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Making Changes to Benefit Levels

By Rebecca Otto, State Auditor

Volunteer fire relief associations frequently contact the Office of the State Auditor (OSA) with questions concerning benefit level changes. This article provides information to assist members and trustees when considering making changes to their benefit levels.

Background

Benefit level changes can be made at any time during the year, and can be changed more than once during a year. However, benefit level changes can only be made for future benefit payments because relief associations do not have authority to make benefit changes retroactive. For example, a relief association could adopt a benefit level change in November and specify that it becomes effective on January 1 of the upcoming year. However, a relief association could not adopt a benefit level change in March, and specify that the change became effective retroactively back on January 1.

Step 1: Determine the Maximum Allowable Benefit Level

When establishing an annual benefit level, relief associations must choose an amount that does not exceed the maximum benefit level amount authorized under State law. A relief association cannot increase its benefit level to an amount above the applicable maximum, even if municipal approval of the increase is obtained. The penalties for paying a service pension at a rate higher than the applicable maximum are severe and include disqualification from receiving state fire aid.

State law requires that relief associations annually calculate the maximum benefit level allowable for each year. The Office of the State Auditor (OSA) provides relief associations with a form titled the Maximum Benefit Worksheet to assist in preparing this calculation. A relief association's maximum allowable benefit level for a given year is derived from a formula which is based on the association's state fire aid, municipal contributions received, the surplus amount (if any), and the number of active members.

Step 2: Run Financial Projections

Relief associations should be aware of the long-term impact a potential benefit level change would have on the association's funded status and financial requirements before adopting the change.

- **Defined-Benefit Lump-Sum Pensions**

Relief associations that pay defined-benefit lump-sum pensions can use the OSA's Schedule Form to run projections. If your relief association's Maximum Benefit Worksheet shows that the maximum allowable benefit level is \$1,000 per year of service, the relief association can then use the Schedule Form to run projections using benefit levels at or below \$1,000 per year. Enter a benefit level on page one of the Schedule Form, and the Form automatically calculates the accrued liabilities and projected asset amounts, and the amount of any city or town contributions that would be required during the upcoming year to support the potential benefit level change. Relief associations may also seek assistance from their accountants or investment advisors to project the affect that proposed benefit levels could have on an association's finances for several years into the future. Performing these calculations will help relief associations and their affiliated municipalities understand the potential costs of a proposed benefit level.

- **Defined-Benefit Monthly Pensions**

Relief associations that pay or offer defined-benefit monthly pensions should work with their actuary to project the affect that proposed benefit levels would have on the association's finances. The financial requirements for relief associations that offer or pay monthly pensions are calculated differently than the financial requirements for associations that pay only lump-sum pensions. Consequently, using the Schedule Form to run projections will result in inaccurate results for monthly plans.

Step 3: Relief Association Board Approval

If a relief association's board of trustees (Board) determines that a benefit change is appropriate after calculating the association's maximum allowable benefit level and running financial projections, the change needs to be officially approved during a meeting of the Board. Relief associations should follow the amendment procedures set forth in their bylaws and Open Meeting Law requirements when making a benefit level change.

Step 4: Municipal Approval

The next step in making a pension benefit level change is to seek municipal ratification of that change. Municipal ratification of a benefit level change is usually required before the new benefit level becomes effective. Relief associations should provide a bylaw amendment containing the benefit level change approved by the relief association Board to the city council or town board for approval. The city council or town board can choose to approve the benefit level change or choose not to approve the change. Once the bylaws

containing the benefit level change are ratified by the municipality, however, the benefit level is guaranteed by the municipality. The municipality assumes responsibility for ensuring the special fund has sufficient assets to cover approved benefit levels.

Step 5: Submit Amended Bylaws and Approvals

Finally, once ratified, copies of the amended bylaws, relief association Board approval, and municipal ratification should be maintained for the relief association's records. In addition, the amended bylaws and copies of the Board and municipal ratifications should be provided to the OSA.

Additional Helpful Information

The Maximum Benefit Worksheet and the Schedule Form referenced earlier in this article are available to relief association officials through the State Auditor's Form Entry System (SAFES).

The Office of the State Auditor has a Statement of Position, "Maximum Benefit Levels" which may be helpful. To view the Statement, go to www.auditor.state.mn.us, select the menu item "For Local Officials", click on "Statements of Position", and you will find the Statement under the "Pensions" heading.