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## **Maximum Benefit Level Primer**

*By Rebecca Otto, State Auditor*

The Office of the State Auditor conducts annual reviews of Volunteer Fire Relief Associations' financial reporting forms and other documentation to check for compliance. Compliance with state laws is a requirement for relief associations to be certified by the Office of the State Auditor for state fire aid. During our reviews, we have found compliance issues with maximum benefit levels. This article provides helpful information that should assist relief associations be successful with their maximum benefit levels, and help them avoid pitfalls that we have seen during reviews.

Minnesota law requires that relief associations with defined-benefit plans (lump-sum and monthly) annually calculate the maximum allowable benefit level. A defined contribution relief association has no need to make such a calculation because the service pension it provides is based solely on an individual account balance.

When establishing an annual benefit level, relief associations must choose an amount that does not exceed the maximum benefit level to avoid penalties being imposed. Penalties will be imposed if the increase brings the amount above the maximum. The penalties are severe and include disqualification from receiving state fire aid.

### **The Maximum Benefit Worksheet**

Every year, lump-sum, monthly, and monthly/lump-sum combination plans must complete a Maximum Benefit Worksheet (MBW) on or before August 1. The completed form is reviewed by the Office of the State Auditor, along with the relief association's annual financial reporting forms, to determine whether the relief association can be certified as eligible for state fire aid.

The MBW calculates an amount that corresponds to the maximum benefit level the relief association is authorized to provide for in its bylaws for payment to a retiring member.

The MBW averages a relief association's non-investment primary revenue sources for the prior three years on a per-member basis. The primary revenue sources included in the calculation are the amounts of any state fire aid and municipal contributions received, and ten percent of the relief association's surplus.

The MBW calculation reflects a relief association's non-investment revenue sources. Whether a relief association has a surplus or a deficit only indirectly affects this calculation through the amount included from the ten-percent of surplus. In years when markets are performing poorly and the relief associations receive large contributions from the municipalities, the maximum allowable benefit level most likely will increase along with the relief associations' non-investment revenues.

In this situation, the increasing maximum allowable benefit amount may give a false impression of a relief association's financial health. Relief associations should keep this anomaly in mind when considering benefit increases.

Therefore, increasing the benefit level to the maximum, even when markets are performing well, may put the relief association into a deficit situation that requires contributions from the municipality to support the benefit level.

#### **When Allowable Maximum Benefit Falls – Being “Grandfathered In”**

Occasionally, a relief association may find that its maximum allowable benefit level has fallen, putting the relief association in a situation where it may now be operating at a benefit level higher than the allowable maximum. If the current benefit level was properly adopted and within the allowable maximum when it was established, *and* if the decrease to the calculated maximum was due to either a decrease in state fire aid or an increase in the number of active members during the three-year period on which the calculation is based, a relief association may continue to operate at a benefit level that is now higher than the allowable maximum. Relief associations which have seen a decrease in state fire aid (or an increase in active members) during the past three years qualify to be “grandfathered in.” In other words, these associations may continue operating at their current benefit levels as long as the benefit levels were at or under the allowable maximum when established. Relief associations that qualify to be “grandfathered in,” however, cannot increase their benefit level until the annual calculation shows that an increase is allowed.

#### **Effective Period for the Calculated Maximum Benefit Level**

The MBW must be completed annually, on or before August 1, as part of the certification of the relief association's financial requirements. The maximum allowable benefit level calculated on the form becomes effective when the MBW is certified, and remains in effect until the next year's MBW is completed and certified.

Consider this example: A relief association completes and certifies its 2011 MBW in July 2011. The 2011 MBW shows that the maximum benefit level the relief association is authorized to establish is \$1,000 per year of service. The \$1,000 benefit level therefore

remains in effect as the maximum allowable benefit level until the 2012 MBW is completed and certified, on or before August 1, 2012.

### **Questions**

If you have further questions regarding maximum benefit levels for fire relief associations, please feel free to call Rose Hennessy Allen, the Office of the State Auditor's Pension Division Director, at 651-296-5985.