



**Commonwealth of Pennsylvania
Public Employee Retirement Commission**

**Public Pension Policy and
Funding Considerations Associated with
the Implementation of a
Statewide Volunteer Firefighter
Retirement System In Pennsylvania**

*A report to the House of Representatives
of the Commonwealth of Pennsylvania
in Response to House Resolution No. 452
Adopted in the Session of 2003-2004*

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Funding Considerations Associated with
the Implementation of a
Statewide Volunteer Firefighter
Retirement System In Pennsylvania**

**Commonwealth of Pennsylvania
Public Employee Retirement Commission
Harrisburg, Pennsylvania**

March 2004

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
P. O. BOX 1429, HARRISBURG, PA 17105-1429

March 2004

To: Members of the Pennsylvania General Assembly

The attached report was prepared by the Commission in response to House Resolution Number 452, which was adopted in the House of Representatives on November 24, 2003. The resolution directed the Commission to undertake a study of issues related to the potential provision of a statewide retirement plan for volunteer firefighters and to report its findings to the House of Representatives.

The report contains a discussion of the organization and nature of volunteer firefighting in the Commonwealth, presents the findings of the Commission's survey of statewide retirement plans for volunteer firefighters in other states, and provides topical discussions and recommendations pertaining to the implementation of a statewide retirement plan for volunteer firefighters in Pennsylvania.

On behalf of the Commission, I am pleased to submit this report for your review and consideration. The Commission is hopeful that you will find it to be informative and useful in your deliberations on this aspect of public pension policy.

Sincerely,

Paul D. Halliwell
Chairman

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INTRODUCTION

On November 24, 2003, the Pennsylvania House of Representatives adopted House Resolution Number 452, which directed the Public Employee Retirement Commission to study and provide the House of Representatives with information on a statewide retirement system for volunteer firefighters. This report was prepared in response to that resolution. It provides background information on the role and current status of the volunteer fire service in Pennsylvania, describes the findings of the Commission's survey of volunteer firefighter retirement plans and presents the Commission's conclusions based upon the survey findings. The report also discusses the salient policy considerations associated with the implementation of a statewide retirement plan for volunteer firefighters and presents the Commission's recommendations on those policy considerations to provide a conceptual framework for any subsequent enabling legislation.

The Commission wishes to express its sincere appreciation to the staffs of the public employee retirement systems, institutes, and associations that contributed to the production of this report.

PART I
BACKGROUND DISCUSSION

Citizen participation in the volunteer fire service has a long history in the Commonwealth of Pennsylvania. It is a tradition based largely on a strong sense of community service that appears to be in decline, not only in Pennsylvania but across the nation. The reasons for this decline may be traced to recent societal changes such as: the more mobile work force, the presence of competing interests, and the demands of two-income families. The decline in available volunteer manpower has compelled many community leaders to consider various types of incentive programs to address the perceived recruitment and retention difficulties. One type of incentive program provides pension-like benefits to volunteer firefighters as a reward for long tenure in the volunteer fire service. These “volunteer firefighter retirement systems,” or “length-of-service award programs,” have grown in popularity in recent years and currently exist in 26 states nationwide.

In recognition of the decline in the availability of volunteers, the Commonwealth’s heavy dependence upon the volunteer fire service, and the high costs and other difficulties associated with converting the volunteer firefighting service to a paid firefighting service, the Pennsylvania House of Representatives adopted House Resolution Number 452. House Resolution Number 452 directed the Public Employee Retirement Commission to do the following:

- 1) undertake a study to identify the public pension policy and funding considerations associated with the implementation of a statewide volunteer firefighter retirement system, to be funded by the Commonwealth and be administered by a single Commonwealth agency;
- 2) review the benefit structures and funding considerations of the retirement systems in other governmental units that have established such plans for volunteer firefighters;
- 3) solicit information from the Pennsylvania Emergency Management Agency on possible design considerations, including membership eligibility criteria for a cost-effective statewide volunteer firefighter retirement system that may aid in the retention of current volunteer firefighters and which provides incentives for the recruitment of new volunteers; and

- 4) report the Commission's findings and recommendations to the House of Representatives.

FIRE PROTECTION SERVICE IN PENNSYLVANIA

The term "fire service" encompasses those activities undertaken by organized groups of individuals to provide fire protection and other public safety related functions commonly undertaken by fire companies and their affiliated organizations. These other functions include the following: first aid, rescue and salvage, ambulance services, fire police work, radio communications, assistance at accidents, animal rescue, abatement of conditions due to disasters, and participation in public celebrations, parades, and fund raising campaigns.

For the purposes of this report, a volunteer firefighter is any member of a fire company, fire police unit, rescue squad, ambulance corps, or other like organization affiliated with a fire company, who participates in the fire service but receives no remuneration for the service rendered. Although no public or private agency currently maintains complete data on the number of volunteer firefighters in Pennsylvania, estimates place the total number of volunteer firefighters in the Commonwealth between 70,000 and 75,000.¹

Three types of fire companies provide fire service in Pennsylvania. These include companies or departments that are entirely volunteer, companies staffed entirely by paid firefighters, and companies that are a mix of volunteer and paid firefighters. However, as the following table shows, over 96 percent of the fire companies in Pennsylvania are staffed entirely by volunteers.

Numbers and Types of Fire Departments in Pennsylvania	
<u>Type</u>	<u>Number</u>
Volunteer	2,337
Paid/Volunteer	73
Paid	23
Total	2,433

Source: *Pennsylvania Local Fact Sheet*, Governor's Center for Local Government Services, Department of Community and Economic Development, August 2002.

¹ *The Volunteer Fire Service in the Commonwealth of Pennsylvania, A Funding Study*, Pennsylvania Fire and Emergency Services Institute, originally published December 1994, updated 2001.

Nationally, it is estimated that there are currently 19,224 all-volunteer fire companies.² This would indicate that Pennsylvania accounts for approximately 12 percent of the total number of volunteer fire companies in the country, while accounting for less than 5 percent of the nation's total population. In fact, according to information provided by the Washington D.C. based National Volunteer Fire Council, Pennsylvania has the largest number of volunteer fire companies of any state in the country.

