



May 2008

## Pension Division Newsletter

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### ***Legislative Update – Omnibus Pension Bill***

The Omnibus Pension Bill, which contains the Office of the State Auditor’s Working Group proposals, was signed into law this week by Governor Pawlenty. The Working Group provisions are located in Article 14. A copy of the bill is provided on the Pension Commission's website at: <http://www.commissions.leg.state.mn.us/lcpr/omnibus.htm>. A summary of the Working Group proposals is provided below, along with information regarding several other provisions of the bill that affect volunteer fire relief associations.

Sample bylaw language and a bylaw “to-do” list will be provided with our June Pension Newsletter. If you have questions regarding the legislative changes please contact Rose Hennessy Allen at (651) 296-5985 or [Rose.Hennessy-Allen@state.mn.us](mailto:Rose.Hennessy-Allen@state.mn.us).

### **Working Group Proposals**

- **Deferred Interest Options** – The pension bill removes the requirement that relief associations paying deferred interest under the “Board Set” or “OSA Return” options allocate the interest on a monthly basis. This means that relief associations paying interest under either option can choose to allocate the interest on a daily, monthly, or annual basis for deferred members. State law still requires that relief associations obtain municipal approval of the interest rate before allocating interest under the “Board Set” option.

**Effective:** This change became effective the day following final enactment.

**Bylaw Change:** Relief associations only need to make bylaws changes if they choose to change their interest allocation method.

The “OSA Return” interest option was passed into law several years ago as a pilot program and was set to expire at the end of this year. The pension bill “cleans up” the deferred interest provision by removing the “OSA Return” option now, rather than letting it expire at the end of the year. This means that any relief association that pays deferred interest at the rate actually earned up to five percent, as calculated by the Office of the State Auditor, must amend its bylaws to select a different interest option. Similar interest options are available. A letter and sample bylaw provisions will be sent to each relief association that our records indicate will be affected by this law change.

**Effective:** This change became effective the day following final enactment.

**Bylaw Change:** All relief associations that currently pay interest under the “OSA Return” option must amend their bylaws to either discontinue paying deferred interest or to select a different interest option as provided by law.

- **Ancillary Benefits** – The pension bill requires that relief associations calculate ancillary benefits (disability and survivor benefits) at an amount equal to the member’s total earned service pension. The total earned service pension is defined as the member’s years of service multiplied by the benefit level at the time of death or disability, without regard to the vesting percentages. Relief associations continue to have flexibility to pay a lesser amount for members that are deferred. Please note that these changes only affect the calculation of disability and survivor benefits.  
**Effective:** This change is effective January 1, 2009.  
**Bylaw Change:** Relief associations that currently pay reduced disability or survivor benefits for active members must change their bylaws to comply with the new law.
- **Funeral Benefits** – The pension bill eliminates the authority to pay funeral benefits from a relief association’s special fund. Relief associations continue to have authority to pay a funeral benefit from the general fund. Please note that funeral benefits are not the same as survivor benefits. Survivor benefits are equal to a member’s total earned service pension, while funeral benefits are usually a relatively small payment made to help offset the cost of the member’s funeral.  
**Effective:** This change is effective January 1, 2009.  
**Bylaw Change:** Relief associations that currently pay funeral benefits from the special fund must amend their bylaws to discontinue the special fund payments.
- **Ancillary Benefit Definition** – The pension bill defines the term “ancillary benefit.” This term previously didn’t have a statutory definition. It is defined as a benefit other than a service pension that is permitted by law and that is provided for in the relief association bylaws.  
**Effective:** This change is effective January 1, 2009.  
**Bylaw Change:** This provision does not require a bylaw change, although relief associations may wish to add the definition to their bylaws. Relief associations that currently have an “ancillary benefit” definition in their bylaws should ensure that it matches the new statutory definition.
- **Surviving Spouse Definition** – The pension bill changes the definition of a “surviving spouse” to be the spouse of a deceased member who was legally married to the member at the time of death. This new definition is easier to understand and to administer than the old one.  
**Effective:** This change is effective January 1, 2009.  
**Bylaw Change:** This provision does not require a bylaw change, although relief associations may wish to add the definition to their bylaws. Relief associations that currently have a “surviving spouse” definition in their bylaws should ensure that it matches the new statutory definition.
- **“Other Investments” Limitation** – The pension bill makes a common sense change so that only the portions of mutual funds that invest in “other investments” count toward the 20 percent statutory limit. “Other investments” include international bonds, emerging market equity, venture capital, real estate through limited partnerships or bank sponsored collective funds, and certain mutual funds. The most common relief association “other investment” are mutual funds that invest in high-yield (junk) bonds. The total of all “other investments” must not exceed 20 percent of relief association assets.

