



March 2010

## Pension Division Newsletter

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### *Training Webinars*

The Office of the State Auditor has recorded three audio-visual web-based seminars (webinars) to assist with the completion of Pension reporting forms. The three webinars provide instructions on Calculating Deferred Interest, Completing the Maximum Benefit Worksheet, and Completing the Schedule Form. The webinars are geared toward new relief association trustees but provide examples and information that will be useful for experienced trustees as well. The webinars can be viewed by visiting the “Training Opportunities” page of the Office of the State Auditor’s website, or by clicking on the links provided below.

When you click on one of the links below, you will be brought to a webpage that requests your e-mail address. Once you've entered your address and name, a Windows Media Player screen will open with the webinar ready to play. Notices will be provided in future Pension Newsletters as additional webinars become available.

Deferred Interest: Options and Calculations (approximately 18 minutes)

<https://www2.gotomeeting.com/register/131127083>

Completing the Maximum Benefit Worksheet (approximately 6 minutes)

<https://www2.gotomeeting.com/register/278483842>

Completing the Schedule Form (approximately 20 minutes)

<https://www2.gotomeeting.com/register/824978186>

### *Notice Regarding Excel 2007*

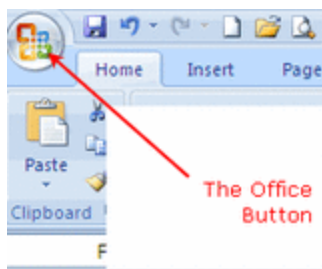
The Office of the State Auditor has become aware of two problems that relief association trustees may experience if attempting to open the Pension reporting forms using Microsoft Excel 2007. These problems have not been experienced with earlier versions of Excel. You can determine whether you are using Excel 2007 by opening an Excel file and looking at the upper left corner of the screen. If you see the “Microsoft Office” button (see illustration on page two) in the upper left corner, it means you are using Excel 2007. If you don’t see the button it means

you are using an earlier version of Excel and you shouldn't experience problems opening the reporting forms.

The two problems that Excel 2007 users may experience are: the form and the instructions may not be visible when the file is opened; and macros (formulas) within the form are automatically disabled. Many of the forms are designed to allow you to add rows to accommodate additional member, investment, revenue, or expenditure information. If the macros are disabled you can't add additional rows within the forms.

To avoid these issues it is best to save the file as Office 97-2003 compatible. Here's how:

1. In Excel, open the "Microsoft Office" button. (See illustration below.) A window will open.



2. In the window, click on the "Excel Options" button.
3. Click on the "Save As" option.
4. Select "Excel 97-2003" workbook.

Close the file, then re-open it. The form and instructions should appear correctly when the file is opened, and you should be able to add additional rows as necessary.

### ***Reporting Reminder***

The 2009 reporting year forms are due by March 31, 2010, for volunteer fire relief associations with assets and liabilities of less than \$200,000. Reporting forms for relief associations with assets or liabilities of at least \$200,000 are due by June 30, 2010. Relief associations with the June 30 reporting deadline are required to submit audited financial statements in addition to the reporting forms. Please also remember that once a relief association's assets or liabilities exceed the \$200,000 statutory threshold, the relief association maintains the June 30 reporting deadline and audit requirement, even if the association's assets and liabilities subsequently drop below the threshold.

The 2009 reporting year forms can be accessed through the State Auditor's Form Entry System at: <https://www.auditor.state.mn.us/safes/>.

Detailed information about the reporting deadlines and helpful hints for completing the reporting forms can be found at:

[http://www.auditor.state.mn.us/forms/pen/ReportingForms/pensionrf\\_infoandhelpfulhints.pdf](http://www.auditor.state.mn.us/forms/pen/ReportingForms/pensionrf_infoandhelpfulhints.pdf).

### ***2008 Financial and Investment Report***

The State Auditor has released the Financial and Investment Report on Volunteer Fire Relief Associations for the year ended December 31, 2008. The report summarizes and evaluates the

finances, basic benefit structure, and investment performance of Minnesota's volunteer fire relief associations. The report also includes investment information on three salaried police relief associations and one salaried fire relief association.

To view the complete report, which includes tables and graphs, go to:

[http://www.auditor.state.mn.us/Reports/pen/2008/vfra/vfra\\_08\\_report.pdf](http://www.auditor.state.mn.us/Reports/pen/2008/vfra/vfra_08_report.pdf).

### ***Working Group Update***

The Omnibus Retirement Bill, which includes the Working Group legislation, was heard by several policy committees within the House and Senate during the past month. A few technical corrections were made to the Working Group recommendations. The bill must be heard by finance committees before it is brought before the full House and Senate. If passed by both the House and Senate, the bill must still be signed by the Governor before becoming law. We will continue to keep you updated on the progress of the bill as it makes its way through the legislative process. Working Group information is provided on our website at:

<http://www.auditor.state.mn.us/default.aspx?page=reliefworkinggroup>.

