

SF 1925 (Abeler); HF 2192 (Heinrich): Ramsey Volunteer Firefighters' Relief Association; Retirement Benefits for Nowthen Firefighters

Prepared by: Susan Lenczewski

Date: March 12, 2021, updated March 15 to add HF number

Introduction

- Affected Plans:** Ramsey Volunteer Firefighters' Relief Association ("Ramsey relief association")
PERA Statewide Volunteer Firefighter Plan ("PERA Statewide Plan")
- Laws Amended:** The bill will become an uncodified session law.
- Laws Repealed:** The bill repeals a 2020 session law on the same topic (Chapter 108, Article 14, Section 1)
- Brief Description:** The bill addresses the retirement benefits of firefighters assigned to the Nowthen fire station whose employment with Ramsey will be terminated in 2021, modifies requirements for fire state aid for Nowthen, and provides for mid-year participation in the PERA Statewide Plan by a new Nowthen fire department.

Background

The cities of Ramsey and Nowthen are in the process of terminating their joint powers agreement, which will result in the Ramsey fire department no longer providing firefighting services to Nowthen. Ramsey currently employs 52 active firefighters who provide firefighting services under the joint powers agreement, but intends to terminate the employment of the 14 active firefighters assigned to the Nowthen fire station in the next couple months. Nowthen has contracted with neighboring St. Francis for assistance and is in the process of forming its own fire department.

The Ramsey relief association is a defined contribution plan, which means that each member receives a lump sum benefit that is the member's account in the plan to which state aid, contributions, and net investment earnings have been credited each year. Benefits are payable as early as age 50, as long as the firefighter has terminated active service. Fire state aid, contributions, and forfeitures are allocated each year in equal shares to the accounts of active firefighters.

Current Minnesota law does not provide a process for splitting a volunteer firefighter relief association when a group of firefighters effectively transfers employment from the municipality affiliated with the relief association to another municipality or independent nonprofit firefighting corporation.

2020 Session Law

A session law enacted in 2020 provided for the division of the Ramsey Firefighters' Relief Association. At the time the session law was considered by the Commission, Nowthen had not determined whether it would establish its own fire department and, if it did, whether it would establish a new volunteer firefighter relief association to provide retirement benefits or join the PERA Statewide Plan.

Specifically, under the 2020 session law, the accounts of the firefighters assigned to the Nowthen fire station were to be transferred from the Ramsey relief association to a new relief association affiliated with the city of Nowthen or to a new account in the PERA Statewide Plan for the Nowthen fire department. The new relief association or the PERA Statewide Plan would cover firefighters newly employed by Nowthen, many of whom are firefighters previously employed by the city of Ramsey and assigned to the Nowthen fire station. The transfer of accounts would include the accounts of former firefighters who had been assigned to the Nowthen fire station for eventual distribution to these firefighters when they reach age 50.

The 2020 session law also provided the following:

- A portion of the general fund in the Ramsey relief association is to be transferred to the general fund in a new relief association affiliated with Nowthen. (The general fund is a fund established by relief associations to hold donations and other funds that are not funds intended to be used for retirement benefits.)
- Nowthen firefighters whose employment was terminated by Ramsey are considered as having service for the entire year for purposes of receiving an allocation of fire state aid, contributions, or forfeitures to their accounts.
- The accounts of Nowthen firefighters transferred from the Ramsey relief association would not become fully vested, but would retain the same vesting percentage as under the Ramsey relief association.
- Ramsey is required to pay a portion of the fire state aid paid to Ramsey during 2021 to Nowthen if any firefighters transferred employment from Ramsey to Nowthen in 2020.
- Certain Ramsey firefighters would become fully vested under the Ramsey relief association if their employment with Ramsey is terminated and the firefighter is not hired by Nowthen.

Since the enactment of the 2020 session law, Nowthen has made decisions on establishing its own fire department and providing retirement benefits for firefighters. As mentioned above, Nowthen has moved forward with the assistance of St. Francis in establishing its own fire department and has decided to join the PERA Statewide Plan. Ramsey has not yet terminated the employment of the firefighters assigned to the Nowthen fire station, but intends to do so in the next couple months.

Changed circumstances require a new approach

The circumstances today have changed from the circumstances that existed a year ago, making much of the 2020 session law obsolete or no longer applicable. SF 1925 / HF 2192 repeals the 2020 session law and replaces it with a new approach. Instead of requiring the transfer of the accounts of the Nowthen firefighters from the Ramsey relief association to a new relief association, the bill provides for full vesting and immediate distribution of these accounts. Firefighters have the choice of accepting the distribution and paying income tax on the amount distributed or rolling the distribution into the Minnesota Deferred Compensation Plan, another retirement plan, or an IRA.