There are several factors that appear to account for the unusually large number of volunteer fire companies operating in Pennsylvania. First, Pennsylvania has the distinction of being the home of the first volunteer fire company and, therefore, has a longer history of volunteer fire service than other states. Perhaps a more significant reason for the proliferation of volunteer fire companies in Pennsylvania is the highly decentralized nature of Pennsylvania's local governmental structure that is comprised of a large number of local governmental units (i.e., 2,566 local government units, including townships, boroughs, cities, and towns).³ Since there is almost one volunteer fire company for each municipality in the state, there is a correspondingly high number of volunteer fire companies. An additional reason for the high number of volunteer fire companies in Pennsylvania is the fact that most volunteer fire companies are firmly grounded in local tradition, and they consequently feel very strongly about maintaining their individual identities and resisting consolidation with nearby companies.

Not all municipalities in the Commonwealth have a volunteer fire company located within their boundaries. Fire protection for these local governmental units is provided by a company or companies outside their corporate limits. In these cases, service is normally provided through formal or informal cooperative agreements. Service may also be rendered on a fee basis, which is usually defined in a written agreement. In some rural areas, service is provided without a formal agreement and recipient municipalities "pay" for the services in the form of an annual appropriation or payment of a portion of the company's operating expenses.

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS (FRAS)

A volunteer firefighters' relief association (FRA) is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service.

² *National Volunteer Fire Council Fact Sheet*, National Volunteer Fire Council, 2002.

³ *Pennsylvania Local Fact Sheet*, Governor's Center for Local Government Services, Department of Community and Economic Development, August 2002.

Volunteer firefighters' relief associations were first established in Pennsylvania in 1895. Their development at that time followed the passage in 1889 of a state law which levied a 2 percent tax on foreign fire insurance premiums to provide benefits to protect volunteer firefighters and their families. As of calendar year 2002, there were 1,987⁴ FRAs operating in the Commonwealth.

The Volunteer Firefighter's Relief Association Act (Act 1968-84) regulates the administration of relief association affairs and the expenditure of funds. Act 84 requires that a relief association conduct its affairs as a separate legal entity, either as a corporation or an unincorporated association governed by a constitution and bylaws. Accordingly, FRAs are required to maintain separate relief association accounts and records, hold investments in the name of the relief association, establish bylaws, and maintain meeting minutes. Act 84 also specifies the purposes for which relief association funds may be spent and the types of benefits an FRA may provide to its members.

STATE AID

State aid revenues distributed annually to FRAs are derived from a 2 percent tax imposed on the gross premiums of fire insurance policies written in Pennsylvania by foreign companies. The term "foreign fire insurance" means any insurance written by an insurance company which is not incorporated in the Commonwealth of Pennsylvania. The funds are allocated using a formula that distributes the state aid based upon municipal population and the market value of real estate in a municipality. As a result, there is no direct relationship between the amount of state aid allocated to an FRA and the number of volunteer firefighters served by the FRA. In calendar year 2002, a total of \$51.1 million⁵ was distributed to the Commonwealth's 1,987 FRAs.

Act 84 established criteria and standards for the orderly administration and conduct of FRA affairs in order to ensure that funds will be available for the protection of volunteer firefighters and their families. The accounts and records of each FRA that receives state aid are subject to regular audits by the Department of the Auditor General.

⁴According to staff of the Bureau of Volunteer Firefighters' Audits, Office of the Auditor General of Pennsylvania.

⁵According to staff of the Bureau of Volunteer Firefighters' Audits, Office of the Auditor General of Pennsylvania.

TAX QUALIFICATION

The status of contributions to retirement system accounts for volunteer firefighters have been addressed by the Small Business Job Protection Act of 1996. This Act clarified the tax status of “length of service awards” to “bona fide volunteers,” including firefighters, emergency medical and ambulance personnel. The Act provides that amounts contributed to length of service award plans for these volunteers are tax deferred and accordingly not taxable to the volunteer until paid or made available to the volunteer. In order to qualify for the special tax treatment, the volunteer must not be otherwise compensated for such services and the annual amount accruing for such services must not exceed \$3,000. In addition, the length of service awards are not considered compensation for the purposes of the Federal Insurance Contribution Act (FICA).

PART II

SURVEY FINDINGS

SCOPE AND METHODOLOGY

House Resolution Number 452 directed the Commission to review the benefit structures and funding considerations of volunteer firefighter retirement systems in “other governmental units.” Because House Resolution Number 452 explicitly directs the Commission to conduct the study with the objective of implementing a statewide, centrally administered volunteer firefighter retirement system in the Commonwealth, the Commission staff chose to study volunteer firefighter retirement plans operating in other states that were enabled by state law.

During the course of research, the Commission staff identified a total of 26 states in which volunteer firefighter retirement benefit plans or “service award programs” were in existence. Of these, the Commission staff selected 15 states for study. The 15 states chosen were selected because, in each case, a state statute existed specifically authorizing the establishment of one or more benefit plans for volunteer firefighters. The plans selected for study are located in the following states: Arizona, Arkansas, California, Colorado, Delaware, Georgia, Minnesota, Montana, Nevada, New Hampshire, New Mexico, New York, Texas, Washington and Wyoming. The Commission staff conducted a telephone survey, interviewing plan administrators, legal staff, plan actuaries, and other officials as necessary. The survey respondents were asked a prepared series of questions concerning the characteristics of the subject plans. The Commission staff also requested, obtained and reviewed data from various official documents, actuarial valuations, comprehensive annual financial reports, state statutes, member handbooks, plan summaries and related materials. On those occasions when documentation was unavailable, survey respondents were asked to provide estimates based upon their expertise and special knowledge of the plans in question. The following table summarizes the results of the survey.

