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Statement of Position

Required Municipal Contributions to Volunteer Firefighters' Pension Plans

State law requires a municipality to pay a minimum annual contribution to the special fund of its affiliated volunteer fire relief association, unless the special fund is fully funded or fire state aid is sufficient to cover the municipal obligation.¹ The special fund is a fund established and maintained within a relief association to pay service pensions to retiring members. A pension plan is "fully funded" when there are sufficient assets to cover future liabilities.

The funded status of a special fund is affected primarily by changes to benefit levels (*i.e.*, liabilities increase) and by investment gains or losses (*i.e.*, assets increase or decrease). Benefit increases and investment losses decrease a fund's assets, thereby increasing the likelihood that a municipal contribution will be required. A decrease in the funded status will also likely increase the size of the required contribution.

Whether a municipal contribution is required and the amount of the required contribution is determined by using a statutory formula. The formula varies depending on whether the plan is a defined-benefit lump-sum pension plan or a defined-benefit monthly pension plan.²

Lump-Sum Pension Plans

For lump-sum plans, the minimum required municipal contribution equals the financial requirements of the special fund minus 1) the amount of fire state aid to be received during the following calendar year; and 2) the amount of any contributions to the special fund from the active members of the relief association to be received during the following calendar year. In addition, five percent annual interest on the assets is subtracted.³

The minimum required municipal contribution is calculated by the officers of the relief association during the month of July for the following year.⁴ To calculate the minimum

¹ Minn. Stat. § 424A.092, subd. 3 & 4; Minn. Stat. § 424A.093, subd. 5. In some instances, a municipal contribution may be triggered even though the pension plan is fully funded.

² See Minn. Stat. § 424A.092, subd. 3 (for lump-sum pension plans) and Minn. Stat. § 424A.093, subd. 5 (for monthly pension plans). There is no required municipal contribution for a defined contribution plan.

³ Minn. Stat. § 424A.092, subd. 3(d).

⁴ The Schedule Form, provided by the Office of the State Auditor, calculates the amount of any required municipal contribution for the following year. For example, the 2015 Schedule Form will calculate the required municipal contribution amount for the year 2016.

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required municipal contribution, the officers need to know the special fund's financial requirements for the following year. In July, the officers calculate the financial requirements for the following year and the overall funding balance for the current calendar year.

If the special fund is not fully funded, the financial requirements for the following calendar year are determined by taking into account 1) the total accrued liability for all active and deferred members of the relief association, calculated for the following calendar year; 2) the increase in the total accrued liability for the following calendar year over the present calendar year; 3) the amount of anticipated future administrative expenses; and 4) one-tenth of the deficit resulting from either an increase in the service pension or an investment loss occurring over the last ten years.

If the special fund is fully funded, the financial requirements for the following calendar year are the total of 1) the increase in the total accrued liability for all members for the following calendar year over the present calendar year; and 2) the amount of anticipated future administrative expenses.

Monthly Pension Plans

For monthly pension plans, the financial requirements of the special fund are based on the most recent actuarial valuation. Each relief association must determine the minimum obligation of the municipality for the following calendar year "on or before August 1 of each year."⁵ The "most recent actuarial valuation" included in the calculation would generally be a valuation from January 1 of the same year or December 31 of the prior year.

For most plans, the Governmental Accounting Standards Board (GASB) requires an actuarial valuation every two years.⁶ In addition, a new actuarial valuation is required whenever there is a benefit change. If the plan is in deficit, the statute permits amortization over a period of years.⁷

Defined Contribution Plans

For defined contribution plans, the individual volunteer firefighter experiences the gains and the losses. The municipality has no obligation to make contributions to offset losses if they occur, although it can make a voluntary contribution to the special fund if it chooses.

Benefit Levels

The level of benefits paid by a volunteer firefighter pension plan is usually set by agreement between the relief association and the municipality. Benefit level changes must first be discussed and adopted by the relief association through a change in its bylaws. The changes

⁵ Minn. Stat. § 424A.093, subd. 5(a).

⁶ See Minn. Stat. § 69.051, subd. 1 (financial statements required to be in conformity with generally accepted accounting principles); GASB Statement 25, para. 35 (biennial actuarial valuations required for financial reporting purposes).

⁷ Minn. Stat. § 424A.093, subd 4 (d).

must be made in keeping with the relief association's bylaw amendment procedures and Open Meeting Law requirements. A relief association should then seek municipal approval of the benefit level change. The city council or town board can choose to ratify the benefit level change or choose not to ratify the change. Once the bylaws are ratified by the municipality, however, the benefit levels are guaranteed by the municipality. The municipality assumes responsibility for ensuring the special fund has sufficient assets to cover approved benefit levels.

For those relief associations that are affiliated with an independent nonprofit firefighting corporation rather than a municipal fire department, benefit level changes must be approved by the board of the independent corporation. In addition, the independent nonprofit firefighting corporation is responsible for making any required contributions to the relief association.

In limited circumstances, a volunteer fire relief association has the authority to increase its benefit level without municipal ratification. However, if a municipal contribution is later required, the contribution level will be calculated using the last benefit level ratified by the municipality.⁸ If there was never a resolution to ratify a benefit increase, the relief association must return to the last ratified level.

Municipalities do not have authority to unilaterally change a relief association's benefit level. Municipalities cannot initiate a change in benefit levels, rescind benefit increases, or give contingent approval to benefit changes.

Payment of Required Municipal Contributions

To fulfill its obligation to provide at least the minimum required municipal contribution, a municipality may use any source of public revenue, including a tax levy. For monthly pension plans, for example, a municipality may levy taxes "without any limitation as to rate or amount and irrespective of any limitations imposed" by any other law or regulation.⁹

If the relief association's benefit level is approved by the affiliated municipality, the municipality is required under state law to make any contributions that become due at that benefit level. Municipal contributions are to be paid during the year in which the contribution is required. If the municipality does not include the full amount of the minimum municipal contribution in its levy for any year, the officers of the relief association must certify that amount to the county auditor, who must spread a levy in the amount of the certified minimum municipal contribution on the taxable property of the municipality.¹⁰

⁸ Minn. Stat. § 424A.02, subd. 10.

⁹ Minn. Stat. § 424A.093, subd. 5(d); § 424A.092, subd. 4(c).

¹⁰ Minn. Stat. §§ 424A.092, subd. 4(d); 424A.093, subd. 5(e).