



May 2010

## Pension Division Newsletter

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### *Working Group Update*

The Omnibus Retirement Bill, which includes the Working Group legislation, was signed into law by Governor Pawlenty on Saturday, May 15. The Office of the State Auditor (OSA) will be providing a legislative update within the next few weeks that will include an in-depth explanation of the law changes affecting volunteer fire relief associations. We also will provide sample bylaw language that your relief association may use as a reference if it chooses to adopt any of the new options allowed under state law.

A copy of the bill can be viewed at the link provided below. The Working Group provisions are located in Article 13.

<https://www.revisor.mn.gov/laws/?id=359&doctype=chapter&year=2010&type=0>.

The OSA would like to thank the Working Group members for their work on this legislation. We believe that the Working Group's proposals will provide for greater clarity and flexibility as we continue our efforts to make the pension process easier and more effective for relief association trustees.

### *Reporting Reminder*

The 2009 reporting year forms are due by June 30, 2010, 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 June 30 reporting deadline and audit requirement becomes a permanent deadline. The relief association must continue to meet the June 30 deadline, even if the relief association's assets and liabilities subsequently drop below the threshold. Reporting forms for relief associations with less than \$200,000 in assets and liabilities were due to the Office of the State Auditor by March 31, 2010.

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>. Reporting form information and helpful hints for completing the forms are available at:

[http://www.auditor.state.mn.us/forms/pen/ReportingForms/pensionrf\\_infoandhelpfulhints.pdf](http://www.auditor.state.mn.us/forms/pen/ReportingForms/pensionrf_infoandhelpfulhints.pdf).

### ***State Fire Aid Reminder***

Fire departments in some communities consist of both volunteer firefighters and paid full-time firefighters. These fire departments are frequently referred to as “combination” departments. Questions regarding the division of state fire aid sometimes arise in these communities.

If a volunteer fire relief association exists to provide service pensions to the volunteer firefighters of a combination department, all state fire aid received by the affiliated municipality must be transferred to the relief association. If the volunteer firefighters are covered by the statewide volunteer firefighter retirement plan, all state fire aid is transferred to the Public Employees Retirement Association for deposit in the entity’s account.

The state fire aid can be used for other purposes only in instances where the municipality or independent nonprofit firefighting corporation is not covered by the voluntary statewide retirement plan, where there is no relief association organized, or where the association has been dissolved or removed as trustees of state aid. Under these circumstances, the treasurer of the municipality must deposit the state fire aid in the municipal treasury and the money may be disbursed only for the purposes authorized under [Minn. Stat. § 424A.08](#) or for the payment of the employer contribution requirement with respect to firefighters covered by the Public Employees Police and Fire Retirement Plan.

For additional information please see Minn. Stat. § 69.031, subd. 5 at:  
<https://www.revisor.mn.gov/statutes/?id=69.031>.

### ***New Statement of Position***

A new Statement of Position is available on the OSA’s website. The new Statement provides information on interest earnings for deferred members. The Statement explains three decisions that must be made by relief associations if they elect in their bylaws to pay interest to their deferred members. To view the complete Statement, go to:  
[http://www.auditor.state.mn.us/other/Statements/InterestEarningsforDeferredMembers\\_1004\\_statement.pdf](http://www.auditor.state.mn.us/other/Statements/InterestEarningsforDeferredMembers_1004_statement.pdf).

### ***New Online Training Session***

The OSA has recorded another online training session to assist with using the State Auditor’s Form Entry System (SAFES) which can be viewed at any time. SAFES is the web application for downloading and submitting reporting forms. The new online training provides step-by-step instructions for logging into SAFES and using various features within the web application. The online training can be viewed by visiting the “Training Opportunities” page of the Office of the State Auditor’s website or by using the link provided below. When you click on any of the links below, you will be brought to a webpage that requests your e-mail address. Once you've entered your address and name, a Windows Media Player screen will open with the training session ready to play.

*NEW* How to Use SAFES (approximately 5 minutes):  
<https://www2.gotomeeting.com/register/268905363>

Completing the Reporting Form (approximately 25 minutes):  
<https://www2.gotomeeting.com/register/147310578>

Deferred Interest: Options and Calculations (approximately 18 minutes):  
<https://www2.gotomeeting.com/register/131127083>

Completing the Maximum Benefit Worksheet (approximately 6 minutes):  
<https://www2.gotomeeting.com/register/278483842>

Completing the Schedule Form (approximately 20 minutes):  
<https://www2.gotomeeting.com/register/824978186>

### ***Consultant Insurance Requirement***

Please recall that state law places conditions on consultants that provide legal or financial advice to volunteer fire relief associations. If a relief association hires or contracts with a consultant, the association must obtain from the consultant a copy of the consultant's certificate of insurance.

A consultant is defined as any person who is employed under contract to provide legal or financial advice and who is or who represents to the relief association that the person is: an actuary; a licensed public accountant or certified public accountant; an attorney; an investment advisor or manager, or an investment counselor; an investment advisor or manager selection consultant; a pension benefit design advisor or consultant; or any other financial consultant.