TABLE I – Selected Provisions of

State	Admin.	Plan Type	Membership		Funding	Contributions		Service Credit
			# Members	Eligibility		Sponsor	Member	
Arizona	Local	DB	unknown	Any Vol.	State Fire Insurance Tax Local Gov't Contributions	Yes	Yes	1 for 1
Arkansas	Local w/ state review	DB	unknown	Any Vol.	State Contributions Special Other	Yes	Yes	1 for 1, w/up to 3 years prior service credit
California	State	DB	3,200	Active	State Contributions	Yes	No	1 for 1 as certified by dept. w/up to 8 years prior service at no cost to member
Colorado	Local	DB	unknown	Active	Local Gov't Contributions State Contributions	Yes	No	As determined locally
Delaware	State	DB	4,856	Active	Local Gov't Contributions Other	Yes	Yes	1 for 1 for service rendered after July 1, 1986; 1 for 3 for service rendered prior to July 1, 1986
Georgia	State	DB	2,566	Active	State Fire Insurance Tax	Yes	Yes*	1 for 1
Minnesota	Local	DB or DC	unknown	Active	State Fire Insurance Tax Other	No	No	1 for 1
Montana	State and Local	DB	4,172	Active	State Fire Insurance Tax	Yes	No	1 for 1

Volunteer Firefighter Benefit Plans

Vesting	Benefit		Remarks
	Eligibility	Normal Benefit	
N/A	20 years and age 60 or any age w/25 years service	Locally determined up to maximum of \$200 monthly	Member is not vested until reaching normal retirement eligibility. Local boards have discretion in determining benefit amounts for departments under their jurisdiction and may increase, decrease or terminate benefits at the board's discretion.
N/A	Age 55 and 20 years service; Age 60 w/5 years or any age w/28 years service	\$5 x years of service credit paid monthly	No vesting rights exist until member attains eligibility for normal retirement.
10 year cliff	20 years service or 10 years at age 60	\$100 per month w/20 years service; \$50 w/10 years service	
10 year cliff	Age 50 w/20 years service	\$300 per month	Benefit cap removed by recent state legislation. Local boards are empowered to increase benefits as fund conditions permit.
10 year cliff	Age 60 w/at least 10 years service	\$5 x years of service up to a max of 25 years or \$125 per month	Funded through sponsor and member contributions. Required sponsor contributions determined actuarially.
Partial/15 years partial – fully vested after 25 years service	Age 55 and 25 years service	\$200 per month for "Class 9" volunteers	*\$15 per month member "dues" may be paid on behalf of member by sponsor at sponsors discretion.
Partial/ 5 yrs. 40% vested increasing annually to 100% after 20 years service	Age 55 and 25 years service *	\$200 monthly	*Local relief associations may adopt additional age and service conditions. Local relief associations administer plans.
10 year cliff	Age 55 and 20 years service	\$7.50 x years of service up to a max of \$150 per month	

TABLE I – Selected Provisions of

State	Admin.	Plan Type	Membership		Funding	Contributions		Service Credit
			# Members	Eligibility		Sponsor	Member	
Nevada	State	DB	200	Any Vol.	Local Gov't Contributions	Yes	No	1 for 1
New Hampshire	Local	DC	Unknown	Active	Local Gov't Contributions	Yes	Yes	1 for 1 w/ up to 5 years prior service
New Mexico	State	DB	5,176	Any Vol.	Special Fund	No	No	1 for 1
New York	Local	DB or DC	Unknown/ approximately 500 distinct plans statewide	Active	Local Gov't Contributions	Yes	No	1 for 1
Texas	State	DB	4,381	Active	Local Gov't Contributions State Contributions	Yes	No	1 for 1
Washington	State and Local	DB	Approx. 18,000	Active	State Fire Insurance Tax Other	Yes	Yes	1 for 1
Wyoming	State	DB	2,163	Active	State Fire Insurance Tax	No	Yes	1 for 1

Volunteer Firefighter Benefit Plans (Cont'd)

Vesting	Benefit		Remarks
	Eligibility	Normal Benefit	
5 year cliff	Age 65 and 5 years service; age 60 and 10 years service or 30 years at any age.	2.67% of "deemed salary" x years of service	Benefit based on 2.67% accrual rate multiplied by a "deemed salary" of between \$150 and \$750 annual "salary" of volunteer firefighter. Local sponsor selects a deemed salary for firefighters under its jurisdiction and pays an employer contribution equal to 19.5% of "pay." Firefighters are not actually compensated.
Partial, 20% vested w/ 6 years service, 100% at age 60	Age 60 and 20 years service	Accumulated assets plus interest	New Hampshire passed enabling state legislation in 1998. Program has not yet been implemented. Limited information available. Program will be highly decentralized and funded by sponsor and member contributions.
10 year cliff	Age 55 and 25 years service	\$200 monthly	
5 year cliff	Min. Age 55	Variable	State enabling legislation gives local governments wide latitude in establishing plans. Plans largely administered through local government contracts with private sector service providers.
Partial 25% w/5 years service, 100% w/15 years	Age 55 or 15 years service	6 x \$12 for each year of service credit plus an additional 7% of member's total benefit entitlement for each year of service beyond 15 years	
10 year cliff	Age 65 or 25 years service	\$30 plus \$10 for each year of service to a maximum of \$280 monthly	Benefit enhancement passed by state legislature will become effective July 1, 2003, increasing benefits to \$50 plus \$10 per month for each year of service to a maximum of \$300 monthly.
N/A	Age 60 (See remarks)	Variable (See remarks)	Complex benefit structure based upon a member's entry age and a \$12.50 per month member contribution. Minimum benefit eligibility is age 60. Example: For a member who entered service at age 18 and retired at age 60, the benefit would be \$618.93 monthly.

Key to Table I Categories and Abbreviations

State: Identifies the state in which the subject plan is authorized or in operation.

Admin: Identifies the level of plan administration. "Local" indicates a plan that is administered at the local level (municipal, county, quasi-independent local board, etc.). "State" designates a plan that is centrally administered at the State-level (state pension board, treasury department, etc.).

Plan

Type: Identifies the plan as either defined benefit (DB) or defined contribution (DC).

Membership:

Members – Indicates the number of current active plan participants. **Note:** Where possible, membership data were derived from the most recent actuarial valuation or comprehensive annual financial report data available. Where this data was not available, survey respondents provided estimates.

Eligibility – Indicates plan participation eligibility criteria. "Any Vol." indicates a plan in which any member of an operating volunteer fire company may participate in the plan without regard to activity status. "Active" indicates a plan in which only members who meet specific activity criteria as specified in state statute or local ordinance may participate and receive service credit in the plan.

Funding: Identifies the plan's primary sources of funding. More than one source of funding may apply.

State Fire Insurance Tax - A state tax is levied on fire, property and casualty insurance premiums sold in the subject state.

State Contributions - Funding for the plan is provided through appropriations from the state's general fund.

Special Fund - The subject state has designated a special fire protection fund from which the plan is funded.

Local Gov't Contributions - Funding for the plan is provided through appropriations from the sponsoring local government's general fund.

