher than the benefit level currently in effect with the relief association. Since the assumed investment earnings rate is 6%, municipalities can afford to provide a higher benefit level without seeing an increase in required contributions.

Seventh, the statewide plan provides portability provisions for firefighters who transfer from one fire department to another fire department. If both fire departments belong to the statewide plan, the combined service in both fire departments is added together to determine vesting and benefit amounts.

Disadvantages

While some relief associations look forward to giving up the work involved in investing assets, handling paperwork and administering benefits, others view giving up control as a disadvantage. They are uncomfortable giving up control of their assets and design of their retirement plan…especially to the State. Once they give up control, it may be difficult to gain it back. Should an entity wish to re-establish the relief association's special fund and take back control of the assets and plan design after joining the statewide plan, it would require special legislation to do so.

A second possible disadvantage of joining the statewide plan is that future benefit increases are at the discretion of the entity sponsoring the fire department, not the relief association. (Once a benefit level is established, a sponsoring agency cannot unilaterally decrease it).

Funding

The lump sum benefits payable from the Plan are funded by existing fire state aid* allocated to a municipality, additional municipal contributions, as applicable, and earnings on the investment of these funds. Each participating entity will have a separate Entity Account in which the assets necessary to fund the benefits will be maintained.

A new investment account has been established in the Supplemental Investment Fund (SIF) managed by the State Board of Investment (SBI) expressly for investment of the Plan assets. The SBI is vested with the authority to determine the asset allocation of this new SIF account with the expectation that the account will earn a **6 percent** return over the long-term. PERA will track separately the assets of each Entity Account within the Plan.

PERA will perform annual calculations for each Entity Account to assess the level of funding needed to maintain assets sufficient to pay the benefits being earned by the participating entity's volunteer firefighters. The calculations will resemble the procedure already defined in law for use by all existing volunteer fire relief associations. Required contributions for the coming year will be based on service credit data provided to PERA in March of each year by each participating entity's fire chief. Beginning in 2012, entities that sponsor the fire department (either municipalities or nonprofit firefighting corporation) are able to voluntarily contribute above and beyond the required contribution amount.

Once an entity joins the Plan, future fire state aid payments allocated to that participating entity will be sent to PERA and deposited directly into the entity's account. If the fire state aid is not sufficient to adequately fund the account for the year, PERA will bill the participating entity for the required additional municipal contribution. Additional contributions, if any, are due by December 31 of each year. A sample time line for the calculation and billing of annual costs is found on Page 10 of this document.

Governance

PERA's Board of Trustees

The policy-making, management, and administrative functions related to the Plan are vested in the board of trustees and the executive director of the Public Employees Retirement Association. Their duties, authorities, and responsibilities are described in

* Fire State Aid is a program that collects a premium tax from insurance companies based upon gross direct premiums, including policy fees, premium finance and other charges from customers insuring against property losses. The premium tax is collected expressly to pay the pension costs of municipalities and non-profit fire corporations employing firefighters. The program is described in detail in Minnesota Statutes Chapter 69.

Minnesota Statutes Chapter 353.03. Fiduciary activities of the Plan must be consistent with Minnesota Statutes governing public pensions.

Advisory Board

Chapter 353G provides for an Advisory Board made up of eight representatives from townships, cities, fire chiefs, volunteer firefighters, and the State Auditor's office. The advisory board provides advice and guidance to PERA's Board of Trustees about the retirement coverage needs of volunteer firefighters.

Benefits

Retirement Benefits

The Plan provides for the payment of lump sum retirement benefits that are based on a specific dollar value paid for each year of credited service accumulated by a volunteer firefighter who terminates service and meets the minimum requirements for receipt of the benefits. The dollar value payable per year of service is determined by the sponsoring municipality or entity at the time an election to participate in the Plan is made. An entity may elect to increase the benefit level after joining the Plan. The possible benefit levels provided by the Plan are shown in detail in Table 1 on page 8 of this Plan Description.

To be eligible for a benefit, a firefighter must:

- be at least 50 years old;
- be vested, which means having acquired a minimum of 5 years of "good-time" service credit[†] in the Plan; and,
- have severed his or her employment relationship with the fire department for a minimum of 30 days.

