



Legislation Text

File #: Res. 2021-052, **Version:** 1

City Council Meeting Date: June 1, 2021

To: Mayor and City Council
City Administrator

From: Ben Martig, City Administrator
Tom Nelson, Northfield Fire Relief Association
Sean Simonson, Northfield Fire Relief Association

Approve the Northfield Fire Relief Association request for fire relief pension benefits

Action Requested:

The City Council approves the Resolution increasing the Pension Benefit Level from \$10,000 per year of service to \$13,000 per year of service to be effective as of January 1, 2022 and approve amendment of the NFRA bylaws Addendum A to reflect the approved benefit level.

Summary Report:

Over the past year plus, the Northfield Fire Relief Association (NFRA) Trustees have reviewed and discussed increasing the Lump Sum Service Pension Benefit from the current \$10,000 benefit level to \$13,000 as permitted by Minnesota Statute 424A.02. At its regular monthly meeting held on May 10, 2021, the Trustees voted unanimously in the affirmative to recommend approval of such a change in benefits referenced above and accordingly to draft the amendment to the NFRA by-laws reflecting same. Such by-law amendment will amend "Addendum A-Table LS-06" (Attachment 2). The NAFRS Joint Powers Board, at its May 20, 2021 meeting, also voted unanimously in the affirmation to recommend approval of the above-mentioned benefit level change and proposed by-law change. (Attachment 3)

With this pension benefit increase, the NFRA pension plan continues to fully fund operations and its obligations, requiring no municipal (NAFRS and Party) pension contributions (See Financial Summary below)

Summary Plan Description

A NAFRS paid, on-call fire fighter earns an annual pension benefit based upon each year of service (in good standing) as per the attached Addendum A schedule. Full vesting occurs after twenty (20) years of service vesting at a 40% level after the fifth year of service (no vesting prior to completion of year five (5) and increasing four (4) percentage points each year thereafter until full vesting at again, year twenty (20).

Investments

The benefits of this retirement plan which is a lump sum, defined benefit plan, are supported by investments managed by the State of Minnesota Investment Fund in a diversified investment portfolio. The Trustees monitor and review investment performance monthly. Such review encompasses, among other matters, known and potential fund liquidity needs (retirement distributions and deferred pension benefits (retirees under age 50)), current equity and bond market conditions and the investment allocation. At least annually, an

independent investment professional specializing in employee retirement plans meets with the Trustees to review recent fund performance and investment allocation strategies.

Pension Plan Costs

As required by State of Minnesota rules and regulations, the Trustees utilize form “SC-21” (Attachment 4) obtained from the Minnesota Office of the State Auditor which computes not only the current pension plan cost but also individual member and total plan liabilities. Due to the substantial “over-funding” (plan assets in excess of liabilities), no plan contribution from NAFRS and/or its three (3) parties has been required for many years. NAFRS has not contributed a pension contribution since its inception on September 1, 2014. See accompanying plan financial summary below. In recent years, the only additions to the plan are derived from the State of Minnesota insurance premium tax (Fire and Supplemental Aid) which has resulted in recent years in an annual cash contribution of approximately \$170,000. This contribution, coupled with favorable net investment returns has resulted in a substantial pension plan “over-funding” status. Such “over-funding” status is true at both the \$10,000 and \$13,000 benefit levels (See Financial Summary below.) (See also accompanying NFRA investment statement as of April 30, 2021.)

2020 GASB Actuarial Audit (Attachment 5)

Due to City of Northfield financial statement and related audit requirements NFRA is required to engage an independent actuarial study of this pension plan in accordance with GASB 67 and 68 requirements (See GASB review report attached). As suspected, given the methods utilized as compared to a substantially more conservative liability computation method utilized and prescribed by Form SC-21 as referenced above, the resulting plan liabilities under GASB 67 and 68 are significantly less than computed under Form SC-21 (See Financial Summary below).

It is very important to note that pension plan contributions, if any, must always be computed utilizing the result from Form SC-21 as per State statute (See Calculation of Required Contributions below.)

NAFRS engaged Hildi, Inc. to perform a professional study of the estimated Total Pension Liability (TPL or GASB 67) basis as well as on a Minnesota Statutory basis. Such information and the resulting report reflect NAFRS plan information as of January 1, 2021.

Paid On-Call Fire Fighter Compensation

The NFRA pension benefit is essentially the only employee benefit offered our NAFRS paid on-call fire fighters and of course, as referenced above, full vesting occurs only after twenty years of service in good standing. By way of background, there are no other employee benefits other than employer paid FICA/Medicare taxes (benefits) and a group accidental death and dismemberment insurance policy. The hourly wage for fire calls is \$21.63 per hour and for meetings and training, \$16.17 per hour. Annually, the average paid on-call NAFRS fire fighter earns less than \$4,000.

Thus, the NFRA Trustees believe this benefit increase is warranted, is feasible (adequate cushion in terms of assets substantially in excess of liabilities) and is a key factor in assuring that not only that we continue to attract outstanding individuals to join our NAFRS organization but provides some assurance that our paid on-call fire fighters will stay with the organization for a long period of time. As has been discussed previously, this favorable employment and fire fighter recruitment situation is uncommon across Minnesota and the Country.

Financial Impacts:

A benefit level increase is not anticipated to have financial impacts to the City of Northfield.

Plan financial status as of January 1, 2021 [\$10,000 annual benefit level]:

Plan assets (principally investments):	\$7,553,000
Plan liabilities, Form SC-21 method [\$10,000/year-benefit level]	<u>\$3,790,000</u>
Plan fund surplus [\$10,000/year]	\$3,763,000
Plan fund surplus %	199%
Plan liabilities, GASB 67 & 68 method [\$10,000/year]	\$3,168,000
Plan fund surplus-GASB method [\$10,000/year]	\$3,853,000
Plan fund surplus %	222%

Projected Plan financial status as of January 1, 2021 [\$13,000 benefit level]:

Plan assets	\$7,553,000
Form SC-21 method	
Plan liabilities, Form SC-21 method [\$13,000/year]	\$4,902,000
Plan fund surplus, Form SC21-method [\$13,000/year]	\$2,651,000
Plan fund surplus %	154%
Plan liabilities, GASB 67 & 68 method [\$13,000/year]	\$4,083,000
Plan fund surplus-GASB method [\$13,000/year]	\$32,938.000
Plan fund surplus %	172%

Form SC-21 Calculation of Required Contributions [\$13,000 BENEFIT LEVEL]-

Normal Cost	\$ 297,000
Projected Administrative Expense	\$ 6,000
Amortization of Deficit (none)	<u>\$ 0</u>
Total Pension Cost	\$303,000

10% of Surplus	\$265,000
Fire & Supplemental State Aid	\$177,000
Member Dues	\$ 0
5% of Projected Assets, 12/31/21	<u>\$378,000</u>
Total available to fund contrib.	<u>\$820,000</u>

NO REQUIRED CONTRIBUTION-CUSHION \$517,000

Alternative Options:

Do not approve the benefit level increase.

Tentative Timelines:

The benefit increase must be approved before year end to take effect on 1/1/2022.