October 2011

Pension Division Newsletter

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Reporting Reminder

All 2010 reporting-year forms for volunteer fire relief associations must be received by November 30, 2011, to avoid **automatic forfeiture** of your relief association's 2011 state fire aid. The 2010 reporting information was due by March 31 for relief associations with less than $200,000 in assets and liabilities and by June 30 for relief associations that exceeded this statutory threshold. Notices were sent via e-mail and U.S. Mail to relief associations that have not submitted all required reporting information.

Relief association reporting forms can be accessed on the Office of the State Auditor's website at https://www.auditor.state.mn.us/safes/. In addition, a document providing helpful hints for completing the forms is available on our website at: http://www.auditor.state.mn.us/forms/pen/ReportingForms/pensionrf_infoandhelpfulhints.pdf.

If you have questions regarding relief association reporting requirements, please contact the Pension Division as soon as possible at (651) 282-6110 or at pension@osa.state.mn.us.

Working Group Update

The Office of the State Auditor will reconvene the Volunteer Fire Relief Association Working Group this fall. The purpose of the Working Group is to identify and work through current and pressing relief association issues. Working Group meetings are scheduled for Wednesday, November 16, Tuesday, December 13, and Tuesday, January 17. All meetings are open to the public and will be held from 11:00 am to 1:00 pm at our office in Saint Paul.

Meeting agendas and materials will be available on our website at: http://www.auditor.state.mn.us/default.aspx?page=reliefworkinggroup.

Information Regarding Combined Service Pensions

Minnesota law provides authority for defined-benefit relief associations to pay a combined service pension to members with service in more than one volunteer fire department. To pay a combined service pension, the bylaws of each participating relief association must be amended to provide for the combined service pension payments. In addition, a member must have at least ten years of total service, unless each participating relief association requires only five years of service for vesting, in which case the member must have at least five total years of service to be eligible for the combined service pension.

Assets are *not* transferred between or among relief associations when a combined service pension is payable. When a member who is eligible for a combined service pension retires, the member is paid a pension from each participating relief association in which the member has accrued at least one year of active service credit. The service pensions are calculated the same as they would be for other retiring members, except that years of service among all participating relief associations are combined for vesting purposes.

For example, a member serves for ten years with one volunteer fire department and then serves for an additional five years with another volunteer fire department. When the member ultimately retires from the second fire department, he or she will receive two pension payments, one from each affiliated relief association. The pension from the first relief association is based on ten years of service (the time served with that particular fire department) and the benefit level in effect for that particular relief association when the member separated. The vesting percentage, however, is based on the combined 15 years of service, rather than just the ten years served with that fire department.

In this example, the member would also receive a service pension from the second relief association based on the five years served with the second fire department. The pension would be calculated at five years times the benefit level in effect when the member separated from service with the second fire department. The vesting percentage used in the calculation would again be based on the combined 15 years of service, rather than just the five years served with that fire department.

Because years of service are combined for vesting purposes, the service pension amount paid from each participating relief association is more than would otherwise be payable. This is why the bylaws of each participating relief association must specifically authorize combined service pension payments in order for them to be offered. In addition, because the vesting percentage is based on the combined service in all participating fire departments, the pension amount cannot be calculated and paid until the member permanently ceases all firefighting duties. Transferring pension assets from one relief association to another is not authorized without special legislation.

For more information regarding combined service pensions, see Minnesota Statutes, section 424A.02, subdivision 13, at https://www.revisor.mn.gov/statutes/?id=424A.02.

Service Pension Rollovers and Safe Harbor Notices

Minnesota law provides authority for a relief association that is a qualified plan and pays a single-payment service pension to directly transfer on an institution-to-institution basis, at the written request of the retiring member, the eligible member’s lump-sum service pension to the requesting member’s individual retirement account (IRA). In addition, following the death of an active member, the lump-sum survivor benefit may be directly transferred to the surviving spouse’s IRA at the written request of the deceased member’s surviving spouse. However, relief associations do not have authority to roll over service pensions or survivor benefits to 401(k) retirement plans.

In addition, relief associations are required under the Internal Revenue Code to provide a safe harbor notice to recipients of eligible rollover distributions. A safe harbor notice is a written

explanation that describes the direct rollover rules, the mandatory income tax withholding rules for distributions not directly rolled over, the tax treatment of distributions not rolled over, and the circumstances when distributions may be subject to different restrictions and tax consequences after being rolled over. For additional information regarding safe harbor notice requirements and sample safe harbor explanations, see Internal Revenue Notice 2009-68 at:
http://www.irs.gov/irb/2009-39_IRB/ar14.html.

State Fire Aid Transfers

Last month's Pension Division Newsletter included a reminder that the municipal treasurer is required under State law to transmit the state fire aid to the treasurer of the affiliated relief association within 30 days after receipt, if there is a relief association organized and the association has filed a financial report with the municipality. State fire aid is generally paid by the State of Minnesota to a relief association's affiliated municipality via an electronic funds transfer. Because the description of the transfer is usually generic (e.g., "local government aid") and because the transfer may include other types of state aid in addition to the state fire aid, relief associations are encouraged to proactively contact their municipal officials to ensure that the state fire aid is transferred to their association's special fund within the required 30-day period. A list of the 2011 state fire aid amounts is available on our website at:
http://www.auditor.state.mn.us/forms/pen/pensionFireAid11.pdf.

If you have questions please contact us:

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