

Regular Session, 2014

HOUSE BILL NO. 27

BY REPRESENTATIVE ARNOLD

RETIREMENT/LOCAL: Provides relative to the Deferred Retirement Option Plan in the Firefighters' Pension and Relief Fund in the city of New Orleans

1 AN ACT

2 To amend and reenact R.S. 11:3385.1, relative to the Deferred Retirement Option Plan in the
3 Firefighters' Pension and Relief Fund in the city of New Orleans; to provide
4 definitions; to provide relative to participation in the plan; to provide relative to
5 benefits of the plan; to provide relative to beneficiaries of such benefits; to provide
6 relative to accounting of plan benefits; to provide relative to distribution of benefits;
7 to provide for appeals of determinations made under the plan provisions; to provide
8 relative to the tax status of benefits; to provide relative to interest credits; and to
9 provide for related matters.

10 Notice of intention to introduce this Act has been published
11 as provided by Article X, Section 29(C) of the Constitution
12 of Louisiana.

13 Be it enacted by the Legislature of Louisiana:

14 Section 1. R.S. 11:3385.1 is hereby amended and reenacted to read as follows:

15 §3385.1. Deferred Retirement Option Plan

16 A.(1) As used in this Section the term "DROP account" shall mean the
17 notional account maintained and reconciled for recordkeeping purposes under the
18 Deferred Retirement Option Plan as an ancillary payment option.

19 (2) In lieu of terminating employment and accepting a service retirement
20 allowance under R.S. 11:3381 and 3384, any member of this system who has not less

1 than twelve years of creditable service in this system and who is eligible to receive
2 a service retirement benefit may elect to participate in the Deferred Retirement
3 Option Plan and defer the receipt of benefits as an ancillary form of payment in
4 accordance with the provisions of this Section.

5 B. For purposes of this Section, creditable service shall include service credit
6 reciprocally recognized under R.S. 11:142, but for eligibility purposes only.

7 C. ~~The duration of participation~~ participation period in the Deferred
8 Retirement Option Plan shall not exceed ~~five years~~ sixty months and shall
9 automatically terminate at the expiration of sixty months. A member may terminate
10 his participation in the Deferred Retirement Option Plan at any time by written
11 notification to the board of trustees.

12 D. A member may participate in the Deferred Retirement Option Plan only
13 once.

14 E. ~~Upon the effective date of the commencement of participation~~ Within a
15 reasonable period of time after properly filing an application to participate in the
16 Deferred Retirement Option Plan, ~~membership in this system shall terminate and~~
17 ~~neither employee nor employer contributions shall be payable to~~ on behalf of the
18 ~~member's individual account balance in the Deferred Retirement Option Plan~~
19 member into the system during the participation period. ~~For purposes of this~~
20 ~~Section, compensation~~ Compensation and creditable service shall be determined
21 ~~remain as they existed~~ on the effective date of commencement of participation in the
22 Deferred Retirement Option Plan: or as otherwise permitted under applicable law.
23 During the participation period, a member is prohibited from accruing additional
24 creditable service under the system.

25 F. A ~~person~~ member who participates in the Deferred Retirement Option
26 Plan shall not be eligible to receive a cost-of-living increase from the retirement
27 system while participating and shall not be eligible until his employment which
28 makes him eligible to be a member of this system has been terminated for at least
29 one full year.

1 G. During the participation period, the ~~The~~ monthly retirement ~~benefits~~
2 benefit that would have been payable from this system, had the member elected to
3 cease employment and receive a service retirement allowance, shall be ~~paid into the~~
4 ~~member's individual~~ credited to the DROP account ~~in the Deferred Retirement~~
5 ~~Option Plan. Upon termination of employment from the fire department, deferred~~
6 ~~benefits shall be payable as provided by Subsection H of this Section. The member's~~
7 DROP account shall at all times, until distributed in its entirety, be subject to the
8 annual benefit limitations under Internal Revenue Code Section 415(b) and
9 applicable Treasury Regulations as applied to governmental plans.

