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Pension Division Newsletter

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Reporting Reminder

The 2008 reporting year forms are due by June 30, 2009, for volunteer fire relief associations with assets or liabilities of at least $200,000. Relief associations with the June 30 reporting deadline are required to submit audited financial statements along with the reporting forms. Please remember that once a relief association's assets or liabilities exceed $200,000, the relief association must continue to fulfill the June 30 reporting deadline and audit requirement, even if the relief association's assets and liabilities subsequently drop below the threshold.

Excel reporting forms can be accessed online through the State Auditor's Form Entry System at https://www.auditor.state.mn.us/safes/login.aspx.

Maximum Benefit Worksheet

The Maximum Benefit Worksheet (MBW) is a form that lump sum plans, monthly plans, and monthly/lump sum combination plans must complete annually on or before August 1 as part of the certification of the relief association's financial requirements. The MBW averages the relief association's non-investment primary revenue sources for the prior three years on a per-member basis. The primary revenue sources included in the calculation are the amounts of any state fire aid and municipal contributions received, and ten percent of the relief association's surplus. The average that is calculated corresponds to the maximum benefit level that the relief association is authorized to establish for the year pursuant to state law. Relief associations face severe penalties, including the forfeiture of state fire aid, if they establish a benefit level higher than the allowable maximum and pay pensions at the unauthorized benefit level.

Because the MBW calculations are a reflection of the relief association's non-investment revenue sources, whether a relief association has a surplus or a deficit only indirectly affects the calculation through the ten percent of surplus amount. In years when markets are performing poorly and the relief association receives large contributions from the municipality, the maximum benefit level most likely will increase, since the relief association's non-investment revenues have increased. In this situation, the increasing maximum benefit amount may give a false impression of the relief association's financial health. Relief associations should keep these calculations in mind when considering benefit increases. Increasing the benefit level to the maximum, even when markets are performing well, oftentimes puts the relief association into a deficit situation and requires contributions from the municipality to support the benefit level.

Some relief associations are finding that their maximum benefit level fell for 2009, and the relief associations may now be operating at a benefit level that is higher than the allowable maximum.

There is authority for relief associations to continue operating at a benefit level higher than the allowable maximum if the benefit level was properly adopted and was within the allowable maximum when it was established, and if the decrease to the calculated maximum was due to either a decrease in state fire aid or an increase in the number of active members during the three-year period on which the calculation is based. Most relief associations have seen a decrease in state fire aid during the past three years, so will qualify to be "grandfathered in" and be allowed to continue operating at their current benefit level so long as it was within the maximum when established. Relief associations that qualify to be grandfathered in at their current benefit level cannot increase their benefit level until the MBW form shows that an increase is allowed.

Deferred Interest

About half of the relief associations in Minnesota have adopted bylaw provisions that allow interest or investment earnings to be paid to their deferred members. Administering a deferred interest program can be confusing since the state law defining the options for doing so has changed several times in less than a decade. Deferred service pensions must be calculated based on both the state law and the relief association bylaw provisions in effect on the date that each member separated from active service and membership. Therefore, deferred members of the same relief association may be receiving interest in different ways if they separated at different times.

Relief associations that elect to pay deferred interest have three choices to make: the interest option type, the payment method, and the membership eligibility.

- Interest Option Type – The interest options that are available to relief associations are listed below. If a relief association has a deferred interest option in its bylaws that does not comply with one of the options below, the relief association must amend its bylaws to comply with the current statutory options. Remember that any bylaw changes will only affect members who separate from active service and membership after the bylaw change.

    Separate Investment Account: Under this option, the relief association establishes a separate investment account for the amounts payable to deferred members. The separate account is maintained separately from the assets of the relief association, but is still governed by the relief association board of trustees and is still reported as an association asset. A member's deferred benefit amount is transferred to the separate investment account when the member separates from active service and membership. The relief association board of trustees determines how the account is invested, but the deferred member bears the full investment risk subsequent to transfer. Deferred members with assets pooled in the separate investment account receive interest at the investment performance rate actually earned on the account. When the member retires, the deferred service pension is equal to the member's portion of the separate investment account. *This option is available to all relief associations.*