The bill changes current law as applied to Nowthen so that Nowthen will be able to receive fire state aid payable in 2022, even though its fire department will not have been in operation for at least one calendar year. The bill also permits Nowthen to enter the PERA Statewide Plan mid-year, rather than next January 1. Finally, the bill retains a provision that is in the 2020 session law, which gives the Nowthen firefighters a full year of service credit for 2021, even though their employment with Ramsey will be terminated during 2021, for purposes of receiving an allocation of fire state, any contributions, and any forfeitures to their accounts.

The Fire Chief and City Administrator of the City of Ramsey, officers of the Ramsey relief association, and the Mayor of the City of Nowthen have reviewed the bill and agreed to it.

Section-by-Section Summary

Section 1: Nowthen firefighter benefits in the Ramsey relief association

Section 1 consists of two subdivisions. Subdivision 1, "Definitions," defines three terms used in this section:

"Account" refers to the accounts in the Ramsey relief association, which is a defined contribution plan, so the account balance is the retirement benefit for each firefighter.

"Nowthen firefighter" is defined as a firefighter employed by Ramsey and assigned to the Nowthen fire station on March 31, 2021, who has an account in the Ramsey relief association, and whose employment is terminated by Ramsey in 2021.

"Ramsey relief association" is the Ramsey Volunteer Firefighters' Relief Association.

Subdivision 2, "Eligibility for allocation, full vesting, and immediate access to accounts," provides for the following in paragraphs (1) through (3):

- (1) Each Nowthen firefighter whose employment with Ramsey is terminated during 2021 is required to be considered as having worked all 12 months of 2021 for purposes of receiving an allocation of fire state aid, any contributions, and investment earnings, and for deducting administrative expenses.

- (2) Each Nowthen firefighter will become 100% vested in the firefighter's account in the Ramsey relief association on the date the firefighter's employment with Ramsey is terminated. Without this provision, these accounts would be subject to the vesting provision in the bylaws of the Ramsey relief association, which provide for 0% vested until the firefighter has 10 years of service, with an increase of 4% vesting each year thereafter, until becoming 100% vested after 20 years of service.
- (3) Each Nowthen firefighter is required to be given the option to take an immediate distribution of their account balance in the Ramsey relief association, without regard to whether the firefighter is at least age 50. The distribution may be taken as a direct lump sum payment to the firefighter or may, at the direction of the firefighter, be directly rolled over to another retirement plan, such as the Minnesota Deferred Compensation Plan or an IRA. Although this is not addressed in this subdivision, firefighters would be well-advised to not take a distribution of their accounts until they have become fully vested, as described in paragraph (2), above, and have received the allocation described in paragraph (1), above.

Section 2: Fire state aid for Nowthen

Section 2 modifies current law as applied to Nowthen to allow Nowthen to qualify for an allocation of fire state aid payable in 2022, under Minnesota Statutes, section 477B.02, subdivision 2, paragraph (b). This statute sets forth the requirements to qualify for fire state aid, one of which is that the fire department "must have provided firefighting services for at least one calendar year." The Nowthen fire department will not be in operation until at least April, so would fail to satisfy this requirement, without this provision.

The section states that Nowthen will be considered as having satisfied this calendar year requirement, if the Nowthen fire department is in operation by December 31, 2021, and provides documentation to that effect to the Commissioner of Revenue by February 1, 2022.

Section 3: Nowthen participation in the PERA Statewide Plan

Section 3 modifies current law as applied to Nowthen to allow Nowthen to begin coverage of its firefighters by the PERA Statewide Plan on the date the coverage election is approved by Nowthen's governing board or, if later, the date Nowthen satisfies all other requirements for coverage by the PERA Statewide Plan. Without this provision, coverage by the PERA Statewide Plan could not begin until next January 1.

Under Minnesota Statutes, section 353G.05, subdivision 5, a municipality may request coverage by the PERA Statewide Plan, which begins with a request to the PERA executive director to do a cost analysis to determine the benefit level for the retirement benefit that will be provided to the firefighters employed by the municipality. The municipality must provide demographic information to allow the executive director to perform this cost analysis. Within 120 days after receiving the cost analysis, the municipality's governing board must approve the coverage election for it to take effect. As mentioned, the statute states that coverage will begin on the next January 1. The bill allows for a coverage effective date that is earlier than next January 1.

Section 4: Repeal of the 2020 Session Law

Section 4 repeals the 2020 session law that provided for the transfer of the accounts of the Nowthen firefighters to a new relief association or another retirement plan, among other provisions, as described on page 2.

Effective Dates

Each section of the bill takes effect the day following final enactment.

Legislative Commission on Pensions and Retirement

55 State Office Building
Phone: 651-296-2750

100 Rev. Dr. Martin Luther King Jr. Blvd.
TDD: 651-296-9896; Fax: 651-297-3697

St. Paul, MN 55155-1201
www.lcpr.leg.mn