



October 2008

Pension Division Newsletter

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Market Concerns

We have received a number of phone calls during the past few weeks from relief association members who are understandably concerned about the recent market volatility. The main areas of concern seem to be required contribution increases and relief association benefit levels. We wanted to provide information below regarding these topics that we hope you will find helpful.

- The 2008 Schedule Form, which calculates the amount of any required contribution for 2009, was to be completed by August 1. The form therefore was completed before the extreme market swings took place, and doesn't reflect any recent investment losses. The 2009 Schedule Form will calculate the amount of any required contribution for 2010. This form won't be completed until July of 2009, so there is some time for the markets to stabilize before the 2010 contribution amounts are to be determined.
- If the affiliated municipality or independent nonprofit firefighting corporation has approved your relief association's benefit level, the municipality or independent corporation must make any required contributions that become due at that benefit level. Municipalities and independent corporations do not have the authority to unilaterally change your relief association's benefit level. Benefit level changes are first adopted by your relief association, and then brought to the city council, town board, or independent corporation for approval.

Investment Basics

When presented with investment proposals, keep in mind the old adage: "If it sounds too good to be true, it probably is." Relief association trustees should use caution when making investment decisions, especially during times of extreme market volatility.

State law places restrictions on the types of investments that relief associations may invest in and sets limitations on exposure to higher-risk investments. During the past few weeks we have received inquiries about investing in certain types of hedge funds, managed futures, and investments with short sales. Some of these types of investments are not authorized under state law. The list of authorized investment securities can be viewed at:

https://www.revisor.leg.state.mn.us/bin/getpub.php?pubtype=STAT_CHAP_SEC&year=current§ion=356A.06.

A new installment of our Investment Basics is attached that provides a timeline of the recent market changes and returns. If you have questions regarding the investment information or have

suggestions for future installments of the Investment Basics, please contact Luke Hinz at (651) 296-6279 or Lucas.Hinz@state.mn.us.

Working Group Update

The Office of the State Auditor has reconvened the Volunteer Fire Relief Association Working Group again this fall. The purpose of the Working Group is to bring together the major relief association stakeholders to develop relationships, facilitate communication, discuss relief association issues, and make the pension process easier and more effective.

The Working Group met on October 28 and is scheduled to meet again on November 6, November 18, December 4, and December 16. All meetings will be held from 11:00 am to 1:00 pm at our main office in Saint Paul. Meeting agendas and materials are available on our website at <http://www.auditor.state.mn.us/default.aspx?page=reliefworkinggroup>.

We're interested in identifying current and pressing relief association issues for the Working Group to consider. In the past, trustees throughout Minnesota have suggested topics for the group. If members in your community would like to suggest topics, please forward them to Rose Hennessy Allen at (651) 296-5985 or Rose.Hennessy-Allen@state.mn.us.

Reporting Reminder

The second certification deadline for state fire aid is November 1. If your relief association has yet to be certified for its state fire aid distribution, please submit all requested information to the Pension Division as soon as possible so that your association may be eligible to be certified for the next round of aid disbursements.

Please also be aware that state law requires forfeiture of state fire aid for relief associations that do not submit all required reporting information by November 30. There are about 70 relief associations that have yet to submit some or all of their 2007 reporting year forms. This is double the number of late filers as of this date last year. If you have questions regarding your reporting requirements, please contact Gail Richie at (651) 282-6110 or Gail.Richie@state.mn.us.

2008 Schedule Forms

Lump sum plans were required to certify their 2008 Schedule Form to the affiliated municipality or independent nonprofit firefighting corporation by August 1. Although the 2008 Schedule is not required to be submitted to our office until next year, most relief associations submit the form to our office at the same time it is given to the city, town, or independent corporation. The Pension Division will be performing preliminary reviews of the 2008 Schedule information this fall and winter. If you have not submitted the form yet, please provide a copy at your earliest convenience so that a preliminary review of the data can be conducted.

Bylaw Reviews

There is a common misperception that the Pension Division "approves" relief association bylaws that are submitted. Please be aware that the Office of the State Auditor does not approve bylaw language and cannot provide legal advice. Bylaw provisions are read each year in conjunction with our review of your reporting information. If compliance issues or inconsistencies are identified during the review process we typically notify your relief association, but no comment

from us doesn't mean that the bylaw language is satisfactory. Relief associations should consider consulting an attorney for specific assistance when updating bylaws.