### ***Investment Basics – Stocks***

A document is attached entitled "Investment Basics – Stocks." This is another installment in our ongoing series to provide education on investment topics. This document offers basic descriptions of different types of stocks as well as information about stock brokers and stock diversification.

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*If you have questions please contact us:*

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May 2010

# Investment Basics

## Stocks

Companies that need to raise capital to finance their operations can issue stock. The first time a company issues stock to the public is called an initial public offering (IPO). Once a company issues an IPO, the stock can be traded on a stock market exchange. When an investor purchases a share of stock, the investor is buying an ownership interest in the company. Companies trade tens of millions of shares of stock each day on stock exchanges around the world. The two most commonly-used domestic exchanges are the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotations (NASDAQ).

### *Types of Stocks*

Companies may have different objectives when issuing stock. These objectives include whether a company wants to separate the shareholders' financial interest in the company from the governance of the day-to-day operations, and whether the company issuing the stock wishes to have the stock traded on an exchange. Companies may issue common stock and preferred stock.

- **Common Stock**

Common stock is the type of stock issued most often by publicly-traded companies. Two reasons for investing in common stock are asset appreciation and dividends. Asset appreciation occurs when the value of a particular stock is greater than the amount an investor paid for the stock. Asset depreciation, which can also occur, occurs when the sales price of a stock is lower than the investor's purchase price. Dividends are paid to shareholders from a company's retained or current earnings. Common stock dividends are generally paid on a quarterly basis. Dividends are not guaranteed. When an investor purchases common stock shares in a company, the investor receives certain rights. For example, investors are able to vote in elections to pick a company's leadership and on issues that are important to a company's profitability and fiscal integrity.

- **Preferred Stock**

Dividends and safety are primary reasons for purchasing shares of preferred stock. Preferred stock does not offer investors the same level of capital appreciation as common stock does, but it also is not as volatile as common stock. Preferred stock shareholders may receive a consistent dividend payment. If a dividend is paid, the preferred stock dividend is paid first. In bankruptcy proceedings, preferred stock shareholders are paid before common stock shareholders.

### *Stock Brokers*

Investors purchase stock through a broker. There are two common types of brokers: full-service brokers and discount brokers.

- **Full-Service Brokers**

Full-service brokers offer a wide variety of services and products. Many full-service brokers offer websites where clients can manage their accounts online, and also have branch offices so investors can meet locally with a financial advisor. Full-service brokers also usually offer financial planning services and give advice on selecting certain investments based on an investor's goals and risk tolerance. Because of these services, full-service brokers are usually more expensive than discount brokers.

- **Discount Brokers**

Discount brokers generally are the least expensive way for investors to purchase stocks. Many discount brokers do not operate out of offices, and instead offer services online or by phone. Usually, when using a discount broker, investors will not receive financial planning services or investment selection advice. Investors that use discount brokers typically know what they want to invest in and are looking for the most cost-effective way to purchase those investments.

### ***Diversification***

Diversification can help reduce risk and smooth large swings in a portfolio's rate of return. Diversification applies not only to investing in different asset classes, but also should include diversification within asset classes. Investors can diversify a portfolio, for example, by choosing stocks in different sectors of the economy. If an investor doesn't feel comfortable picking individual stocks for his or her portfolio, mutual funds and exchange-traded funds (ETF) can be purchased. Mutual funds and ETFs may hold a wide array of different stocks across a particular sector. These are some options to help diversify a portfolio of stocks and help limit risk in the portfolio.

### ***Investment Authority***

Relief associations that are authorized to invest under the "expanded list" of investment securities may invest in domestic stock and foreign stock sold on an exchange in any country that is included in the Europe, Australia, and Far East Index (EAFE). (See Minn. Stat. § 356A.06, subd. 7(f) and (g).) Investments in stock from countries that are considered emerging markets and are not included in the EAFE are classified as "other investments." The total of all "other investments" cannot exceed 20 percent of a relief association's portfolio. In addition, the total of all domestic stock, developed-market foreign stock, and shares of stock authorized by the "other investments" section cannot exceed 85 percent of a relief association's portfolio.

### ***Additional Resources***

Additional information on relief association investment authority and investment policies is available on the Office of the State Auditor's website at the links provided below.

Statement of Position on Relief Association Investment Authority:

[http://www.auditor.state.mn.us/other/Statements/firereliefinvestmentauthority\\_0907\\_statement.pdf](http://www.auditor.state.mn.us/other/Statements/firereliefinvestmentauthority_0907_statement.pdf)

Statement of Position on Relief Association Investment Policies:

[http://www.auditor.state.mn.us/other/Statements/firereliefinvestmentpolicy\\_0905\\_statement.pdf](http://www.auditor.state.mn.us/other/Statements/firereliefinvestmentpolicy_0905_statement.pdf)

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