Special Fund - The sponsoring local government has established a special fund from which the plan is funded.

Other - Various other funding sources that may include gifts, donations, special one-time grants or appropriations, etc.

Contributions:

Sponsor - Indicates whether sponsor (i.e. "Employer") contributions are made to the plan.

Member - Indicates whether participants are required to contribute to the plan.

Service

Credit: Describes the manner in which service is credited. "1 for 1" indicates that a year of service credit is earned for every year of certified volunteer fire service. Otherwise, credit is as indicated.

Vesting: Describes the service required for a member to be entitled to a benefit. "Cliff" indicates a specific vesting period after which the member is fully vested (example, "5-year Cliff" would indicate vesting after five years of service credit has been earned). "Partial" indicates that members vest in a percentage of their benefit over specific service time frames (example, 25% vested after five years, 5% per year thereafter, 100% vested after 20 years service). "None" indicates the plan has no vesting provision and that the member is not entitled to any benefit until achieving normal retirement age and service requirements.

Benefit:

Eligibility - Indicates the eligibility criteria for normal retirement benefits expressed as age and/or service requirements.

Normal Benefit - Describes the normal retirement benefit amount.

Remarks: Additional narrative description of various plan provisions or design issues as necessary.

N/A: Not applicable.

Unknown: Requested information was either not available at the time the survey was conducted or was not available due to the nature of the plan.

FINDINGS

Table I displays selected survey findings and illustrates the main provisions and related characteristics of the subject benefit plans in summary form. The following describes salient survey findings in narrative form.

Nomenclature and Purpose. The nomenclature used to describe the subject plans were variously referred to as *volunteer firefighter pension plans*, *volunteer firefighter retirement funds*, *volunteer firefighter retirement systems* or *volunteer firefighter relief funds*. Other nomenclature encountered included *length of service award programs (LOSAPs)*, *service award plans*, or *service award programs*. Centrally administered, statewide plans were most often referred to as *retirement systems*, *retirement plans*, or *retirement funds*. Locally administered plans were usually referred to as *award programs*. Despite differences in nomenclature, plan design, funding methods, and other characteristics, the Commission staff found that the designated purpose of all plans surveyed was to provide a deferred benefit, generally in the form of a monthly payment to eligible members that was payable following the attainment of certain age and service requirements and intended as a reward for service as a volunteer firefighter.

Plan Rationale. Various incentive programs, including retirement benefit plans, have been suggested and utilized as tools for recruiting and retaining individuals in the volunteer fire service.⁶ House Resolution Number 452 states that it is the goal of the General Assembly to encourage the retention and recruitment of volunteers. In an attempt to evaluate the success of these plans in the area of recruitment and retention, the Commission staff asked respondents several questions concerning the intended purpose of establishing a retirement system for volunteer firefighters: 1) “What were the primary motivating factors behind the creation of a volunteer firefighters’ retirement system?”; 2) “Was a need analysis conducted prior to creation of the retirement plan?”; and 3) “Has a post-implementation evaluation been performed to assess the plan’s success in meeting stated objectives?” Eight of the retirement plans surveyed indicated that the plan had been established to aid in retention of existing volunteers or as an incentive for the recruitment of new volunteers. In certain cases, the goals of retention and recruitment were part of the enabling state legislation. In no case had a formal needs analysis been conducted prior to the implementation of the retirement plan. The Commission staff found that only one state, New York, had performed a post-

⁶*Recruitment and Retention in the Volunteer Fire Service: Problems and Solutions*, Final Report, Federal Emergency Management Agency, December 1998.

implementation valuation of its system.⁷ It is noteworthy that the New York report concluded, in part, that the state's current length of service award programs were not effective in recruiting volunteer firefighters. Similarly, in its 1998 report entitled, "Recruitment and Retention in the Volunteer Fire Service," the Federal Emergency Management Agency concluded that, as a recruitment and retention incentive, the success of retirement programs varied and suggested that these types of incentives were generally not very effective in recruiting ". . . younger members (18-30 age range) who are not as concerned about retirement but are more effective for retaining older members."⁸ An official of the Georgia Firefighters' Pension Fund also indicated that an effectiveness assessment was in the planning stage and would be performed in the near future.

Plan Type. There are two predominate approaches to pension plan design employed in the public and private sectors to provide retirement benefits. The approaches fundamentally differ in regard to the aspect of the pension plan that is defined, or fixed, in the plan's governing document. In a "defined benefit" (DB) pension plan, the pension benefit to be provided at retirement is defined or fixed, generally by law or ordinance, while the contributions to be made over the period of employment are variable based on the experience of the pension fund. In a "defined contribution" (DC) plan, the contributions to be made over the period of employment are defined, while the pension benefit to be provided at retirement is variable based on the experience of the pension fund. This distinction between the DB and DC approaches is most significant in the placement of the risk associated with investment earnings over the period of employment. The fixed benefit in a DB pension plan means that the investment experience impacts the contribution requirements, increasing them when earnings are lower and decreasing them when earnings are higher. The fixed contributions in a DC pension plan mean that the investment experience impacts on the benefit amount, increasing it when earnings are higher and reducing it when earnings are lower. Therefore, the employer, as the residual contributor, bears the investment risk in a DB pension plan, and the employee bears the investment risk in a DC pension plan.

Of the 15 plans surveyed, 12 were defined benefit plans, two had optional provisions permitting establishment of either a defined benefit or defined contribution plan, and one (New Hampshire) was a defined contribution plan. The

⁷ *A Report on Volunteer Firefighter Length of Service Award Programs, 2001-PS-2*, State of New York, Office of the State Comptroller, Division of Municipal Affairs, July 2001.

⁸ *Recruitment and Retention in the Volunteer Fire Service: Problems and Solutions*, Final Report, Federal Emergency Management Agency, December 1998, page 85.

prevalence of the defined benefit approach in these plans may be the result of their establishment prior to the recent popularity of the defined contribution approach.

Administration. Seven of the 15 plans surveyed were centrally administered, statewide plans, and five of the 15 plans were locally administered. In three of the plans, the administrative and investment responsibilities were shared between state and local authorities. Each of the centrally administered, statewide plans was, for administrative purposes, treated as a component of the state's public employee retirement system.