### ***State Fire Aid Certification Update***

The Office of the State Auditor is pleased to announce that 73 relief associations were certified as eligible for receipt of their 2009 state fire aid for the third round of aid disbursements. State aid will be disbursed on or about March 15 for those relief associations certified as eligible for the third round of state aid payments. All but two volunteer fire relief associations have now been certified for their 2009 state aid. The final certification deadline for 2009 aid is June 1, 2010. A listing of the state fire aid amounts is available on our website at:

<http://www.auditor.state.mn.us/default.aspx?page=20090924.000>.

### ***Investment Basics – Exchange Traded Funds***

A document is attached entitled "Investment Basics – Exchange Traded Funds." This is another installment in our ongoing series to provide education on investment topics. This document offers a comparison of mutual funds and exchange traded funds and basic explanations of different types of investment fees that may be charged.

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*If you have questions please contact us:*

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# Investment Basics

## Exchange Traded Funds

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Many relief associations are considering investing in exchange traded funds as an alternative or in addition to mutual funds. This edition of Investment Basics provides a brief comparison of these two investment options. Relief association trustees should consult an investment professional for specific assistance regarding the relief association's options and investment portfolio.

### *Description*

Mutual Funds are created when investors give money to a fund management team for investment. This team invests the pool of money in assets, such as stocks or bonds. Investors purchase shares of mutual funds through a broker or directly from a mutual fund firm. Mutual funds are only bought and sold at the end of each day. Prices are determined by the daily ending value of all assets that make up the particular mutual fund.

Exchange Traded Funds (ETFs) are created when an investment firm forms a fund from a bundle of assets, such as stocks or bonds. The fund that is created usually tracks an index, like the S&P 500 Index, for example. Once the assets are formed together, creation units are made. Creation units are large blocks of shares that are split up and traded on the open market. ETFs are traded on exchanges in the same way that individual stocks are traded. ETFs can be bought and sold at any time during the day. The price is determined by the price of the assets making up the ETF at the time of the transaction.

### *Costs and Fees*

Mutual fund investors may be charged fees depending on whether the shares were purchased directly from the fund or through a broker. Generally, shares that are purchased from a fund can be no-load, front-end load, or back-end load funds. No-load funds do not charge a fee for an investor to buy shares of that particular mutual fund. Front-end load funds charge a fee that is generally between one and five percent of the initial investment amount. Back-end load funds charge a fee when the investment is sold that also is generally between one and five percent. Additional fees may be charged when mutual funds are purchased from a broker.

By contrast, ETFs do not charge front-end or back-end load fees. However, ETFs are traded on open markets and are subject to brokerage commissions for each transaction made. ETFs also generally have lower expense ratios than mutual funds. Expense ratios reflect the operating expenses, advisory fees, and administrative costs that are charged to investors.

### ***Dividends***

When investors earn dividends from mutual funds, the dividends can be automatically reinvested to buy more shares of the mutual fund. These reinvestments are done at no extra charge to the investor.

Dividends earned on ETFs are placed into the investor's brokerage account. If the investor wishes to reinvest these dividends, a brokerage fee is usually charged.

### ***Investment Authority***

Relief associations that are authorized to invest under the expanded list of authorized investment securities have authority to invest in ETFs as long as the underlying assets of the ETF are directly-authorized investments under the expanded list (except for "other investments" (k)). (See Minn. Stat. § 356A.06, subd. 7(j).) This means that relief associations do not have authority to invest in ETFs that, in turn, invest in "other investments." Securities that are classified as "other investments" include international bonds, emerging market equity, and resource investments.

### ***Additional Resources***

Additional information on relief association investment authority and investment policies is available on the Office of the State Auditor's website at the links provided below.

Statement of Position on Relief Association Investment Authority:

[http://www.auditor.state.mn.us/other/Statements/firereliefinvestmentauthority\\_0907\\_statement.pdf](http://www.auditor.state.mn.us/other/Statements/firereliefinvestmentauthority_0907_statement.pdf)

Statement of Position on Relief Association Investment Policies:

[http://www.auditor.state.mn.us/other/Statements/firereliefinvestmentpolicy\\_0905\\_statement.pdf](http://www.auditor.state.mn.us/other/Statements/firereliefinvestmentpolicy_0905_statement.pdf)

Investment Basics Edition on Investment Fees:

[http://www.auditor.state.mn.us/other/PensionDocs/pensionNewsletter\\_0904.pdf](http://www.auditor.state.mn.us/other/PensionDocs/pensionNewsletter_0904.pdf)

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