

**REPORT OF THE
VIRGINIA SUPPLEMENTAL RETIREMENT
SYSTEM**

**Retirement Benefits for
Volunteer Firefighters and
Rescue Squad Personnel**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



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INTRODUCTION

SJR 30 was approved by the 1986 General Assembly for the purpose of studying the feasibility of providing retirement benefits to volunteer firefighters and rescue squad personnel.

The resolution directed the Virginia Supplemental Retirement System (VSRS) to conduct the study and to report the results to the General Assembly.

The scope of the study resulting from SJR 30 consisted of an examination of the experiences of other states; discussions with the State officials and representatives of the associations representing volunteer firefighters and volunteer rescue squad personnel; and discussions with the VSRS' consulting actuary.

BACKGROUND

There are two basic types of retirement plans, defined contribution and defined benefit. In a defined contribution plan, a fixed amount of contributions are paid into the plan periodically. When the member reaches the age and/or service required for eligibility, a benefit is paid based upon the total contributions paid into the plan as well as accrued earnings on those contributions. In a defined benefit plan, contributions may or may not be made. When the member reaches the age and/or service required for eligibility, a pre-determined amount or a benefit based upon a formula and without regard to contributions is paid.

I. FEASIBILITY

The VSRS has confirmed that plans exist which provide nominal payments to "retired" volunteer firefighters in a number of states.

The rationale for offering such retirement plans include recognition and reward for service, reduction in turnover, and compensation for time away from family. The rationale for not providing a plan involves providing indirect compensation to personnel where pay is not provided during active service. It is also inconsistent with the concept of volunteerism.

Based on information provided by the Virginia Department of Fire Programs, 16 states have implemented plans described as either retirement, service awards, or longevity programs. Other states indicated that they were currently studying this issue. While the majority of the programs for which information was provided were for volunteer firefighters, the extension of benefits to rescue squads would seem philosophically consistent. The question of what other "volunteer groups" that might also be similar probably should be considered.

II. ELIGIBILITY FOR MEMBERSHIP

The determination of eligibility to participate in any potential retirement plan is subject to discussion. The experiences of other states is not helpful in this discussion due to the lack of uniformity of rules governing membership in volunteer rescue squads and fire departments. Inconsistency, in fact, appears to occur even within Virginia.

Those interviewed agreed on the need for uniform eligibility requirements, however, no consensus was reached as to what those requirements might be.

According to the Department of Fire Programs, there are no State mandated standards for volunteer firefighters although recommended standards exist. Fire departments are primarily under "local" control. Volunteer rescue squad personnel, on the other hand, are subject to strict State standards, according to the Department of Health. The implication here is that a uniform eligibility criteria based upon current State law may be difficult to determine for firefighters while somewhat less difficult for volunteer rescue squad members.

III. ELIGIBILITY FOR BENEFITS*

The criteria for eligibility for benefits may be somewhat easier to determine than the criteria for eligibility for membership. Sixteen (16) states for which information was available stipulated minimum ages for retirement. Of those, the minimum ages ranged from 50 to 65, the mode being age 55. In addition to age, 11 states had a minimum number of years of service ranging from 10 to 25. The mode was 20.

IV. BENEFITS

The BACKGROUND section of this report explains two types of retirement plans, defined contribution and defined benefit.

In a defined contribution plan, there is no decision to be made relative to how much a retiree should receive since the benefit is a function of contributions and earnings.

*NOTE: The VSRS currently provides for retirement as early as age 55 with 5 years of service. Members may retire with full benefits at 65 or at 60 with 30 years of service. Where provided for by the locality, some firefighters may retire with full benefit at 60 or at 55 with 30 years.

The majority of plans for volunteers for which data was made available are defined benefit plans. Monthly benefits in those plans ranged from \$58.00 to \$340.00 with most in the \$100-\$200 range. Most were fixed amounts. Several were based on years of service with a maximum.

V. FUNDING

There are several sources that could be used separately or in combination to fund benefits paid to volunteers. Assuming that participants' contributions, if required, would not be sufficient to fund a reasonable benefit, outside sources would be necessary.

One source of funds is the locality or the localities where the service is provided. Another source of funds is the State general fund. The most popular source of funds (11 states) is the premium tax on fire insurance policies.

Benefits may be pre-funded by paying an actuarially determined amount into a fund each year to pay for future benefits or benefits may be funded on a pay-as-you-go basis. No indication was given by the other states relative to pre-funding of benefits.

OTHER CONSIDERATIONS

Employee Retirement Income Security Act of 1974 (ERISA)

The provisions of ERISA govern the administration of private pension plans. Most volunteer fire departments and rescue squads in Virginia are incorporated and are not governmental entities. Because VSRS is a governmental plan not subject to ERISA, VSRS does not comply with this federal legislation.

Covering these entities under VSRS would require compliance with ERISA in order to maintain the VSRS's qualified status under the Internal Revenue Code. Compliance with ERISA would require enrichment of the benefit structure, an increase in the funding level and would

introduce a new level of reporting to the Federal government that is not currently required. These would increase retirement costs to the State and to localities. For example, the funding increase alone would approximately double employer contribution rates. A loss of qualified status would have serious tax repercussions for members and retirees in the form of increased tax liabilities of major proportions. Additionally, all VSRS investment income might be subject to Federal tax.

In 1982 the General Assembly established as policy, that VSRS would administer public employee only plans when it removed heretofore covered private schools from VSRS.

Accordingly, any pension plan established by the General Assembly for volunteer firefighters and rescue members should be separate from the systems set up under the Virginia Supplemental Retirement Act.

Historical Records

In the past, there has not been a need for keeping historical records of service by volunteer fire departments and rescue squads. This, along with the lack of formal standards for membership in many areas, has either resulted in the absence of historical records or makes their accuracy suspect.

If retroactive service credit is granted, a means of certifying that service will be necessary. In addition, a formal record keeping system will be necessary to track future service.

SUMMARY AND RECOMMENDATIONS

During the course of this study, without consideration of the merits of a plan, it has been determined that a form of retirement plan for volunteer firefighters and rescue squad members exists in some states.

If the Commonwealth wishes to proceed with a plan of rewarding individuals who volunteer their services, then at least the following questions must be addressed:

1. What are the criteria for membership eligibility?
2. When would a member be eligible to draw a benefit?
3. What salary will be used as a basis for the benefit?
4. What is an appropriate benefit?
5. What would be the source of funding?
6. How would the plan be administered and by whom?
7. What other volunteer groups might deserve equal treatment?

