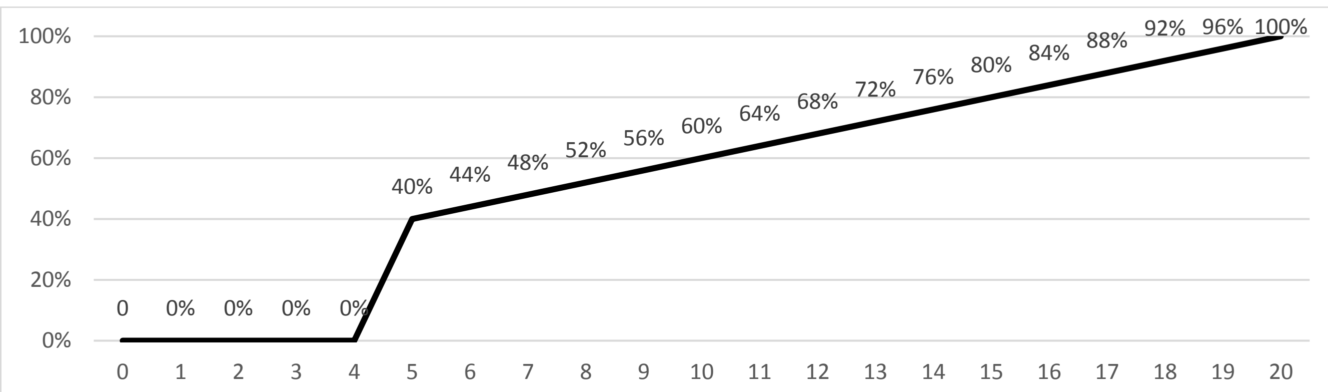
PUBLIC EMPLOYEES
RETIREMENT ASSOCIATION

Date: February 25, 2022
To: SVF Advisory Board
From: PERA Staff
Subject: SF3402 - Vesting Provisions & Alternative Calculation (Minnesota Statute 353G)

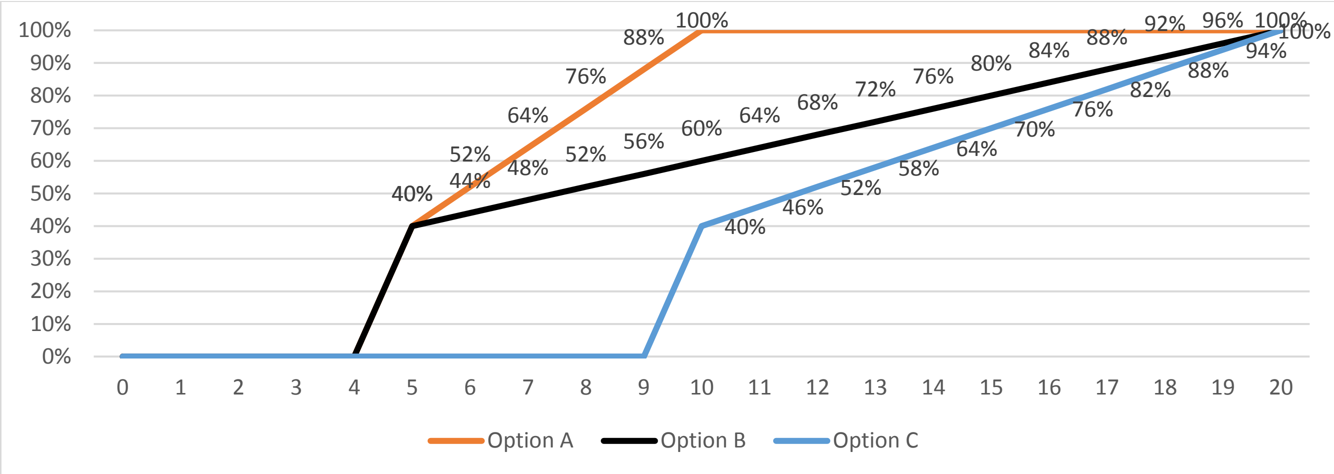
A bill (SF3402/HF3777) has been introduced that proposes to make two substantive changes to the PERA Statewide Volunteer Firefighter (SVF) Plan. The first change would introduce vesting schedule options for departments seeking coverage in the SVF. The second change is to eliminate the alternative lump sum pension provisions under Section 353G.08 Subdivision 3. PERA staff seeks Advisory Board input on the proposed changes.

