

HF 3921 (Nelson, M.); SF 3550 (Rosen): Increasing the maximum lump-sum pension amount for volunteer firefighter relief associations

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Introduction

Affected Plan:	Volunteer firefighter relief associations
Laws Amended:	Minnesota Statutes, Section 424A.02, Subdivision 3; Repeals Laws 2018, Chapter 211, Article 14, Section 29.
Brief Description:	The bill increases the maximum amount per year of service that a defined benefit relief association can pay as a lump-sum benefit from \$10,000 to \$15,000.
Attachment:	Amendment H3921-1A

Background

Volunteer firefighter relief associations ("relief associations") provide retirement benefits that are either defined benefit or defined contribution. Defined benefit relief associations can provide either a single lump-sum benefit or a monthly annuity upon retirement and some relief associations offer both a lump sum and an annuity. In the case of a defined benefit relief association that pays lump-sum benefits, the lump-sum benefit is calculated by multiplying years of service times a "lump-sum amount." This lump-sum amount is set forth in the bylaws of the relief association and limited by Minnesota statutes.

Determining the lump-sum amount.

A relief association's bylaws may specify any lump-sum amount, up to the statutory maximum lump-sum amount applicable to the relief association. The maximum lump-sum amount a relief association may use in calculating benefits is determined by reference to a table set forth in Minnesota Statutes, Section 424A.02, Subdivision 3, Paragraph (d).

To determine the applicable maximum lump-sum amount using the table in Section 424A.02, a relief association must first determine its "minimum average amount of available financing per firefighter." This is an average for the most recent three-year period, per active firefighter, of:

- (i) fire state aid and police and firefighter retirement supplemental state aid received or receivable by the relief association;
- (ii) any amounts of municipal contributions to the relief association; and

- (iii) one-tenth of the amount of assets in excess of the accrued liabilities of the relief association, if any.

As mentioned, the relief association's bylaws specify the lump-sum amount to be applied in calculating benefits. This amount may not exceed the maximum determined by reference to the table and may be less than the maximum. If the applicable maximum increases because the amount of minimum average amount of available financing per firefighter has increased, the bylaws may be amended to reflect the higher lump-sum amount. The lump-sum amount set forth in the bylaws in effect at the time a firefighter retires is the amount applied to every year of service with which the firefighter has been credited.

As set forth in the table in Section 424A.02, Subdivision 3, Paragraph (d), the highest lump-sum amount a relief association is able to offer per year of service is currently set at \$10,000, which is the applicable maximum if the relief association has an average of at least \$5,397 of available financing per active firefighter.

Current benefit levels.

For a lump-sum plan, the benefit level is the lump-sum amount determined by the relief association. Benefit levels vary greatly among relief associations in Minnesota. Typically, relief associations with more assets and larger fire state aid payments are able to offer higher benefits to their members. In 2017 (the most recent year for which data is available), the average (mean) benefit level for lump-sum plans was \$1,826, a 5.2 percent increase from the 2016 average of \$1,736. Only 32.4 percent of lump-sum plans offered a benefit level higher than the 2017 average of \$1,826. The median benefit level for lump-sum plans was \$1,400 in 2017.¹

In 2017, the lump-sum plans with the highest benefit were the Brainerd Relief Association, which offered a \$9,500 benefit level, and the Maplewood Relief Association, which offered a \$10,000 benefit but which has since dissolved.¹ In 2017, the monthly/lump-sum combination plans (plans which pay both a lump sum and a monthly annuity) with the highest benefit were Plymouth (\$9,500) and Eden Prairie (\$10,000). The 2018 pension bill increased the benefit levels for Eden Prairie and Plymouth to \$15,000 and \$12,500, respectively.²

Description of the Bill

HF 3921 (Nelson, M.); SF 3550 (Rosen) modifies Minnesota Statutes, Section 424A.02, Subdivision 3, by extending the table that details the maximum lump-sum pension amount and the corresponding minimum average amount of available financing per firefighter the relief association is required to

¹ STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR, Financial and Investment Report of Volunteer Fire Relief Associations (For the year ended December 31, 2017) p 25.

² See Laws 2018, Ch. 211, Art. 14, §§ 28 and 29.

receive. The maximum benefit in the extended table is \$15,000 per year. The maximum required financing is \$8,097 per firefighter.

The bill also repeals Laws 2018, Chapter 211, Article 14, Section 29, which permits Plymouth to increase its lump-sum amount up to \$12,500. The section is repealed because under the bill, the new maximum lump-sum amount is higher than the current \$12,500 maximum available to Plymouth. Under the bill, Plymouth would be able to continue at its current benefit level or increase the benefit level to up to \$15,000 per year.

