

*To: Members of the Legislative Commission on Pensions and Retirement*

*From: Susan Lenczewski, Executive Director*

*Date: March 15, 2023*

## **Overview of Retirement Benefits for Volunteer Firefighters**

The Commission is about to hear four bills that will amend statutes governing retirement benefits for volunteer firefighters. These bills are:

- HF xxxx (Nelson, M.)/SF xxxx (Pappas): Legislation recommended by the State Auditor's Volunteer Firefighter Working Group increasing the audit threshold
- HF 217 (Franson/Stephenson)/SF 809 (Westrom): PERA Statewide Volunteer Firefighter Plan; expanding service counted for vesting
- HF 2007 (Robbins)/SF 1975 (Limmer): PERA Statewide Volunteer Firefighter Plan; Hamel and Loretto Volunteer Firefighter Relief Associations' election to join the Plan and merge accounts
- HF 2777 (Hudella): PERA Statewide Volunteer Firefighter Plan; simplifying requirements imposed on relief associations after joining the Plan

This memo is a brief overview of how retirement benefits are provided to volunteer firefighters under current Minnesota law to provide background and context for considering the bills.

First, "volunteer" firefighters are to be distinguished from firefighters referred to as "full-time," "salaried," or "career" firefighters, who are covered by the PERA Police and Fire Plan. Volunteer firefighters, in most cases, receive compensation in the form of per-call or per hour payments for providing firefighting and EMT services. However, volunteer firefighters in some fire department receive no pay at all. My understanding is that these firefighters are referred to as "volunteer" because they are not typically required to show up at a fire or other emergency, but volunteer to do so when they get the call.

### **Volunteer Firefighter Relief Associations**

Since at least 1983, retirement benefits have been provided to volunteer firefighters by volunteer firefighter relief associations. Relief associations are governed by Chapters 424A and 424B. Relief associations are non-profit corporations established under Chapter 317A and are affiliated with a particular fire department or municipality. Retirement benefits are funded through fire state aid, supplemental state aid, and municipal contributions (firefighter contributions are not permitted). The Department of Revenue allocates fire state and supplemental aid based on property values and population, so smaller communities with lower property values receive the least amount of funding.

Each relief association that provides retirement benefits has a special fund. The special fund receives the state aid and is the source for paying retirement benefits. The board of trustees of the relief association directs the investment of these public funds into investments selected by the board, which may, but are not required to, include investments through the State Board of Investment. Relief associations may also have a general fund that is for charitable and other fire department purposes.

The “plan document” for relief associations that provide retirement benefits is the bylaws, which sometimes includes a retirement plan appendix. The retirement plan administered by a relief association is intended to be tax-qualified, which means that it must comply with requirements in the federal tax code. There is no oversight of whether relief associations, in fact, do comply with federal tax code requirements or even whether the board of trustees, the fiduciaries, know what these requirements are. Typically, relief associations have no legal counsel or other service provider who could help ensure that the relief association complies with federal tax requirements.

A relief association retirement plan may be a defined benefit plan or a defined contribution plan. The benefit under a defined benefit plan is equal to a firefighter’s years of service multiplied by the relief association’s benefit level (referred to as the “service pension amount”). Benefit levels range from \$50 to \$15,000. Note that, unlike the pension benefits provided to all other public employees under the statewide pension plans, the formula for the benefit does not take into account pay.

Benefits are paid out either in a single lump sum or, for the monthly benefit plans, in an annuity. Most of the defined benefit relief associations are substantially overfunded. As of the end of 2020, the average funded ratio for all lump sum defined benefit plans was 149%.

The benefit under a defined contribution relief association plan is the firefighter’s account, to which has been credited an equal allocation of annual fire state aid and any municipal contributions and investment earnings on those deposits.

The benefit earned by a volunteer firefighter is subject to a vesting schedule that starts with partial vesting at 5 years to full vesting at a point selected by the relief association, ranging from 10 years to 20 years. Some relief associations apply cliff vesting, which means a firefighter is 0% vested until the “cliff” is reached, which is permitted to be as long as 20 years. Retirement age is age 50 and there is no early retirement.

The most recent annual financial and investment report, for 2020, published by the Office of the State Auditor on March 29, 2022, is available on the OSA website at [www.osa.state.mn.us/media/szlofgxp/2020-financial-and-investment-report-of-volunteer-fire-relief-associations.pdf](http://www.osa.state.mn.us/media/szlofgxp/2020-financial-and-investment-report-of-volunteer-fire-relief-associations.pdf).

As of the end of 2020, there were 535 relief associations, of which 439 were lump sum defined benefit plans, 20 were monthly defined benefit plans, and 76 were defined contribution plans.

Total state aid paid to all relief associations in 2020: \$24.1 million

Total assets in relief association plans in 2020: \$678.2 million

Total number of active and former firefighters covered by relief associations in 2020 was 15,792, of which 12,791 were active firefighters.

## **PERA Statewide Volunteer Firefighter Plan**

In 2009, the Statewide Volunteer Firefighter Plan (SVF Plan) was established. The SVF Plan is governed by Chapter 353G. The SVF Plan is a retirement plan administered by the Public Employees Retirement Association (PERA) to provide retirement benefits to volunteer firefighters. Each fire department that joins the SVF Plan has its own account, which is invested by the State Board of Investment.

The SVF Plan was established in recognition of the fact that having hundreds of retirement plans statewide may not be the most efficient way to administer retirement benefits for volunteer firefighters. The SVF Plan is the centrally administered alternative to having relief associations provide retirement benefits for volunteer firefighters. The SVF Plan offers only a defined benefit plan that pays either lump sums, monthly annuities, or both. A defined contribution relief association that wishes to join the SVF Plan is required to convert to a defined benefit plan since that is the only type of plan currently available under the SVF Plan.

With the cooperation of the affiliated municipality, a relief association that no longer wishes to administer its own defined benefit pension plan is able to join the SVF Plan and hand over administration of the plan and all assets and benefit liabilities to PERA. Fire state aid and supplemental aid that would have been paid to the relief association is instead paid to the SVF Plan and credited to the account maintained for the fire department. As of December 31, 2021, the average funded ratio among all fire departments participating in the SVF Plan was 148%.

Similar to relief association benefits, a firefighter's benefit under the SVF Plan is equal to the firefighter's years of service multiplied by the fire department's benefit level. Benefit levels range from \$50 to \$15,000. Vesting is similar to schedules available to relief associations and is elected by the fire department when it joins the SVF Plan.

Information regarding the funded status, membership date, benefit level for the fire departments covered by the SVF Plan is available on the PERA website at [mnpera.org/wp-content/uploads/Data-Compilation-of-Statewide-Volunteer-Firefighter-Plan-Annual-Funding-Reports.pdf](https://mnpera.org/wp-content/uploads/Data-Compilation-of-Statewide-Volunteer-Firefighter-Plan-Annual-Funding-Reports.pdf). An overview of the benefits provided by the SVF Plan is also available on the PERA website at [mnpera.org/wp-content/uploads/SVF-Plan-Retirement-Benefits.pdf](https://mnpera.org/wp-content/uploads/SVF-Plan-Retirement-Benefits.pdf).

As of January 1, 2022, there were 203 fire departments participating in the SVF Plan.

Total state aid paid to the SVF Plan in 2022: \$5.07 million

Total assets in the SVF Plan in 2022: \$132 million

Total number of active firefighters covered by the SVF Plan in 2022: 4,115