



Pensions for Volunteer Firefighters

Update to 2007 Evaluation Report

Problems Identified

- **Low Rates of Return on Investments.** From January 1997 through December 2004, volunteer firefighter relief associations earned an average annual rate of return of 4.8 percent on their pension funds. Almost all relief associations—96 percent—would have earned higher rates of return had they invested through the Minnesota State Board of Investment (SBI). During the same time frame, the board’s Income Share Account, a medium-risk account that relief associations can invest in, earned, on average, 7.7 percent per year.
- **Limited Use of the State Board of Investment.** Although relief associations can invest some or all of their pension funds through SBI, less than one-third did so in 2005. In our survey of relief associations, 41 percent said they were “not familiar at all” with the investment options offered through SBI. Many associations also said they did not use SBI because they could earn the same or better rate of return or they wanted to invest locally.
- **Poor Investment Policies.** Investment policies should lay out relief associations’ investment goals and a strategy to achieve them. Only 20 percent of the policies we examined described how to invest association pension funds and contained measurable goals for those investments. Only 22 percent of policies required relief associations to periodically review their investment policy to see how well it was working.

Changes Implemented

- **Training on Investment Policies.** The State Auditor’s Office has continued to provide training to relief associations on reporting, investing pension funds, and investment policies. It has also created a sample investment policy for relief associations to use.

Action Needed

- **Require Investing Through the State Board of Investment.** The Legislature should require volunteer firefighter relief associations to invest their pension funds through SBI. This would likely increase investment income for associations—money they could use to increase pension benefits or reduce mandatory local government contributions. If this recommendation is not adopted, the Legislature should, at a minimum, require relief associations to provide annual “report cards” to their membership that summarize association investments relative to certain benchmarks.
- **Improve Investment Policies.** To improve public accountability, the Legislature should require volunteer firefighter relief associations to develop investment policies that incorporate best practices.