A full retirement benefit is payable to a firefighter with 20 years of service. Firefighters retiring with fewer than 20 but at least 5 years of service are eligible for a percentage of a full benefit as described in Table 2 on page 9. Former members of the fire department who were vested at the time they left the department are also entitled to benefits when they attain age 50.

Minimum participation in the Plan

If an existing volunteer firefighter relief association becomes part of the Plan, the former plan benefits are payable to anyone who is vested and who leaves volunteer service within the first five years of participation in the statewide plan. A firefighter must

[†] Chapter 353G does not define "good-time service credit." The chief of each participating fire department determines the minimum activity levels and length of time an individual volunteer must serve to receive credit. Credit may be awarded in annual or monthly increments as determined by the chief of the fire company.

participate in and earn at least 5 years of service credit in the SVFRP to receive a benefit based upon the levels provided by the Plan. Once a firefighter has participated in the statewide plan for at least 5 years, all years of credited service will be paid at the dollar value provided by the SVFRP.

Non-vested benefits

No benefits are payable to a firefighter who leaves the volunteer fire department before having earned five years of credited service, except as provided for under the portability provisions of the Plan as noted in the next paragraph.

Portability provisions

One of the goals of the Plan is to provide portability of benefits for volunteer firefighters. The Plan is designed to pay benefits to a firefighter who may not vest in one account, but when all volunteer service earned in accounts participating in the Plan is combined, the individual has earned more than five years of credited service. If that is the case, a prorated share of benefits payable based on credits earned in each account would be payable to the individual who meets all other requirements for payment of a lump sum benefit under the Plan.

Survivor benefits

Benefits are paid to the surviving spouse of an active or deferred member who dies. If there is no surviving spouse, benefits are paid to the firefighters minor children, and if no children, to the deceased firefighter's estate. The survivor benefit is equivalent to the lump sum benefit that would have been payable to the firefighter at age 50 using the service credit earned as of the date of death.

Supplemental benefits

In addition to primary benefits, the Plan provides supplemental benefits equivalent to those outlined in Minnesota Statutes Chapter 424A.10. With supplemental benefits, the retiring firefighter receives a one-time cash payment equal to 10% of the lump sum benefit up to a maximum of $1,000. For a survivor, a supplemental benefit is 20% of the lump sum, up to a maximum of $2,000.[‡]

Other benefits

The Plan does not provide disability benefits. Most relief associations, fire departments, or municipalities already offer disability benefits provided by the Volunteer Firefighters' Benefit Association, and can continue (or begin) to do so after joining the statewide plan.

[‡] Supplemental benefits are paid by PERA, and PERA is reimbursed for their costs by the State of Minnesota. Thus, municipalities and entities participating in the Plan do not fund supplemental benefits.

Process for Joining the Plan

The decision to participate in the Plan is made jointly by the entity operating the fire department and the volunteer firefighter relief association (if one exists). Individual firefighters cannot join the Plan on their own. The process for electing coverage of volunteer firefighters by the Plan is initiated by a request to PERA for a cost analysis of the prospective retirement coverage, as follows.

1. If the volunteer firefighters are covered by an existing relief association, the secretary of the relief association must ask the relief association board to approve a request for a cost analysis from PERA. Whether or not there is an existing relief association, the chief administrative officer of the municipality or non-profit fire corporation that sponsors the fire department must seek approval from the city council or the non-profit's board to request a cost analysis.

2. If the municipality's council or the non-profit's board (and the relief association board, if one exists) approve of a cost analysis, the secretary of the relief association (if one exists) and chief administrative officer jointly submit a request to PERA's executive director for estimates of costs of the potential retirement coverage. If the volunteer fire department is associated with more than one municipality or non-profit, the chief administrative officer of each sponsoring entity of the volunteer fire department must jointly execute the request.

3. PERA prepares estimated costs for the benefit level(s) requested.

4. The State Board of Investment (SBI) reviews the investment portfolio of the existing relief association (if one exists) and determines which assets could be transferred to SBI and which must be sold before December 31st should the entity elect to join the Plan.

5. Upon receipt of the cost analysis, the governing body of the municipality or municipalities, or independent nonprofit corporation associated with the fire department has 120 days to approve coverage in the Plan. If the retirement coverage change is not acted upon within 120 days, it is deemed to be disapproved. If the retirement coverage is approved by the applicable governing body, a copy of the approval is sent to PERA.