Funding Sources. In 7 of the 15 plans surveyed, the primary source of funding was a dedicated state tax on fire, property and casualty insurance premiums sold within the state, which was supplemented by local government contributions and various other funding sources (including private donations, grants or special appropriations, etc.). Six plans drew on state, local or some combination of state and local general fund appropriation. One plan was funded entirely through member and sponsor contributions. Additionally, contributions were made in 12 of the 15 plans, with a "sponsor" being the volunteer fire company itself, a supporting relief association, or the local government receiving the fire protection. Seven of the 15 plans required members to contribute to the plan.

Membership. In the surveyed plans, active membership ranged from as few as 200 (in the state of Nevada) to 18,000 (state of Washington). Active membership in the statewide plans was between approximately 2,000 and 5,000. In the decentralized, locally administered plans, reliable membership figures were not available.

Participation Criteria. Only 3 of the 15 surveyed plans had no specific eligibility criteria for participation in the retirement plan beyond simple membership in a volunteer fire company. The remaining 12 plans imposed some type of member eligibility criteria in order for a member to participate in the retirement plan and earn service credit. Specific eligibility criteria varied considerably among plans, but the criteria were always tied to volunteer activity levels, such as responding to a certain number or percentage of fire calls or participating in a certain percentage of drills, meetings and training sessions, that were certified by the fire company leadership or other local administrative authority.

Service Credit. In all cases, the member earned one year of service credit in the retirement plan for every year of certified firefighting service. Four of the 15 surveyed plans also made some provision for crediting volunteer firefighting service performed prior to joining the plan.

Vesting. A retirement system member's right to receive a deferred benefit is said to "vest" when the right no longer is contingent upon the member remaining in service and an active member of the retirement system. Cliff-vesting refers to a type of vesting in which the member is fully vested, or entitled to a benefit, after satisfying a prescribed service requirement. Graduated vesting refers to a type of vesting where the member becomes entitled to an incremental portion of the benefit over a specific time frame. Eight of the 15 plans surveyed had cliff vesting provisions, with six plans providing 10-year cliff vesting and two plans providing 5-year cliff vesting. Four plans had graduated vesting provisions, and three plans had no vesting provisions and thus required members to attain normal retirement eligibility before receiving a benefit.

Normal Retirement Eligibility. The normal retirement benefit eligibility criteria were similar among the plans surveyed, most commonly 20 or 25 years of credited service and age 50 or age 55. These liberal normal retirement age and service requirements reflect a common practice among retirement systems that provide early benefits for public safety employees and are premised upon the unusually rigorous nature of public safety work.

Normal Retirement Benefit. The normal retirement benefits paid to members were found generally to be modest monthly stipends, which may be viewed as being appropriate due to the part-time nature of the volunteer fire service. The retirement benefits provided by the surveyed plans were typically \$100 to \$300 monthly.

PART III

**DISCUSSION AND
RECOMMENDATIONS**

ASSESSMENT OF NEED AND EFFECTIVENESS

The Commonwealth’s consideration of any proposal to establish a statewide retirement plan for volunteer firefighters should include an assessment of the need for such a program. Although the Commission is not aware of any data documenting a decline in the number of volunteer firefighters in Pennsylvania, the language of House Resolution Number 452 presupposes both the decline in volunteer firefighters and the efficacy of a statewide retirement plan for volunteer firefighters to remedy that decline. Although this same premise was found to be the basis for the establishment of volunteer firefighter retirement systems in 26 states, the Commission’s survey evidences very limited pre-implementation assessment of the need for these programs as well as little post-implementation evaluation of their effectiveness. Only one state, New York, conducted a post-implementation evaluation, and that evaluation concluded that its volunteer firefighter retirement program was not effective in recruiting volunteer firefighters.

The Commission recommends

That, if the General Assembly determines that there is no need for a formal needs assessment before proceeding with the establishment of a statewide retirement plan for volunteer firefighters, any legislation implementing a statewide retirement plan for volunteer firefighters provide for a post-implementation evaluation of the program’s effectiveness in increasing the number of active volunteer firefighters through its impact on recruitment and retention efforts; and

That any legislation implementing a statewide retirement plan for volunteer firefighters provide for

- 1) the automatic termination of the program after seven full calendar years of operation unless the program is permanently authorized through legislation prior to the automatic termination date;**

- 2) the Joint State Government Commission to be directed to compile pertinent demographic data on active volunteer firefighters obtained from the administrative agency of the program, as well as other credible sources it deems appropriate, to determine the change in the number of active volunteer firefighters in the Commonwealth between the first January 1 occurring after commencement of the program and the December 31 occurring at the end of the subsequent five year period; and**

- 3) the Joint State Government Commission to be directed to issue a report no later than one year before the program's automatic termination date that contains both the compiled demographic data and the Commission's analysis of the effectiveness of the program in increasing the number of active volunteer firefighters and that recommends termination or re-authorization of the program based solely on its effectiveness in achieving its stated objective.**

ADMINISTRATIVE STRUCTURE

In the states surveyed by the Commission, the predominant means used to administer statewide retirement systems for volunteer firefighters was a single agency, and those agencies were in almost all instances established and operated as a component of the state's public employee retirement system. Centralized administration offers a number of significant advantages that include: efficiency of operation due to economies of scale, consistency and continuity in administrative procedures, increased administrative capacity due to the use of professional staff, increased investment earnings through the pooling of assets and the use of professional investment advisors, and assured statewide portability of benefits. Designating an existing agency specialized in retirement system administration as the administrative mechanism for a statewide retirement plan for volunteer firefighters serves to maximize these advantages of centralized administration.

Of the Commonwealth's three agencies specialized in retirement system administration, the Pennsylvania Municipal Retirement Board (PMRB) has the most experience interfacing with multiple types of local government entities. Accordingly, the interface with local volunteer firefighter agencies that would be required for the administration of a statewide retirement plan for volunteer firefighters could be most

easily integrated by the existing operations of the PMRB. The PMRB is composed of representatives of local government employers and employees and could be expanded to include representation for volunteer firefighters.

The centralized administration of a statewide retirement plan for volunteer firefighters will not negate the necessity for record keeping and eligibility certification activity at the local level by volunteer firefighter agencies. As the administrators of the State aid provided to volunteer firefighters under Act 84 of 1968, volunteer firefighter relief associations (VFRAs) are already subject to regular audits by the State Auditor General, and the scope of those audits could be easily expanded to include the eligibility certifications and other records associated with the statewide retirement plan for volunteer firefighters. The VFRAs are experienced in records management, and they have ongoing liaison with volunteer fire companies. Accordingly, VFRAs would be the most appropriate volunteer firefighter agency to perform the local administrative functions of a statewide retirement plan for volunteer firefighters.

