

# Plan Description

## Statewide Volunteer Firefighter Retirement Plan



Legislation passed in 2009 created a **Statewide Volunteer Firefighter Retirement Plan (SVFRP)**, referred to as “the Plan” in this document) for volunteer firefighters who provide service to a municipal fire department or an independent nonprofit firefighting corporation. The Plan is voluntary and open to fire departments as a replacement of their existing volunteer firefighter retirement plan. It is also open to municipalities currently without a volunteer firefighter retirement plan. The Plan is codified as Minnesota Statutes Chapter 353G.

The purpose of this Plan Description is to provide information to volunteer firefighters, relief associations and municipalities about the Plan. It includes information about how the Plan is funded, how benefits are determined, and how an entity elects to join the Plan.

### Funding

The lump sum benefits payable from the Plan are funded by existing fire state aid\* allocated to a municipality, additional municipal contributions, as applicable, and earnings on the investment of these funds. Each participating entity will have a separate Entity Account in which the assets necessary to fund the benefits will be maintained.

A new investment account has been established in the Supplemental Investment Fund (SIF) managed by the State Board of Investment (SBI) expressly for investment of the Plan assets. The SBI is vested with the authority to determine the asset allocation of this new SIF account with the expectation that the account will earn a **6 percent** return over the long-term. PERA will track separately the assets of each Entity Account within the Plan.

PERA will perform annual calculations for each Entity Account to assess the level of funding needed to maintain assets sufficient to pay the benefits being earned by the participating entity’s volunteer firefighters. The calculations will resemble the procedure already defined in law for use by all existing volunteer fire relief associations. Required contributions for the coming year will be based on service

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\* Fire State Aid is a program that collects a premium tax from insurance companies based upon gross direct premiums, including policy fees, premium finance and other charges from customers insuring against property losses. The premium tax is collected expressly to pay the pension costs of municipalities and non-profit fire corporations employing firefighters. The program is described in detail in Minnesota Statutes Chapter 69.

credit data provided to PERA in March of each year by each participating entity's fire chief.

Once an entity joins the Plan, future fire state aid payments allocated to that participating entity will be sent to PERA and deposited directly into the Entity's Account. If the fire state aid is not sufficient to adequately fund the account for the year, PERA will bill the participating entity for the required additional municipal contribution. Additional contributions, if any, are due by December 31 of each year. A sample time line for the calculation and billing of annual costs is found on Page 8 of this document.

## **Governance**

### **PERA's Board of Trustees**

The policy-making, management, and administrative functions related to the Plan are vested in the board of trustees and the executive director of the Public Employees Retirement Association. Their duties, authorities, and responsibilities are described in Minnesota Statutes Chapter 353.03. Fiduciary activities of the Plan must be consistent with Minnesota Statutes governing public pensions.

### **Advisory Board**

Chapter 353G provides for an Advisory Board made up of representatives from townships, cities, fire chiefs and volunteer firefighters. The advisory board is expected to provide advice and guidance to PERA's Board of Trustees about the retirement coverage needs of volunteer firefighters.

## **Benefits**

### **Retirement Benefits**

The Plan provides for the payment of lump sum retirement benefits that are based on a specific dollar value paid for each year of credited service accumulated by a volunteer firefighter who terminates service and meets the minimum requirements for receipt of the benefits. The dollar value payable per year of service is determined by the sponsoring municipality or entity at the time an election to participate in the Plan is made, selected from 16 possible benefit levels. An entity may elect to increase the benefit level after joining the Plan if the Entity Account is adequately funded or if the entity authorizes the additional annual contributions necessary to fund increased benefit levels. The 16 possible benefit levels provided by the Plan are shown in detail in Table 1 on page 6 of this Plan Description.

To be eligible for a benefit, a firefighter must:

- be at least 50 years old;

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- be vested, which means having acquired a minimum of 5 years of "good-time" service credit<sup>†</sup> in the Plan; and,
- have severed his or her employment relationship with the fire department for a minimum of 30 days.

A full retirement benefit is payable to a firefighter with 20 years of service. Firefighters retiring with fewer than 20 but more than 5 years of service are eligible for a percentage of a full benefit as described in Table 2 on page 7. Former members of the fire department who were vested at the time they left the department are also entitled to benefits when they attain age 50.

### **Minimum participation in the Plan**

If an existing volunteer firefighter relief association becomes part of the Plan, the former plan benefits are payable to anyone who is vested and who leaves volunteer service within the first five years of participation in the statewide plan. A firefighter must participate in and earn at least 5 years of service credit in the SVFRP to receive a benefit based upon the levels provided by the Plan. Once a firefighter has participated in the statewide plan for at least 5 years, all years of credited service will be paid at the dollar value provided by the SVFRP.

### **Non-vested benefits**

No benefits are payable to a firefighter who leaves the volunteer fire department before having earned five years of credited service, except as provided for under the portability provisions of the Plan as noted in the next paragraph.

### **Portability provisions**

One of the goals of the Plan is to provide portability of benefits for volunteer firefighters. The Plan is designed to pay benefits to a firefighter who may not vest in one account, but when all volunteer service earned in accounts participating in the Plan is combined, the individual has earned more than five years of credited service. If that is the case, a prorated share of benefits payable based on credits earned in each account would be payable to the individual who meets all other requirements for payment of a lump sum benefit under the Plan.