For example, if a mutual fund is valued at \$10,000 and holds 10 percent in international bonds, only \$1,000 of the fund is considered an “other investment” for purposes of the 20 percent limitation.

**Effective:** This change became effective the day following final enactment.

**Bylaw Change:** This provision does not require a bylaw change. Relief associations that include authorized investment language in their bylaws should review the language to ensure that it complies with the “other investments” change.

- **Requirement to Report Evidence of Misconduct** – The pension bill requires public accountants that discover evidence pointing to nonfeasance, misfeasance, or malfeasance in the course of auditing the books and affairs of a relief association to report the discovery to the State Auditor and the County Auditor.

**Effective:** This change became effective the day following final enactment.

**Bylaw Change:** This provision does not require a bylaw change.

- **Title to Assets** – The pension bill allows relief associations to invest directly with a broker and have the broker hold the association’s assets, rather than requiring that a custodial bank hold the assets. Protection is provided for relief association assets by requiring that the broker (or the broker’s agent, if the assets are held by the agent) have insurance equal to or greater than the association’s invested assets. The insurance must be from the Securities Investor Protection Corporation (SIPC) or from excess insurance coverage.

**Effective:** This change became effective the day following final enactment.

**Bylaw Change:** This provision does not require a bylaw change.

Relief associations that use the services of a broker must now complete a uniform Broker Certification Form that is provided by the Office of the State Auditor. Brokers (or the broker’s agent, if the assets are held by the agent) must acknowledge on this form that they have sufficient SIPC insurance, supplemented by additional insurance, if necessary, to cover the full amount of the relief association assets held by the broker or its agent.

**Effective:** This change became effective the day following final enactment.

**Bylaw Change:** This provision does not require a bylaw change.

### **Other Relief Association Changes (Non-Working Group Proposals)**

- **Increases to Service Pension Maximums** – The pension bill increases the maximum monthly and lump sum service pension amounts. The maximum monthly benefit level will increase from the current \$56 to \$100 per year of service. The monthly benefit increases are phased in over a five-year period. The maximum lump sum benefit level will increase from the current \$7,500 to \$10,000 per year of service. The lump sum benefit level increases are phased in over a three-year period.

**Effective:** The changes become effective beginning December 31, 2008.

**Bylaw Change:** Benefit levels must be specified in the relief association bylaws or be incorporated by reference. Relief associations that become eligible to increase their benefit level must amend their bylaws to reflect the new benefit amount and obtain municipal approval if required.

- **Voluntary Statewide Plan Proposal** – The pension bill establishes an advisory board that will draft recommendations for the establishment, organization, and administration of a voluntary statewide plan. It is anticipated that legislation will be sought next year to create the voluntary statewide plan.  
**Effective:** This provision became effective the day following final enactment.  
**Bylaw Change:** This provision does not require a bylaw change.
- **Changes to Additional Amortization State Aid** – Relief associations with a small number of active members are eligible to receive an additional state aid allocation. The pension bill will increase the additional state aid allocation after 2009.  
**Effective:** This change is effective August 1, 2008.  
**Bylaw Change:** This provision does not require a bylaw change.
- **Health Care Savings Plan** – The pension bill authorizes volunteer firefighters to make contributions to a health care savings plan. The health care savings plan is administered by the Minnesota State Retirement System (MSRS). For more information regarding contributions to the plan, please visit the MSRS website at <http://www.msrs.state.mn.us/hcsp/index.html> or call (651) 296-2761.  
**Effective:** This provision became effective the day following final enactment.  
**Bylaw Change:** This provision does not require a bylaw change.
- **Special Laws Repealed** – The pension bill repeals prior inconsistent special ancillary benefit legislation for nine volunteer fire relief associations. This provision was not a Working Group recommendation, but was an amendment added to the bill.  
**Effective:** This provision requires local approval and will not be effective until after June 30, 2009.  
**Bylaw Change:** Relief associations that are affected by this provision may choose to make bylaw changes, but would not be required to do so. We will be in contact with the nine relief associations affected by this provision.

### ***2008 Schedule Form***

The 2008 Schedule Form for lump sum relief associations will be released during the beginning of June. Notices will be provided in the June Pension Newsletter and the E-Update once the form is available for download from our website.

### ***Training Opportunity***

Members of the Pension Division will be conducting a training course at the annual Minnesota State Fire Department Association (MSFDA) conference in Alexandria. Our session will be from 8:00 to noon on the morning of Friday, June 6<sup>th</sup>. If you didn't have an opportunity to attend one of our training sessions this spring, you are encouraged to register for the MSFDA training class. Our class is "02 – State Auditor Reports," and will cover topics including bylaws, investments, compliance issues, a legislative update and reporting forms. If you will be at the MSFDA conference but are not able to attend our training class, please stop by before or after the session to meet members of our Pension team.

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*If you have questions please contact us:*

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