



## SF 4767 (Seeberger); HF 4724 (Johnson):

### Firefighter Relief Associations; Phasing in shorter vesting schedules

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#### Introduction

- Affected Plan:** Defined benefit plans and defined contribution plans administered by firefighter relief associations (relief associations)
- Laws Amended:** Minnesota Statutes, section 424A.016, subdivision 3, and section 424A.02, subdivision 2
- Brief Description:** The bill phases in shorter vesting schedules through 2029 for relief associations. By January 1, 2029, relief association cannot require more than 10 years of active service for a member to become 100% vested.
- Amendment:** S4767-1A (author's amendment)

#### Background

Under current law, relief associations may permit full vesting after 10 years, but not more than 20 years, of active service. Relief associations may also permit partial vesting, which must be at least 5 years of active fire department service. Partially vested members receive a reduced service pension calculated using the vesting schedule in the relief association's articles of incorporation or bylaws. However, the articles of incorporation or bylaws cannot provide for a larger vesting percentage than is provided in the following table.

Completed Years of Active Service	Vested Percentage of Pension Amount
5	40%
6	52%
7	64%
8	76%
9	88%
10	100%

Page 8 of the Office of the State Auditor's [2024 Financial and Investment Report of Fire Relief Association](#) provides the following data on years of service for the active lump-sum and defined-contribution plan members.

- 28.6% of active members have less than 5 years of service.
- 21.9% of active members have 5 to 9 years of service.
- 17.1% of active members have 10 to 14 years of service.
- 13.4% of active members have 15 to 19 years of service.
- 19% of active members have 20 or more years of service.

**Relief association vesting compared to other public pension plans.** No public pension plan in Minnesota, including the PERA Police and Fire Plan, has a vesting schedule that requires more than 10 years of service to be fully vested.

**Considerations regarding shortening the vesting schedule.** Over the years, representatives of relief association boards of trustees have testified to the Commission that longer vesting schedules are needed to retain firefighters. Since the PERA Police and Fire Plan would similarly want to retain firefighters and that plan has a much shorter vesting schedule, there is a possibility that something else is driving relief associations' desire to retain long vesting schedules: when a firefighter leaves firefighting service before becoming fully vested, the nonvested portion of the firefighter's benefit or, in the case of a defined contribution relief association, the firefighter's individual account is forfeited.

For a defined benefit relief association, the forfeiture of the nonvested portion of a firefighter's benefit results in an increase in plan assets and, in the case of the majority of relief associations, even greater surplus (assets over liabilities) than before the forfeitures for the year. Eventually, the growing surplus will likely lead to an increase in the benefit level, thereby benefiting the firefighters remaining. For a defined contribution relief association, the forfeiture is allocated to all active firefighter accounts, resulting in a larger allocation than just a share of the state aid paid to the relief association every year.

Because of the greater likelihood of larger and more frequent forfeitures, boards of trustees of relief associations, especially if the trustees are primarily longer service firefighters, have some motivation to keep vesting schedules as long as possible.

Longer vesting schedules are likely not aiding in recruitment. In many cases, the relief association retirement benefit is most of the compensation received for firefighting, especially if the pay per call is low or they work without any pay at all. Imposing a long vesting requirement would have the opposite effect to aiding recruitment, as it makes it less likely that a firefighter will receive the entire benefit the firefighter has accrued.

## Section- by- Section Summary

This summary assumes that Amendment S4767-1A is adopted.

## Sections 1- 2: Description

**Section 1** amends section 424A.016, subdivision 3, which provides the parameters for the vesting schedule for a service pension that may be included in the articles of incorporation or bylaws of a defined contribution relief association.

**Section 2** amends section 424A.02, subdivision 2, which provides the parameters for the vesting schedule for a service pension that may be included in the articles of incorporation or bylaws of a defined benefit relief association.

The changes made to section 424A.016, subdivision 3, and section 424A.02, subdivision 2, are essentially identical. Sections 1 and 2 replace the current vesting parameters with parameters that will require relief association to phase in shorter vesting schedules. Specifically, the vesting schedule must not require more active service than the following:

- through December 31, 2027, at 5 years, the member is 40% vested, increasing 4% each year until the member is fully vested after 20 years;
- beginning January 1, 2028, through December 31, 2028, at 5 years, the member is 40% vested, increasing 6% each year until the member is fully vested after 15 years; and
- beginning January 1, 2029, at 5 years, the member is 40% vested, increasing 12% each year until the member is fully vested after 10 years.

The table below shows what the vesting schedules would look like under the bill.

Completed Years of Active Service	Vested Percentage Through 12/31/2027	Vested Percentage 1/1/2028 – 12/31/2028	Vested Percentage Beginning 1/1/2029
5	40%	40%	40%
6	44%	46%	52%
7	48%	52%	64%
8	52%	58%	76%
9	56%	64%	88%
10	60%	70%	100%
11	64%	76%	
12	68%	82%	
13	72%	88%	
14	76%	94%	
15	80%	100%	
16	84%		
17	88%		
18	92%		
19	96%		
20	100%		

### **Section 3: Ceasing membership and forfeiting benefit for committing fraud**

**Section 3** adds new section 424A.11 (“Cessation of Membership and Forfeiture for Committing Fraud”) to Chapter 424A. The new section requires that a member cease to be a member of the relief association and forfeit the member’s service pension or retirement benefit, if the member commits fraud as determined by the fire chief of the fire department or the governing board of the municipality that is affiliated with the relief association.

The new section defines “fraud” as “an individual's intentional use of deceit or dishonest means to obtain money from the fire department, the relief association, or the municipality, without regard to whether the individual is convicted for the fraud.”

### **Section 4: Effective Date**

Sections 1 to 3 are effective the day following final enactment.