



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@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

March-April 2010

Article for *Minnesota Fire Chief*

The Investment Authority of Relief Associations

By Rebecca Otto, State Auditor

Volunteer fire relief associations have statutory authority to choose how to invest funds. The scope of a relief association's authority to invest can vary, depending on the association's asset size and the extent to which it chooses to use an investment advisor or to invest through the State Board of Investment (SBI). The options available rely on whether the association meets certain conditions for investment.

Conditions for Investment

The types of securities a relief association is authorized to invest in can be different for different associations.

Relief associations that meet at least one of four conditions may invest in authorized securities selected from a more expanded list of choices than associations which do not meet any of the conditions. The four conditions are:

- Having assets with a book value in excess of \$1,000,000;
- Using the services of an investment advisor for investing at least 60 percent of the relief association's assets, calculated on book value;
- Using the services of the SBI for investing at least 60 percent of the relief association's assets, calculated on book value; or
- Using a combination of the services of an investment advisor and the services of the SBI for investing at least 75 percent of the relief association's assets, calculated on book value.

Investments by Associations That Meet the Statutory Conditions

Relief associations which meet at least one of the four conditions can choose from an expanded list of authorized investment securities. There are two parts to the expanded

list: the "main list" section and the "other investments" section. The "main list" includes corporate stock, exchange-traded funds, and certificates of deposit; "other investments" include venture capital, resource investments, international securities, and real estate interests. Investments from the "other investments" section cannot be more than 20% of the relief association's investment portfolio.

Relief associations authorized to invest under the expanded list may also invest 100 percent of the plan assets in mutual funds, as long as the underlying assets of the mutual funds conform to the investment limitations of the expanded list. Those portions of the mutual funds that are invested in securities not authorized by the "main list" are allocated to the "other investments" section of the statute and are subject to its limitations. Expanded-list investments are identified and described in Minn. Stat. § 356A.06, subd. 7.

Investments by Associations That Do Not Meet the Conditions

Relief associations that do not meet any of the four conditions listed above are restricted to a more limited list of authorized investment securities. This list includes mostly fixed-income investments such as certificates of deposit, savings accounts, government obligations, and highly-rated corporate obligations.

Associations restricted to the limited list may invest up to 100 percent of the plan assets in mutual funds if the mutual funds invest solely in limited-list investments, or up to 75 percent of the plan assets if the mutual funds invest in expanded-list investments. Any money market mutual funds held by the plan need not be included in the 75 percent limitation. Limited-list investments are identified and described in Minn. Stat. § 356A.06, subd. 6.

Transferring Funds to the SBI for Investment

The State Board of Investment (SBI) is responsible for the investment management of various retirement funds, trust funds, and cash accounts. All relief associations have authority to transfer special fund assets to the SBI for investment in the Minnesota Supplemental Fund. The Minnesota Supplemental Fund was established by the legislature to provide an investment vehicle for various public retirement plans, including volunteer fire relief associations.

There are six investment accounts within the fund that relief associations can choose to invest in:

- An income share (balanced) account;
- A growth share (domestic stock) account;
- An international share account;

- A money market account;
- A bond market account; and
- A common stock index account.

Further Information

When considering investments, relief associations should review the applicable statutory language. If necessary, an association should consult with an attorney and certified financial planner, broker, or investment advisor with questions regarding its specific investments.

More information can be found in the Office of the State Auditor's Statement of Position, "Volunteer Fire Relief Association Investment Authority", which contains both the limited and expanded lists of authorized investment securities. The Statement of Position can be found on our website at:

http://www.auditor.state.mn.us/other/Statements/firereliefinvestmentauthority_0907_statement.pdf.