Discussion and Analysis

Who is affected by the bill?

It is not clear which relief associations will be affected by the bill. The most recent State Auditor's data indicates that there are currently no relief associations at the current \$10,000 maximum lump-sum benefit amount, with the exception of Eden Prairie, which has special legislation allowing it to increase its lump-sum amount to \$15,000, and Maplewood, which has since dissolved.

The following table shows the ten relief associations with the highest lump-sum benefit amounts as of December 31, 2017:

Relief Association	Benefit Amount
Eden Prairie	\$10,000 ³
Maplewood	\$10,000 ⁴
Plymouth	\$9,500 ⁵
Brainerd	\$9,500
Northfield	\$8,500
Shakopee	\$8,025
Golden Valley	\$8,000
Inver Grove Heights	\$7,900
Robbinsdale	\$7,800
Excelsior	\$7,250

In 2017, more than 2/3 of all lump-sum plans had a benefit amount of less than \$1,826 per year of service. This bill will not affect the majority of relief associations.

Moreover, between February 20, 2020, and March 20, 2020, the S&P 500 has lost more than 28 percent of its value. Given that this change is likely to have a significant effect on the funded ratio of relief

³ The legislature increased Eden Prairie's maximum benefit to \$15,000 in 2018; it is likely that Eden Prairie's maximum benefit is at or near that amount today. This bill would not affect Eden Prairie.

⁴ Since 2017, the Maplewood Relief Association has dissolved. This bill would not affect Maplewood.

⁵ The legislature increased Plymouth's maximum benefit to \$12,500 in 2018; it is likely that Plymouth's maximum benefit is at or near that amount today. This bill would affect Plymouth.

associations, the Commission may wish to delay taking steps to address overfunding until the effects of the recent market instability can be assessed.

Overfunding of relief associations.

Over the past three years, the Commission has heard testimony that many relief associations are overfunded. In 2017, the average funded ratio for a lump-sum plan was 138.5%.⁶ Because so few relief associations are anywhere near the current \$10,000 lump-sum benefit maximum, it is unlikely that this bill will do much to address the overfunding concern. However, it may reduce overfunding for a handful of relief associations. Other legislation introduced this session may be more effective in addressing this concern. For example, S.F. 4438 implements the recommendations of the Work Group on Firefighter Relief Association Conversions and Dissolutions by authorizing the conversion of relief associations that are defined benefit plans to defined contribution plans. Converting an overfunded defined benefit plan to a defined contribution plan will eliminate any surplus assets by allocating them to newly established retirement accounts for the firefighters.

Moreover, between February 20, 2020, and March 20, 2020, the S&P 500 has lost more than 28 percent of its value. Given that this change is likely to have a significant effect on the funded ratio of relief associations, the Commission may wish to delay taking steps to address overfunding until the effects of the recent market instability can be assessed.

Benefit equity.

In 2017, relief associations in Ramsey County had the highest average lump-sum benefit level of any county, yet the average was still only \$5,647 per year of service.⁷ The bill would permit a small number of relief associations (3 to 10) to increase their lump-sum benefit amount to nearly 3 times the average of the highest county. This may cause unintended consequences relating to recruitment and retention. Volunteer firefighters with benefits from relief associations with the highest lump-sum benefit amounts will receive benefits that are significantly higher than firefighters from neighboring departments. For example, the cities of Maplewood and Little Canada share a border; yet in 2017, while firefighters in Maplewood accrued \$10,000 per year of service in retirement benefits, firefighters in Little Canada accrued only \$3,380 per year of service.⁸

⁶ OFFICE OF the STATE AUDITOR, Financial and Investment Report of Volunteer Fire Relief Associations (for the Year Ended December 31, 2017) p 3.

⁷ OFFICE OF the STATE AUDITOR, Financial and Investment Report of Volunteer Fire Relief Associations (for the Year Ended December 31, 2017) p 27.

⁸ OFFICE OF the STATE AUDITOR, Financial and Investment Report of Volunteer Fire Relief Associations (for the Year Ended December 31, 2017) p 44; *and note* Maplewood has since transitioned to a full-time department.

Other factors may affect benefit equity, such as call volume and average number of hours worked. The Commission may wish to gather additional evidence to determine if or how benefit inequity between neighboring municipalities affects recruitment and retention.

At its January 31, 2018, meeting, the State Auditor's Fire Relief Association Working Group adopted a motion taking a formal position in favor of legislation to increase the maximum lump-sum benefit to \$15,000. The Commission may wish to hear testimony from the State Auditor on the rationale for this position and whether it has changed since January of 2018.

Amendment H3921-1A

[Amendment H3921-1A](#) corrects a typographical error in the bill.

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