The Commission recommends

That any statewide retirement plan for volunteer firefighters (SRPVF) in Pennsylvania be centrally administered by a single agency;

That any legislation establishing a SRPVF provide for the Pennsylvania Municipal Retirement Board to be expanded by the addition of one member representing volunteer firefighters and made responsible for administering the SRPVF as a stand-alone retirement system;

That any legislation establishing a SRPVF provide for the existing volunteer firefighter relief associations to sponsor and serve as the local administrative agencies for the SRPVF; and

That any legislation establishing a SRPVF designate the SRPVF as the exclusive means by which volunteer firefighters receive compensation representing retirement income payments, pension payments, deferred compensation or length of service awards and prohibit volunteer fire companies from prospectively establishing or participating in any independent program providing such forms of compensation to volunteer firefighters.

PLAN DESIGN

The purpose for establishing a statewide program to provide retirement benefits to volunteer firefighters in Pennsylvania would be to facilitate recruitment and retention of volunteer firefighters rather than the provision of retirement benefits. Accordingly, the defined contribution approach would be more effective than the defined benefit approach due to its inherent ease of understanding. Participants in a defined contribution plan would be able to know the value of their benefits throughout their years of service because, at any point in time, their accrued benefits are equal to their account balances. This direct and continuous comprehension of the benefits by volunteer firefighters would serve as a better inducement for their services than the promise of an abstract defined benefit to be provided at some future date, particularly in view of the variation in service periods that are characteristic of volunteer firefighters.

The defined contribution approach has several additional advantages that are related to funding. Unlike a defined benefit approach that commits the plan sponsor to unknown future funding requirements, the defined contribution approach establishes either a fixed contribution level or a contribution range. The flexibility of funding that occurs with the adoption of a contribution range is particularly appropriate where the revenues available for funding the retirement plan may vary over time and where the retirement benefit is not the primary source of the retirement income for the participants. Therefore, a statewide retirement program for volunteer firefighters in Pennsylvania would be compatible with a defined contribution plan that establishes a range for annual contributions.

In the states surveyed by the Commission, the typical retirement benefits provided to volunteer firefighters were between \$100 and \$300 monthly. The midpoint of that range, or \$200, appears to be a reasonable monthly benefit target for a statewide retirement plan for volunteer firefighters, given both the secondary nature of retirement benefit to be provided under the program and the specific recruitment/retention objectives of the program. A determination of the annual contribution amount needed to achieve that \$200 monthly benefit target requires utilization of assumptions on entry age, service period and interest earnings. If a firefighter is assumed to commence service at age twenty, to continue service for twenty-five years and to experience average pre-retirement earnings of six and one-half percent, the annual contribution to the firefighter's account during the twenty-five year period of service would have to be \$240 to permit payment of the target monthly benefit amount (\$200) upon reaching the specified retirement age of 55. However, as discussed above, providing for the annual per-participant contribution amount to be set within a specified range would permit variation in the funding requirements of the SRPVF based on the revenues available in a given year.

The use of a defined contribution approach for a statewide retirement plan for volunteer firefighters would result in the annual deposit of the per-participant amount into the individual account of each volunteer firefighter certified as eligible in a preceding year. The participants would be entitled to receive the accumulated contributions and investment earnings in their individual accounts at a specified age. Because the retirement benefit under the SRPVF would be supplemental in nature and would serve as a reward rather than as a form of employment-related deferred compensation, participant-directed investment of the individual SRPVF accounts and the accompanying administrative complexity would not be as appropriate as they would be if the benefit were an employment-related, primary retirement benefit. Crediting the individual participant accounts with the actual investment earnings of the SRPVF fund rather than with a specified interest rate would avoid the need to accommodate instances where the actual investment earnings are less than the amount to be credited pursuant to a specified rate. Crediting actual investment earnings would also reduce administrative complexity associated with the disposition or allocation of investment earnings in excess of a specified rate.

The contributions and investment earnings accumulated in the individual participant accounts of a defined contribution retirement plan may be vested with the participant over a period of time or vested immediately. Although immediate vesting arguably may be less effective than phased vesting in supporting the retention of participants, recent national trends and administrative simplicity would support the provision of immediate vesting in a statewide retirement plan for volunteer firefighters.

The Commission recommends

That any statewide retirement plan for volunteer firefighters (SRPVF) in Pennsylvania utilize the defined contribution approach with the annual contributions being defined as a range;

That any legislation establishing a SRPVF specify that the annual contributions to the individual participant accounts range from \$100 to \$250 and that the participants be entitled to receive the balance in their individual accounts on or after age 55; and

That any legislation establishing a SRPVF provide for the individual participant accounts to be credited annually with the actual investment earnings of the SRPVF fund during the preceding year and for the contributions and investment earnings in the individual participant accounts to be immediately fully vested with the participants.

FUNDING SOURCES AND METHODOLOGY

Significant funding will be necessary to operate any statewide retirement plan for the over 70,000 volunteer firefighters in the Commonwealth. Assuming that only seventy-five percent (75%) of the volunteer firefighters (52,500) will be eligible to participate annually, the annual funding required under the defined contribution approach, as recommended by the Commission, would range between \$5 million and \$13 million.

In most of the states surveyed by the Commission, revenues from taxes on fire insurance premiums were used to fund the retirement plans maintained for volunteer firefighters. In Pennsylvania, approximately twenty percent (20%) of the revenues from the tax on foreign fire insurance premiums is allocated to the General Municipal Pension System State Aid Program, and the remaining revenues from that tax are allocated to volunteer firefighter relief associations. Approximately \$59 million was allocated to volunteer firefighter relief associations in 2003. As the recipients of these earmarked revenues, the volunteer firefighter relief associations have the potential to provide some local funding for the statewide retirement plan for volunteer firefighters (SRPVF). The election of individual volunteer firefighter relief associations to participate in and provide funding for the SRPVF would serve to assure that interest in the SRPVF exists within each locality.

