



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
[state.auditor@osa.state.mn.us](mailto:state.auditor@osa.state.mn.us) (E-mail)  
1-800-627-3529 (Relay Service)

November-December 2014

Article for *Minnesota Fire Chief*

---

### **Maximum Benefit Levels**

*By Rebecca Otto, State Auditor*

With steady improvement in the investment markets and with the new supplemental state aid program that is providing additional income to relief associations, some associations are now considering an increase to their benefit levels. When establishing an annual benefit level, relief associations must ensure that the new benefit level does not exceed the maximum benefit level authorized under State law. Exceeding the authorized benefit level can lead to a loss of fire state aid, and require collection of any benefit overpayments.

#### **Maximum Benefit Worksheet**

Volunteer fire relief associations that offer or pay lump-sum, monthly, or monthly/lump-sum combination service pensions must annually calculate the average amount of available financing per active covered firefighter. The Office of the State Auditor (OSA) provides the Maximum Benefit Worksheet to help relief associations perform this calculation.

The calculation determines the maximum lump sum and monthly benefit levels the relief association is authorized under State law to establish for the year. A relief association's maximum allowable benefit level for a given year is derived from a formula which is based on the association's fire state aid, municipal contributions received, the surplus amount (if any), and the number of active members. Relief associations are to perform the maximum benefit calculation on or before August 1 as part of the association's annual certification of the financial requirements and minimum municipal obligation.

The form calculates the maximum benefit level that a relief association may establish. A relief association does not have the legal authority to set a benefit level higher than the maximum level, even if the benefit level is ratified by the affiliated municipality.

#### **Statutory Penalties for Payments above the Maximum**

State law requires that severe penalties be imposed if a relief association pays a service pension that uses a benefit level above the maximum allowable benefit level. The penalties required by statute for payment above the maximum level are: 1) required recovery by the treasurer of the overpaid amount from all retired firefighters who received an overpayment; and 2) disqualification from receiving the next apportionment of fire state aid.

Because of these penalties, it is very important for relief association trustees and municipal officials to monitor maximum benefit levels when considering a benefit level change.

### **Establishing a Benefit Level**

If a relief association's board of trustees determines that a benefit level 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 association's board of trustees. Relief associations should follow the amendment procedures set forth in their bylaws and Open Meeting Law requirements when making a benefit level change.

The next step in making a benefit level change is to seek ratification of the change from the affiliated municipality or independent nonprofit firefighting corporation. 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's board of trustees to the city council, town board, or board of the independent nonprofit firefighting corporation for ratification. The city council, town board, or independent board can choose to ratify the benefit level change or choose not to ratify the change.

By ratifying the bylaws containing the benefit level change, however, the municipality or independent nonprofit firefighting corporation is guaranteeing the benefit level. The municipality or independent nonprofit firefighting corporation assumes responsibility for ensuring the special fund has sufficient assets to cover approved benefit levels. Depending on a relief association's finances, the municipality or independent nonprofit firefighting corporation may be required to make contributions to the special fund so that the association has the assets needed to pay benefits at the approved benefit level.

### **Additional Information**

Helpful information about maximum benefit levels and changing benefit levels is provided in two Statements of Position on the Office of the State Auditor website. Go to [www.auditor.state.mn.us](http://www.auditor.state.mn.us). Choose the "For Local Officials" menu option, and then select "Statements of Position." Statements entitled "Maximum Benefit Levels" and "Considerations When Making Benefit Changes" are posted under the "Pensions" heading.