

Pension Division Newsletter

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2016 Fire State Aid

The Office of the State Auditor (OSA) is pleased to announce that 417 volunteer fire relief associations and other pension plans met all reporting requirements to be certified as eligible for receipt of their 2016 fire state aid in the first round of aid disbursements. These relief associations are also eligible to receive in the first round of disbursements their portion of state aid under the new supplemental state aid program. Both state aid distributions will occur on or about October 1 for those plans certified as eligible.

Lists of the 2016 fire and supplemental state aid amounts are available on the OSA’s website at:

<http://www.auditor.state.mn.us/default.aspx?page=20120214.000>.

The municipal treasurer is required under state law to transmit fire and supplemental state aid to the treasurer of the affiliated relief association within 30 days after receipt if an organized relief association exists and the association has filed a financial report with the municipality. The Reporting Form signed annually by the municipal clerk and submitted to the OSA is the financial report referred to in this statutory provision.

The relief association treasurer should make sure that the fire and supplemental state aid is promptly deposited into the association’s special fund.

The second certification deadline for 2016 fire and supplemental state aid is November 1.

This means that to be certified as eligible for receipt of fire and supplemental state aid in the second round of payments, a relief association must have submitted all required 2015 reporting information to the OSA, the OSA’s review of the information must have been completed, and any issues identified by the OSA must have been resolved before November 1.

If your relief association has not yet submitted its 2015 reporting-year forms to the OSA, please do so as soon as possible.



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What's Ahead:

September 29:

Working Group Meeting from 11:00 a.m. to 1:00 p.m. at the OSA.

October 1:

Fire state aid is paid for those relief associations certified as eligible on the first certification deadline.

November 1:

Second certification deadline for 2016 fire state aid.

November 30:

Final deadline for submitting 2015 reporting-year forms to avoid forfeiture of fire state aid.

Working Group Meetings Scheduled

The OSA will again convene the Volunteer Fire Relief Association Working Group this fall. The Working Group meets to identify and work through current and pressing relief association issues.

The first meeting of the Working Group is set for September 29 and will be held from 11:00 a.m. to 1:00 p.m. at our office in Saint Paul.

Additional Working Group meetings have been scheduled for October 11, October 20, November 9, December 6, and December 15.

All meetings are open to the public and will be held from 11:00 a.m. to 1:00 p.m. Meeting agendas and materials will be available on our website at:

<http://www.auditor.state.mn.us/default.aspx?page=reliefworkinggroup>.

If you have questions about the Working Group or topic suggestions for the Working Group's consideration, please contact Rose Hennessy Allen at (651) 296-5985 or at rose.hennessy-allen@osa.state.mn.us.

Requirement to Report Evidence of Theft

Public pension plan trustees and employees, including trustees and employees of volunteer fire relief associations, are required to promptly report in writing evidence of theft or misuse of public funds to the OSA and to local law enforcement. The written report to the OSA must include a detailed description of the alleged incident or incidents.

In addition, whenever a public accountant discovers evidence pointing to nonfeasance, misfeasance, or malfeasance on the part of a relief association trustee or employee during the course of auditing the books and affairs of the relief association, the public accountant must promptly make a report of such discovery to the OSA and the county attorney.

Information on how to report financial concerns to the OSA, and a form for reporting, can be found on the OSA website at:

<http://www.auditor.state.mn.us/default.aspx?page=reportingfinancialconcerns>.

Sample Bylaw Guides:

LUMP-SUM

City Fire Department

Town Fire Department

Joint-Powers Fire Department

Independent Corporation

DEFINED-CONTRIBUTION

City Fire Department

Town Fire Department

Joint-Powers Fire Department

Independent Corporation

Below-Investment-Grade Bonds

In 2012 there were changes to the investment statutes that govern volunteer fire relief associations and other public pension plans. To avoid compliance issues, relief associations need to be aware of and stay within portfolio limits set in these statutes.

Under the law, a relief association may invest directly, or indirectly, up to five percent of its portfolio in below-investment-grade bonds. The five-percent portfolio limit on below-investment-grade bonds includes direct investment in these types of bonds as well as investments through mutual funds or exchange-traded funds. Many relief associations invest in mutual funds that have a small allocation in these types of bonds. The portion of these mutual funds that include below-investment-grade bonds are counted toward the five-percent portfolio limit.

All unrated bonds are also counted toward the five-percent portfolio limit.

Consider an example. A relief association has \$15,000 invested in a balanced mutual fund with 40 percent of its holdings allocated to bonds. Of these bonds, 20 percent are below-investment-grade and 5 percent are unrated. Of this mutual fund’s holdings, \$1,500 would count toward the relief association’s total portfolio limit of five-percent on below-investment-grade bonds.

Additional information about relief association investment authority is provided in our Statement of Position on this topic, which can be accessed on the OSA website at:

<http://www.auditor.state.mn.us/default.aspx?page=20110527.006>.

Investment Transfer Verifiers

Relief association trustees should make sure that transfer verifiers are on file with their financial institutions and, if applicable, the State Board of Investment (SBI). A verifier is an officer of the relief association whom the financial institution or SBI will contact to confirm the account number to which the money should be transferred when it receives a wire transfer request. Having a designated individual who will be the contact person to confirm transfer requests is a good internal control and helps to protect the pension assets.

Fiduciary Reminders

Statements of Position:

[Joint Powers Fire Departments and Fire Districts](#)

[Paying a Lump Sum Service Pension](#)

[Differences Between Municipal Departments and Independent Nonprofit Firefighting Corporations](#)

[Relief Association Governance](#)

All trustees on a relief association’s board, including municipal trustees, are fiduciaries. State statute defines fiduciary activities, which include the investment of plan assets and the selection of financial institutions and investment products. When presented with investment proposals, keep in mind the old adage: “If it sounds too good to be true, it probably is.” Relief association trustees should ask questions of investment professionals and monitor performance.

As fiduciaries, each trustee on a relief association’s board owes a duty to the members that investments are made in accordance with State law and the association’s plan documents (i.e., bylaws and investment policy). Hiring a broker or investment advisor does not relieve board members of their fiduciary responsibilities.

Fiduciaries are required to act in good faith and exercise the degree of judgment and care that persons of prudence, discretion, and intelligence would exercise in the management of their own affairs. Fiduciaries have a fiduciary duty not only to the members of the plan, but also to the taxpayers and the State of Minnesota. Trustees who breach their fiduciary duties risk being personally liable for the damages that result.

When markets are volatile some investors can be more easily persuaded to make choices, such as buying or selling securities, which are not in the investor’s best interest. “Churning,” the practice of excessive trading by a broker seeking to maximize commissions regardless of the client’s best interest, may also be harder to detect when markets are fluctuating.

For most accounts, a financial advisor’s annual commissions and fees in relation to the assets should be between one and three percent. Please see the August Newsletter for an illustration of the negative impact higher management fees have on investment value over time.

Pension Division Staff

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