Vesting Schedule Options

Currently there is only one vesting schedule available for SVF participants. The vesting schedule in Statute Chapter 353G.09 Subdivision 2 is:



During the past few legislative sessions, conversations regarding the SVF's limited and long vesting period have occurred. The proposed legislation would allow an entity seeking SVF coverage to make a selection from three options listed below. The legislation does not allow for current SVF Plans to change their vesting schedule.



Option A: Vesting begins at 40% after 5 years of service and increases by 12% with each additional year of service. Full vesting is achieved at 10 years of service. This option is the most generous vesting schedule available to Volunteer Firefighter Relief Associations (VFRAs).

Option B: Vesting begins at 40% after 5 years of service and increases by 4% with each additional year of service. Full vesting is achieved at 20 years of service. This is the current vesting schedule for all SVF Plans.

Option C: Vesting begins at 40% after 10 years of service and increases by 6% with each additional year of service. Full vesting is completed at 20 years of service.

Reasons to support vesting options

Though the SVF Plan serves as an alternative to the VRFAs, one issue that continues to be brought to staff's attention is the length and limitations of the SVF's vesting schedule. It is often noted that the VFRAs have a shorter vesting period with more flexibility. The addition of options may increase SVF participation and allow for an easier transition into the SVF for VFRAs. This legislation does not open unlimited vesting options. The three options are derived from the VFRAs vesting schedule, the SVF's current vesting schedule, and the last option provides an alternative. By providing limited vesting options, the SVF Plan will be able to provide more flexibility without creating endless options for SVF Plans. Providing limited vesting options may be in keeping with the purpose of the SVF Plan as an alternative to VFRAs.

Reasons to not support vesting options

The original purpose of the SVF Plan was to provide an option that would reduce the administrative requirements for the VFRAs (audit, actuarial study, and complete the multiple OSA forms, etc.). In order to maintain administrative efficiency and low expenses, pension choices available to VFRAs such as vesting are not available to SVF Plan entities. When entering the SVF Plan, departments agree to yield pension plan choices except for benefit level in exchange for a low cost plan with minimal administrative requirements. Providing limited vesting options for entities joining the SVF Plan will result in different treatment from existing SVF Plan entities. This change may impact the administrative requirements for SVF Plan entities. Plans that wish to maintain these different pension options (vesting, DCP, investments, etc.) can remain in the VFRAs.

Questions

If the SVF Advisory Board agrees that providing limited vesting options is in line with the purpose of the SVF Plan, does the SVF Advisory Board agree with the options identified? Are there other vesting schedules the SVF Advisory Board would like to propose? The vesting options only apply to plans upon election of coverage. Should plans that are currently in the SVF have an option to elect alternative options?

Alternative Lump Sum Pension

The alternative lump sum pension refers to the amount of benefit applicable for a volunteer firefighter that has at least five years of service overall, but less than five years of service while under SVF coverage. Furthermore, the calculation is applicable when the benefit level is greater under the SVF Plan. The alternative calculation does not apply if there is no change in benefit level upon entry to the SVF.

If retirement coverage before SVF coverage was provided to an active member by a defined benefit lump-sum retirement plan VFRA, the alternative lump-sum service pension is: (1) the service pension level specified in the bylaws of the applicable former VFRA as of the date immediately before the election of the SVF coverage change, multiplied by (2) either full years of service or years and months of service, as specified in the bylaws, as a member of that volunteer firefighter relief association and as a member of the SVF plan, multiplied by (3) the non-forfeitable percentage of the service pension the member is entitled to under section 353G.09, Subdivision 2.

An example of the calculation (assuming current vesting schedule is applicable):

	Pre-SVF	SVF	Total Benefit
Current Law	Service = 8 years Benefit = $1,000/year	Service = 2 years Benefit = $2,000/year	10 * $1,000 * 60% = $6,000
SF3402 Change	Service = 8 years Benefit = $1,000/year	Service = 2 years Benefit = $2,000/year	10 * $2,000 * 60% = $12,000

Reasons to support elimination of the Alternative Calculation

Eliminating the alternative calculation provides a larger benefit for members that terminate before reaching five years of service in the SVF, is easier to administer, and easier to communicate.

Reasons to oppose elimination of the Alternative Calculation

Eliminating the provision may increase pension costs during the five year SVF phase-in period.

Staff Conclusion

Staff desires discussion with the Advisory Board to help develop a recommendation for the PERA Board and the Legislature.