



July 2008

## Pension Division Newsletter

- 
- *Defined Contribution Plan Sub-Group*
  - *Authorized Administrative Expenses*
  - *Supplemental Benefit Reminders*
  - *Working Group Topic Suggestions*
  - *Investment Basics – Investment Terms*
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### *Defined Contribution Plan Sub-Group*

As you may recall, the Office of the State Auditor's Volunteer Fire Relief Association Working Group decided to form a sub-group consisting of defined contribution plan members and trustees. The purpose of this sub-group is to focus on issues that are unique to defined contribution plans. The sub-group will also draft legislation to reorganize Chapter 424A, the section of state law that pertains to volunteer firefighter pensions and benefits, into separate provisions for defined contribution and defined benefit plans.

Notices were provided to each defined contribution plan seeking interested candidates to serve on the sub-group, and we are extremely pleased with the qualified members and trustees that have volunteered.

The meeting schedule for the sub-group is as follows: Tuesday, July 29, Thursday, August 7, and Tuesday, August 19. All meetings will be held from 11:00 am to 1:00 pm at our main office in Saint Paul. Meeting materials will be posted on our website prior to each meeting. If you have questions or suggestions for the sub-group to consider, please contact Rose Hennessy Allen at (651) 296-5985 or [Rose.Hennessy-Allen@state.mn.us](mailto:Rose.Hennessy-Allen@state.mn.us).

### *Authorized Administrative Expenses*

As you are aware, special fund assets may only be disbursed for purposes expressly authorized under state law. Authorized special fund disbursements include service pension and ancillary benefit payments, and certain authorized administrative expenses. Administrative expenses that may be paid from the special fund include office expenses, officer salaries, training fees and professional fees.

Two common compliance issues that occur relate to salaries and professional fees. State law allows salaries to be paid from the special fund only to the relief association president, secretary, and treasurer, or their designees. Relief associations do not have authority to pay salaries to other trustees, unless specific language authorizing the payments was included in the association bylaws prior to January 1, 1986. Members of the board of trustees may be reimbursed from the special fund for reasonable and necessary expenses actually *paid* and *incurred* in the performance of their duties as members of the board. All other payments (such as per diems) to board members should be paid from the general fund.

The professional fees that a relief association may pay from the special fund are limited to authorized audit, actuarial, medical, legal, and investment and performance evaluation expenses. Relief associations do not have authority to pay for lobbying or consulting services from the special fund unless the services are provided by an individual or firm that fits one of the categories listed above. Authorized legal fees are fees paid to an attorney or a law firm.

### ***Supplemental Benefit Reminders***

The Pension Division has received a number of inquiries recently regarding supplemental benefits and survivor supplemental benefits. Please recall that supplemental benefits to members receiving an active or deferred service pension are to be calculated at 10 percent of the pension amount, up to \$1,000. The 10 percent should be calculated based on the pension amount *before* any deferred interest is added. In addition, deferred interest should not be accrued on the supplemental benefit.

Last year, the Minnesota Legislature clarified that survivors are only eligible to collect the 20 percent up to \$2,000 supplemental benefit, and are **NOT** eligible for the regular 10 percent up to \$1,000 supplemental benefit that is limited to service pension recipients.

This means that survivors are not eligible to receive a supplemental benefit unless the relief association elects to pay the survivor supplemental benefit amount. A relief association should add language to its bylaws that authorizes the survivor supplemental benefit payments if the association intends to pay a supplemental benefit to a survivor. The Pension Division has sample language that can be used as a reference for relief associations that are interested in making a bylaw change.

### ***Working Group Topic Suggestions***

The Working Group will reconvene this fall to discuss current and pressing relief association issues. The Group represents the relief association community, so your ideas, questions, and concerns are important and appreciated. If you have topic suggestions that you would like the Working Group to consider, please email them to Rose Hennessy Allen at [Rose.Hennessy-Allen@state.mn.us](mailto:Rose.Hennessy-Allen@state.mn.us).

### ***Investment Basics – Investment Terms***

A document is attached entitled “Investment Basics – Investment Terms.” This is the first in an ongoing series that we hope will provide education on investment topics. This first installment provides definitions for basic investment terms. Future topics will include information on investment fees, and reading account statements. If you have additional suggestions for future topics please contact Luke Hinz at (651) 296-6279 or [Lucas.Hinz@state.mn.us](mailto:Lucas.Hinz@state.mn.us).

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*If you have questions please contact us:*

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# Investment Basics

## Investment Terms

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Source: Legislative Commission on Pensions and Retirement  
<http://www.commissions.leg.state.mn.us/lcpr/documents/generalinfo/glossary.htm>

### ***Pension Fund***

The vehicle that receives contributions, and accumulates the assets due to these contributions and the investment income from investing the assets, for purposes of paying the benefits specified by the pension plan.

### ***Pension Plan***

The collection of provisions, generally found in state law or nonprofit corporation bylaw which specify: (1) membership eligibility requirements; (2) the contributions required by law from covered employees and employing units; and (3) the level, conditions, and nature of benefits payable at termination, retirement, death, or date of disability.

### ***Portfolio***

The collection of investment securities owned by a pension fund.

### ***Bonds***

A debt-related investment security, representing a loan of money in return for an enforceable promise by the debtor to repay the principal amount of the loan and interest on the unpaid principal balance at a stated percentage rate on or before a stated date.

### ***Debt Securities***

An investment security that represents a loan from the investment fund to some other entity, frequently a corporation, in order to obtain the interest payments on the loan principal balance, rather than to obtain an ownership interest in the entity.

### ***Stocks***

The equity or ownership interest in a corporation, issued by the corporation in the form of shares, and traded on an exchange or otherwise.

### ***Equities***

Investment securities that represent an ownership interest in the entity issuing the security, that are expected to produce income in the form of shared profits, typically referred to as dividends, and to produce appreciation in value, typically referred to as capital appreciation or capital gain.

### ***Balanced Portfolio***

An asset allocation practice emphasizing the investment of significant portions of a fund in the two major asset classes (e.g. debt (bonds) and equity (stocks)).

### ***Asset Allocation***

The investment practice of determining what portion of an investment fund ought to be invested in various types of investment securities (e.g. stocks, bonds, cash equivalents, etc.)

### ***Investment Performance***

The measurement of the net gain or loss produced by an investment portfolio. The measurement can be restricted to realized investment results only (yield) or inclusive of unrealized changes in market value (total rate of return) and can ignore the impact of cash flow (dollar weighted rate of return) or can attempt to correct for cash flow changes (time weighted rate of return.)

### ***Investment Strategy***

The plan of an investment fund for purchasing various types of investment securities, attempting to take advantage of the earnings potential of the various types of investment securities, to emphasize safety from risk through diversification, and to accommodate future liquidity and cash flow needs.

### ***Funding Ratio***

Current assets expressed as a percentage of the actuarial accrued liability. A funding ratio of one hundred percent indicates current assets are equal to actuarial accrued liabilities. A funding ratio of less than one hundred percent indicates that the plan has unfunded actuarial accrued liabilities.

### ***Normal Cost***

The cost, or additional liability, incurred by covering employees for the current year's operations.

### ***Volatility***

The tendency for the fair market value of investment securities, especially equity investments, to vary positively or negatively over a short period of time and within a considerable range.

### ***Yield***

The investment income obtained or obtainable from an investment security in the form of interest on bonds, dividends on equities, and any net realized gain upon security sale.

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