6. If coverage is approved, PERA begins administering the Plan for the entity effective the following January 1 and issues all future benefit payments.

7. On the date immediately prior to the effective date of the coverage change (December 31), the special fund of the applicable volunteer firefighters' relief association, if one exists, ceases to exist as a pension fund of the association and legal title to the assets of the special fund transfers to the State Board of Investment.

With some modifications, the relief association may continue as an organization and maintain its general fund.

8. If coverage is not approved, the Plan is not extended to firefighters and the firefighters continue as before with or without a relief association benefit plan, as applicable.

Relief Association Changes

In addition to the transfer of assets and disestablishment of the relief association's special fund, other relief association changes will take place on the effective date of the change in volunteer firefighter retirement coverage. These changes are listed in Minnesota Statutes 353G.06, subdivision 2. The relief association has the option to dissolve itself. If the relief association membership elects to retain the relief association, however, the following changes must be implemented. The relief association:

- board of trustees membership is reduced to five, comprised of the fire department's fire chief and four trustees elected by and from the relief association membership;
- may only maintain a general fund, which continues to be governed by Minnesota Statutes 424A.06;
- is not authorized to receive the proceeds of any state aid or to receive any municipal funds. Future fire state aid payments will be sent directly from the Department of Revenue to PERA to be deposited in your account; and
- may not pay any service pension or benefit that was not authorized as a general fund disbursement under the articles of incorporation or bylaws of the relief association in effect prior to the plan coverage election process.

Should the association membership elect to retain the relief association, the association will need to update the bylaws to reflect these changes. Amended bylaws do not need to be filed with any agency, but it would be helpful to send a copy to PERA. They must be kept with records of the relief association. The relief association will also likely need to amend its articles of incorporation and file the changes with the Secretary of State's Office.

Since relief associations are non-profit corporations, they will still have an annual renewal obligation with the Secretary of State's Office, but that can be done online. Relief associations may also have an obligation as a non-profit to file Form 990 with the IRS every year, although that is an issue better discussed with an attorney.

Should you have questions about amending articles of incorporation and the annual renewal process, please contact the Secretary of State's Office at 1-877-551-6767 or 651-296-2803.

Table 1--Options for benefit levels

Cash benefit per year of “good-time” service credit $500 – 7,500 In $100 increments
$500
$600
$700
$800
$900
$1,000
$7,500

Benefit Example

The *City of Anytown* joined the Plan and selected $1,000 as the benefit level for their volunteer firefighters. If a firefighter had 20 years of good time service credit and then “retired” at age 50, that firefighter would receive a lump sum benefit of $20,000 ($1,000 per year of service times 20 years), plus a $1,000 supplemental benefit.

Table 2

Prorated benefits for participants with at least five, but less than 20 years of service credit

Completed full years of good-time service credit	percentage of the full service pension
5	40%
6	44%
7	48%
8	52%
9	56%
10	60%
11	64%
12	68%
13	72%
14	76%
15	80%
16	84%
17	88%
18	92%
19	96%
20 or more	100%

Benefit Example

The *City of Anytown* joined the Plan and selected the $1,000 benefit as the benefit level for their volunteer firefighters. If a firefighter had 10 years of good time service credit and then "retired" at age 50, that firefighter would receive a lump sum benefit of $6,000 (plus a supplemental benefit of $600). That is calculated by multiplying the number of years of good time service credit (10 in this example) times the benefit level ($1,000 per year of service) times the nonforfeitable percentage of the service pension (60% in this example) since the firefighter had less than 20 years of service.

10 x $1,000 x 60% = $6,000. The supplemental benefit is 10% of the base benefit, capped at $1,000. In this case the supplemental benefit would be $600.

Table 3
Example schedule for payment of required contributions

March 31	Deadline for Fire Chief to certify good-time service credits to PERA for previous calendar year.
Spring	PERA calculates liabilities and required contributions for the following year.
Summer	PERA notifies municipalities and independent fire corporations of required contributions for following year.
Dec. 31	If the employer received an invoice for required municipal contributions, the payment is due by the end of the year.