Special Fund Loans

Relief associations must have a special fund, which is a restricted pension fund. Disbursements from a relief association's special fund are limited to purposes expressly authorized under state law. Authorized special fund disbursements include pension or other benefit payments and certain authorized administrative expenditures.

Relief association trustees occasionally consider taking out a loan from a third party to cover pension and benefit payments. Such loans cannot be repaid from the special fund because loan repayment amounts are not benefits nor are they authorized administrative expenses. Relief association trustees should make sure that an adequate amount is maintained in liquid investments in order to pay benefits as they come due.

State law requires the chief administrative officer of each relief association to determine the minimum liquidity requirement of the association and retain appropriate documentation of that determination for three years from the date of determination. The state statute on minimum liquidity requirements can be viewed at:

https://www.revisor.leg.state.mn.us/bin/getpub.php?pubtype=STAT_CHAP_SEC&year=current§ion=356A.06
(see subdivision 8).

Contact E-mail Addresses

The Office of the State Auditor is working on some updates to the State Auditor's Form Entry System (SAFES) this fall and winter. SAFES is the web application for downloading and submitting electronic reporting forms. To access some of the new features you will need to have a unique email address. Currently, some relief association trustees share a general email address that is for the relief association or the fire department. In preparation of these system changes, please provide unique email addresses for your relief association officers to Gail Richie at Gail.Richie@state.mn.us.

If you have questions please contact us:

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Investment Basics

Timeline of Recent Financial Events

We have received questions from a number of relief associations about the timeline of recent events in the market. We are providing a basic chronology of the recent events for your information.

9/15/08: The Dow Jones Industrial Average (Dow) drops more than 500 points, marking the largest single-day drop in nearly seven years. This decline corresponds to the Bank of America buyout of Merrill Lynch, and Lehman Brothers filing for the largest bankruptcy in history.

9/16/08: The U.S. Government provides an \$85 billion loan to American International Group (AIG) in order to prevent the collapse of the nation's largest insurer. The government now has an 80% equity stake in AIG.

9/21/08: The final two remaining Wall Street independent investment banks, Goldman Sachs and Morgan Stanley, were converted into bank holding companies by Federal officials. The move will require increased oversight of the companies by the Federal Reserve. It also opens the door to more mergers in the struggling banking sector as the companies can now take over retail banks.

9/25/08: Washington Mutual is taken over by the Federal Deposit Insurance Corporation (FDIC) and then sold to JP Morgan Chase while discussions continue on a proposed \$700 billion financial rescue plan by the Federal Government. The acquisition of Washington Mutual marks the biggest banking failure in U.S. history.

9/29/08: The \$700 billion financial rescue plan, in which the government would purchase troubled mortgages and other assets from financial institutions, is voted down by the U.S. House of Representatives. The Dow falls 778 points, which marks the largest single-day point drop in history.

10/1/08: The U.S. Senate passes a revised version of the financial rescue plan. Among the modifications to the plan is temporarily increasing the FDIC cap on deposits from \$100,000 to \$250,000 in an effort to make it less likely worried consumers will withdraw funds from banks.

10/3/08: The House passes the revised financial rescue plan which is signed into law by President Bush. Meanwhile, Wells Fargo reaches a deal to buy troubled bank Wachovia for \$15.1 billion, exceeding a previous government-assisted offer of \$2.1 billion from Citigroup.

10/6/08: The Federal Reserve announces that it would double the amount of cash made available to banks through auctions in an effort to stimulate short-term credit markets. Meanwhile, the Dow drops below 10,000 for the first time since 2004.

10/9/08: The Dow drops 679 points, to below 9,000 for the first time in five years. Shares of American automakers General Motors and Ford drop by 31 percent and 22 percent, respectively.

10/13/08: Stocks experience their largest single-day increase as the Dow climbs 936 points. This follows the release of details on the \$700 billion financial rescue plan.

10/15/08: The Dow experiences its second largest single-day loss, slipping 733 points to 8,577.91. This is after reports on retail sales, spending, and home values suggested a weakening overall economy.

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