Ten percent (10%) of the State aid provided to volunteer firefighter relief associations, or approximately \$5.9 million, would fund a significant portion of the \$5 to \$13 million annual cost of the SRPVF. In fact, these diverted monies would fund all of the annual cost of the SRPVF if it were funded at the low end of the recommended contribution range and over forty percent (40%) of the annual cost of the SRPVF if it were funded at the high end of the recommended contribution range. Accordingly, additional funding for the SRPVF would only be required in those years when the General Assembly determines that more than the minimum contribution is appropriate and fiscally feasible. In those instances, the additional funding for the SRPVF would be provided by the Commonwealth, and annual general fund appropriations would be the most appropriate funding source because the funding requirement for the SRPVF is designed to be variable in order to accommodate differing economic conditions. In effect, the General Assembly would annually determine the per-participant contribution amounts, which would be within the previously specified contribution range, as part of its deliberations on the Commonwealth budgets.

The Commission recommends

That any legislation establishing a statewide retirement plan for volunteer firefighters (SRPVF) provide for the program's total annual funding requirement to be equal to the product of the total number of eligible participants, as certified by the SRPVF's administrative agency, multiplied by the annual per-participant contribution amount, as set through legislative deliberations;

That the total annual funding requirement of the SRPVF have both a State and a local portion;

That the local portion of the annual funding requirement of the SRPVF be satisfied by diverting ten percent (10%) of the annual allocation of foreign fire insurance premium tax revenues payable to each volunteer firefighter relief association that elects to participate in the SRPVF; and

That the State portion of the annual funding requirement of the SRPVF, if any, be satisfied by annual general fund appropriations equal to the sum of the approved administrative budget of the statewide administrative agency for the SRPVF and the total annual funding requirement of the SRPVF reduced by the amount of the local portion.

OPERATIONAL CONSIDERATIONS

Because there is a broad range of service provided by volunteer firefighters, the volunteer firefighter retirement plans surveyed by the Commission were asked to characterize their participation requirements. Most of the plans had specific eligibility criteria that were related to activities such as: responding to a certain number or percentage of fire calls, participating in a certain number of drills or training sessions and attending a certain number of meetings. The activities of each participant were certified by the fire company leadership, and the participant's eligibility was determined on a yearly basis based on the attainment of an aggregate level of activity. Establishing eligibility criteria serves to ensure that only active volunteer firefighters rendering significant service during any given year are rewarded under the program. The Commission reviewed volunteer firefighter eligibility criteria that were developed with input from volunteer firefighter organizations in the 1990's and included in various legislative proposals, including Senate Bill Number 121 in the 1999 Session of the General Assembly. The Commission, as directed in House Resolution Number 452, also solicited review and comment on those eligibility criteria from the office of the State Fire

Commissioner prior to recommending them in this report for use in any statewide retirement plan for volunteer firefighters.

The Commission recommends

That any legislation implementing a statewide retirement plan for volunteer firefighters include a broad definition of the term “volunteer firefighter” to ensure coverage of all persons who are actively engaged in the protection of persons and property through membership in a volunteer fire company, rescue and ambulance company or similar service agency but receive no compensation or remuneration from any source for their services;

That any legislation establishing a statewide retirement plan for volunteer firefighters (SRPVF) provide for standard eligibility criteria, as specified in Appendix I of this report, to be utilized in determining the annual eligibility of individual volunteer firefighters to participate in the SRPVF;

That the volunteer fire companies served by a volunteer firefighter relief association (VFRA) that elects to participate in the SRPVF be required to establish procedures to record and certify the annual activities of each active volunteer firefighter that relate to the determination of SRPVF eligibility;

That the certifications of volunteer firefighting activity for each calendar year be made by both the chief and the president of the volunteer fire company and submitted to the sponsoring VFRA with supporting documentation deemed appropriate by the VFRA no later than March 31st of the year following the year in which the activities were rendered;

That the VFRAs calculate the total eligibility points for each volunteer firefighter certified by a volunteer fire company, determine the volunteer firefighters who meet the eligibility standard of fifty (50) points, and certify a roster of volunteer firefighters eligible to participate in the SRPVF to the statewide administrative agency no later than June 30th of the year following the year in which the activities were rendered;

That the statewide administrative agency annually identify the VFRA that have elected to participate in the SRPVF based on the VFRA rosters submitted in a timely manner and certify that data to the Department of the Auditor General no later than August 15th of each year;

That the legislation direct the Department of the Auditor General to:


- 1) deduct 10% from the allocations under the Foreign Fire Insurance Premium Tax Distribution Law that are payable to all municipalities that provide the State-shared revenue to one or more VFRA certified as participating in the SRPVF, and**
- 2) transfer the total monies deducted in each year into a reserve account for local contributions within the SRPVF fund no later than October 31st of each year.**

That the statewide administrative agency for the SRPVF certify to the General Assembly and the Governor, on or before November 15th of each year, its administrative budget request and the Commonwealth's annual funding requirement for the SRPVF in the following calendar year, expressed as a range and calculated as follows:

- 1) Determine the minimum annual funding requirement by multiplying total number of volunteer firefighters included on the VFRA rosters submitted on or before June 30th of the current year by the minimum per-participant allocation amount (\$100) and reduce that product by the total current balance in the local contribution reserve account, and**
- 2) Determine the maximum annual funding requirement by multiplying total number of volunteer firefighters included on the VFRA rosters submitted on or before June 30th of the current year by the maximum per-participant allocation amount (\$250) and reduce that product by the total current balance in the local contribution reserve account.**

That the appropriation provided to the SRPVF in the Commonwealth budget enacted in the following calendar year be deposited in the SRPVF fund as soon as practicable after the budget is adopted and combined with the available balance in the reserve account for local contributions to determine the total monies available for prorated allocation to those SRPVF participants certified as eligible by the VFRAs in the previous year; and

That the statewide administrative agency for the SRPVF credit the prorated allocation amount for each year to the appropriate individual participant accounts within thirty days of the receipt of the Commonwealth contributions.



PART IV
APPENDICES

APPENDIX I

Proposed Provisions for Eligibility Criteria for Participation in a Statewide Retirement Plan for Volunteer Firefighters

The enabling legislation for a statewide retirement plan for volunteer firefighters would specify the following participant eligibility criteria.