### **Survivor benefits**

Benefits are paid to the surviving spouse of an active or deferred member who dies. If there is no surviving spouse, benefits are paid to the firefighters dependent children, and if no children, to the deceased firefighter's estate. The survivor benefit is equivalent to the lump sum benefit that would have been

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<sup>†</sup> Chapter 353G does not define "good-time service credit." The chief of each participating fire department determines the minimum activity levels and length of time an individual volunteer must serve to receive credit. Credit may be awarded in annual or monthly increments as determined by the chief of the fire company.

payable to the firefighter at age 50 using the service credit earned as of the date of death.

### **Supplemental benefits**

In addition to primary benefits, the Plan provides supplemental benefits equivalent to those outlined in Minnesota Statutes Chapter 424A.10. With supplemental benefits, the retiring firefighter receives a one-time cash payment equal to 10% of the lump sum benefit up to a maximum of \$1,000. For a survivor, a supplemental benefit is 20% of the lump sum, up to a maximum of \$2,000.<sup>‡</sup>

### **Other benefits**

The Plan does not currently provide disability benefits, but it is expected that this will be one of the first issues for discussion by the advisory board.

## **Process for joining the Plan**

The decision to participate in the Plan is made jointly by the entity operating the fire department and the volunteer firefighter relief association (if one exists). Individual firefighters can not join the Plan on their own. The process for electing coverage of volunteer firefighters by the Plan is initiated by a request to PERA for a cost analysis of the prospective retirement coverage, as follows.

- 1.** If the volunteer firefighters are covered by an existing relief association, the secretary of the relief association must ask the relief association board to approve a request for a cost analysis from PERA. Whether or not there is an existing relief association, the chief administrative officer of the municipality or non-profit fire corporation that sponsors the fire department must seek approval from the city council or the non-profit's board to request a cost analysis.
- 2.** If the municipality's council or the non-profit's board (and the relief association board, if one exists) approve of a cost analysis, the secretary of the relief association (if one exists) and chief administrative officer jointly submit a request to PERA's executive director for estimates of costs of the potential retirement coverage. If the volunteer fire department is associated with more than one municipality or non-profit, the chief administrative officer of each sponsoring entity of the volunteer fire department must jointly execute the request.
- 3.** PERA prepares estimated costs for the benefit level(s) requested.

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<sup>‡</sup> Supplemental benefits are paid by PERA, and PERA is reimbursed for their costs by the State of Minnesota. Thus, municipalities and entities participating in the Plan do not fund supplemental benefits.

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- 4.** The State Board of Investment (SBI) reviews the investment portfolio of the existing relief association (if one exists) and determines which assets could be transferred to SBI and which must be sold before December 31<sup>st</sup> should the entity elect to join the Plan.
- 5.** Upon receipt of the cost analysis, the governing body of the municipality or municipalities, or independent nonprofit corporation associated with the fire department has 90 days to approve coverage in the Plan. If the retirement coverage change is not acted upon within 90 days, it is deemed to be disapproved. If the retirement coverage is approved by the applicable governing body, a copy of the approval is sent to PERA.
- 6.** If coverage is approved, PERA begins administering the Plan for the entity effective the following January 1 and issues all future benefit payments.
- 7.** On the date immediately prior to the effective date of the coverage change (December 31), the special fund of the applicable volunteer firefighters' relief association, if one exists, ceases to exist as a pension fund of the association and legal title to the assets of the special fund transfers to the State Board of Investment. With some modifications, the relief association may continue as an organization and maintain its general fund.
- 8.** If coverage is not approved, the Plan is not extended to firefighters and the firefighters continue as before with or without a relief association benefit plan, as applicable.

**Table 1**  
**Options for benefit levels**

<b>Benefit Level</b>	<b>Cash benefit per year Of “good-time” service credit</b>
A	\$500
B	\$750
C	\$1,000
D	\$1,500
E	\$2,000
F	\$2,500
G	\$3,000
H	\$3,500
I	\$4,000
J	\$4,500
K	\$5,000
L	\$5,500
M	\$6,000
N	\$6,500
O	\$7,000
P	\$7,500

**Benefit Example**

The *City of Anytown* joined the Plan and selected level C as the benefit level for their volunteer firefighters. If a firefighter had 20 years of good time service credit and then “retired” at age 50, that firefighter would

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receive a lump sum benefit of \$20,000 (\$1,000 per year of service times 20 years).

**Table 2 - Prorated benefits for participants with at least five, but less than 20 years of service credit**

<b>Completed full years of good-time service credit</b>	<b>percentage of the full service pension</b>
5	40%
6	44%
7	48%
8	52%
9	56%
10	60%
11	64%
12	68%
13	72%
14	76%
15	80%
16	84%
17	88%
18	92%
19	96%
20 or more	100%

**Benefit Example**

The *City of Anytown* joined the Plan and selected level C as the benefit level for their volunteer firefighters. If a firefighter had 10 years of good time service credit and then “retired” at age 50, that firefighter would receive a lump sum benefit of \$6,000. That is calculated by multiplying the number of years of good time service credit (10 in this example) times the benefit level (Level C in this example, or \$1,000 per year of service) times the nonforfeitable percentage of the service pension (60% in this example) since the firefighter had less than 20 years of service.

$$10 \times \$1,000 \times 60\% = \$6,000.$$

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**Table 3**  
**Example schedule for payment of required contributions**

March 31, 2009	Deadline for Fire Chief to certify good-time service credits to PERA for previous calendar year.
Spring 2009	PERA calculates liabilities and required contributions for 2010.
Summer 2009	PERA notifies municipalities and non-profit fire companies of required contributions for 2010.
October 1, 2010	PERA receives Fire State Aid for the former relief associations and new plan sponsors.
Dec. 31, 2010	If the employer received an invoice for employer contributions, the payment is due by the end of the year.