    Separate Investment Vehicle: Under this option, the relief association establishes a separate investment vehicle for the amounts payable to each deferred member. The separate investment vehicles are held separately from the assets of the relief association, but are still governed by the relief association board of trustees and are still reported as association assets. A member's deferred benefit amount is invested in the separate investment vehicle when the member separates from active service and membership. The relief association board of trustees selects the separate investment vehicle for each deferred member, but the deferred members bear the full investment risk subsequent to transfer. Deferred members receive interest at the investment performance rate actually earned on their investment vehicle. When the member retires, the deferred service pension is equal to the fair market value of the member's separate investment vehicle. *This option is available to all relief associations.*

Full Investment Gains and Losses: Under this option, deferred members of the defined contribution plan receive investment allocations in the same manner as the active members. Each deferred member's account balance is credited with net investment gains or losses at the rate actually earned by the relief association on the investment of special fund assets. *This option is available to defined contribution plans only.*

Board Set, Up to 5%: Under this option, the relief association board of trustees determines the rate of interest for deferred members, between zero and five percent, compounded annually. Interest is payable following the date on which the municipality has approved the deferred service pension interest rate established by the board of trustees. The board of trustees has flexibility to change the interest rate annually, for example, based on actual investment performance, or it could choose to select an interest rate and leave it unchanged for several years. Depending upon how the bylaws are drafted, interest rates for deferred members under this option can fluctuate each time the board of trustees establishes a new rate or it can be fixed based on the rate in effect when the member separated from active service and membership. *This option is available to lump sum plans, monthly plans, and monthly/lump sum combination plans only.*

- Interest Payment Method – Relief associations that elect to pay interest to deferred members must decide on a payment method. Interest can be paid to a deferred member based on the full period of the member's deferral, based on the full months that the member was deferred, or for full calendar years that the member was deferred.

Full Period of Deferral: Paying interest for the full period of the member's deferral means that the member will receive interest from the date that the member separates from active service and membership until the date immediately before the day in which the deferred member becomes eligible to begin receipt of the service pension and applies for the deferred service pension. This option is the most administratively logical option for relief associations that select the Separate Investment Account or Separate Investment Vehicle deferred interest types.

Full Months of Deferral: Paying interest for the full months that a member was deferred means that the member will receive interest from the first day of the month following the date on which the member separated from active service and membership to the last day of the month immediately before the month in which the deferred member becomes eligible to begin receipt of the service pension and applies for the deferred service pension.

Full Calendar Years of Deferral: Paying interest for the full calendar years that a member was deferred means that the member will receive interest from the first day of the calendar year next following the date on which the member separated from active service and membership to the last day of the calendar year immediately before the year in which the deferred member becomes eligible to begin receipt of the service pension and applies for the deferred service pension. Members must be deferred for the entire calendar year to receive interest for the year.

- Membership Eligibility – Relief associations should discuss whether they want to place any limitations on eligibility for deferred interest. Similarly-situated members must be treated consistently, but relief associations do have some authority to differentiate between different types of deferred members. For example, relief associations can choose to only pay interest to fully-vested deferred members, rather than to both fully-vested and partially-vested deferred members. Another limitation that some relief associations have implemented is to only pay interest to members until they reach the minimum retirement age. Relief associations choosing to place limitations on eligibility for deferred interest must make sure that the limitations are clearly reflected in the relief association's bylaws. Any changes to the bylaws will only affect deferred members that separate from active service and membership after the bylaw change.

The Office of the State Auditor has sample bylaw language for each deferred interest option type and payment method. The sample language can be provided upon request.

Updating Bylaws

The Office of the State Auditor provided a legislative update to relief associations earlier this month that explained recent changes that may require your relief association to amend its bylaws. The legislative updates for both 2008 and 2009 are available on our website at http://www.auditor.state.mn.us/default.aspx?page=pensionDocs. Sample language is included with both of the updates that can be used as a reference when updating your bylaws.

Please also remember that bylaw changes can only be made on a prospective (going-forward) basis, unless there is specific statutory authority to implement the change retroactively. This means that relief associations cannot adopt a benefit level change or other bylaw change with an effective date prior to the date of adoption.

SAFES Helpful Hints

If you are unable to locate your password for logging into the State Auditor's Form Entry System (SAFES), click on the link stating "Click here if you forgot your password" on the main SAFES page. After entering your username, a new password will be generated and e-mailed to you at the e-mail address on file with our office. Once you have successfully logged into SAFES, click on the "Form List" tab and then click on the "Pension Plan" tab to find your relief association's online reporting forms.

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