- (1) A volunteer fire relief association electing to participate in the statewide retirement plan for volunteer firefighters shall adopt the eligibility point system that grants points for the firefighting activities specified in paragraph 2.
- (2) Notwithstanding any other provision of this subsection, a volunteer firefighter shall not in any year accumulate eligibility points with respect to activities described in this paragraph in more than one volunteer fire company. The activities for which points shall be earned within each year are:
 - (i) Training courses, a maximum of 25 eligibility points shall be awarded as follows:
 - (A) courses under 20 hours duration, one eligibility point per hour, with a maximum of five eligibility points;
 - (B) courses of 20 to 45 hours duration, one eligibility point per hour for each hour over the initial 20 hours, with a maximum of 10 eligibility points; and
 - (C) courses over 45 hours duration, 15 eligibility points per course.
 - (ii) Drills of at least two hours, a maximum of 20 eligibility points shall be awarded, one eligibility point per drill (minimum two-hour drill).
 - (iii) Sleep-in or standby, a maximum of 20 eligibility points shall be awarded for
 - (A) sleep-in, one eligibility point each full night; and

- (B) standby, which is line-of-duty activity of the volunteer fire company, lasting for four hours, not falling under one of the other categories in this subsection, one eligibility point for each four hours.
- (iv) Elected or appointed position, a maximum of 25 eligibility points shall be awarded for
 - (A) completion of one-year term in an elected or appointed position, and
 - (B) being elected, as an active volunteer firefighter, to serve as a delegate to a firefighters' convention.
- (v) Attendance at meetings, a maximum of 20 eligibility points shall be awarded for attendance at an official meeting of the volunteer fire company, at the rate of one eligibility point per meeting.
- (vi) Participation in department responses, 15 eligibility points for responding on the minimum number of calls shall be awarded as outlined below:

Total Number of Calls Volunteer Fire Company Responds to Annually Other Than Emergency Rescue and First Aid Squad Calls (Ambulance Calls)	Minimum Number of Calls Volunteer Firefighter Must Run Annually in Order to Receive 15 Eligibility Points
0 to 500	10.0%
500 to 1000	7.5%
1000 to 1500	5.0%
1500 and Up	2.5%

Total Number of Calls Emergency Rescue and First-Aid Squad (Ambulance) Responds to Annually	Minimum Number of Calls Volunteer Firefighter Must Run Annually in Order to Receive 15 Eligibility Points
0 to 500	10.0%
500 to 1000	7.5%
1000 to 1500	5.0%
1500 and Up	2.5%

(vii) Miscellaneous activities, a maximum of 15 eligibility points shall be awarded for participation in inspections or other activities described in section 1 of the act of June 24, 1976 (P. L. 424, No. 101), referred to as the Emergency and Law Enforcement Personnel Death Benefits Act, and not otherwise listed at the rate of one eligibility point per activity.

(3) To be certified by a volunteer fire relief association as eligible to participate in the statewide retirement plan for volunteer firefighters for the current calendar year, a volunteer firefighter must have accumulated at least fifty (50) eligibility points in the previous calendar year.

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE RESOLUTION

No. 452

Session of
2003

INTRODUCED BY GOOD, SEMMEL, SAYLOR, SOLOBAY, WEBER, ALLEN, ARMSTRONG, BEBKO-JONES, BELFANTI, BROWNE, BUNT, CAPPELLI, CAUSER, CAWLEY, CORRIGAN, COY, CRAHALLA, CURRY, DALEY, DALLY, DeLUCA, DeWEESE, J. EVANS, FABRIZIO, FICHTER, FORCIER, FREEMAN, GEORGE, GERGELY, GINGRICH, GOODMAN, GORDNER, GRUCELA, HARRIS, HERSHEY, HESS, JAMES, LAUGHLIN, LEACH, MARKOSEK, MARSICO, McCALL, McILHATTAN, O'NEILL, PALLONE, PAYNE, PETRARCA, PETRONE, PHILLIPS, READSHAW, REED, REICHLEY, ROBERTS, ROSS, SATHER, B. SMITH, STERN, R. STEVENSON, SURRA, TANGRETTI, E. Z. TAYLOR, TIGUE, WATSON, WILT, WOJNAROSKI, YOUNGBLOOD, YUDICHAK, ZUG, LEWIS AND WALKO, OCTOBER 16, 2003

REFERRED TO COMMITTEE ON FINANCE, OCTOBER 16, 2003

A RESOLUTION

1 Directing the Commonwealth's Public Employee Retirement
2 Commission to study the implementation of a Statewide
3 retirement system for volunteer firefighters.

4 WHEREAS, The Commonwealth relies heavily on volunteer
5 firefighter departments to provide the first line of defense in
6 all types of emergencies; and

7 WHEREAS, It is estimated that there are approximately 70,000
8 active volunteer firefighters in this Commonwealth, a 6% decline
9 since 1995; and

10 WHEREAS, In this Commonwealth there are more than 2,000
11 active volunteer fire departments and only 33 paid fire
12 departments; and

13 WHEREAS, Converting 2,000 active volunteer fire departments
14 in this Commonwealth to paid status would cost taxpayers nearly

1 \$2.2 billion annually; and

2 WHEREAS, It is the goal of the General Assembly to encourage
3 the retention of existing volunteer firefighters and the
4 recruitment of new volunteers; and

5 WHEREAS, Currently 13 states provide retirement benefit plans
6 to volunteer firefighters who meet certain qualifications;
7 therefore be it

8 RESOLVED, That the House of Representatives direct the Public
9 Employee Retirement Commission to undertake a study to identify
10 the public pension policy and funding considerations associated
11 with the implementation of a Statewide volunteer firefighter
12 retirement system, to be funded by the Commonwealth and
13 administered by a single agency; and be it further

14 RESOLVED, That the Public Employee Retirement Commission
15 review the benefit structures and the funding considerations of
16 the retirement systems in other governmental units that have
17 established such plans for volunteer firefighters; and be it
18 further

19 RESOLVED, That the Public Employee Retirement Commission
20 solicit information from the Pennsylvania Emergency Management
21 Agency on possible design considerations, including membership
22 eligibility criteria for a cost-effective Statewide volunteer
23 firefighter retirement system that may aid in the retention of
24 current volunteer firefighters and which provides incentives for
25 the recruitment of new volunteers; and be it further

26 RESOLVED, That the Public Employee Retirement Commission
27 report its findings and recommendations to the House of
28 Representatives BY June 30, 2004.