10 G.H.(1) ~~The individual account balance in the Deferred Retirement Option~~
11 ~~Plan~~ During the participation period, or until termination of employment, if earlier,
12 the member's DROP account, shall not be subject to any fees, charges, or similar
13 expenses of any kind for any purpose ~~during the member's participation in the~~
14 ~~Deferred Retirement Option Plan as a member of the fire department, nor shall the~~
15 ~~individual DROP account balance~~ accrue or earn any interest or earnings of any kind
16 during such period of participation.

17 (2) Beginning January 1, 2015, and continuing each year thereafter, upon
18 expiration of the participation period or termination of employment, if earlier, and
19 each year until the member's DROP account is distributed in its entirety, interest
20 shall be allocated annually to all member DROP accounts based on a five-year
21 rolling average of the composite rate of return of the pension fund as determined by
22 the system actuary, less an administrative fee as determined by the board of trustees.
23 Prior to January 1, 2015, interest shall be allocated each year ~~Upon completion of~~
24 ~~participation in the Deferred Retirement Option Plan, the individual account of any~~
25 ~~member who continues employment with the fire department shall earn interest each~~
26 ~~year based on the one-year composite rate of return of the pension fund, minus a two~~
27 ~~percent~~ less an administration fee determined by the board of trustees, not to exceed
28 two percent. ~~to be deducted from the individual account each year. The balance of~~
29 the member's DROP account shall not be diminished or impaired.

1 H. I. ~~Upon termination of employment from the fire department, a~~
2 ~~participant~~ At any time after termination of employment and after filing an
3 application on a form acceptable by the board of trustees, a member who participated
4 ~~in the Deferred Retirement Option Plan shall receive a lump sum payment equal to~~
5 ~~the payments made to his individual account in~~ may elect to receive, in addition to
6 other applicable benefits, withdrawals from his DROP account ~~the Deferred~~
7 ~~Retirement Option Plan;~~ plus any interest earned; ~~and minus~~ less any administrative
8 ~~fees deducted from his account;~~ established by the board of trustees, in any form of
9 payment approved by the board of trustees. ~~upon his written application therefor.~~
10 ~~Such application may be made at any time after the member's employment with the~~
11 ~~fire department terminates. Thereafter, the monthly benefits that were being paid~~
12 ~~into the individual account balance in the Deferred Retirement Option Plan during~~
13 ~~the period of participation shall begin being paid to the retiree.~~ The board of trustees
14 shall distribute the member's monthly benefits and DROP account withdrawals
15 within a reasonable period of time after receipt of the written request.

16 F. J. ~~If a member dies during the period of participation in~~ before distribution
17 of his DROP account is made in its entirety, the member's named beneficiary may
18 elect to receive the balance of the member's DROP account ~~the Deferred Retirement~~
19 ~~Option Plan, a lump sum payment equal to the payments made to his individual~~
20 ~~account in the Deferred Retirement Option Plan shall be paid to his named~~
21 ~~beneficiary or, if none, to his estate upon written application to the fund office;~~ in
22 any form of payment approved by the board of trustees in addition; to any normal
23 ~~survivor benefits payable to survivors of retirees under this retirement system shall~~
24 ~~be payable.~~ If there is no valid designation of a beneficiary, the member's DROP
25 account shall be distributed in any form of payment approved by the board of
26 trustees to the following individuals in the following order:

27 (1) The surviving spouse.

28 (2) The surviving child or children, to be shared equally.

29 (3) The surviving parents.

1 ~~(4) The deceased member's estate.~~

2 ~~J. Any payment to be made from a member's individual account balance in~~
3 ~~the Deferred Retirement Option Plan shall be made as a lump sum payment. The~~
4 ~~member or his beneficiary may, however, elect to receive only a part of the~~
5 ~~individual account balance, subject to the rules and regulations established by the~~
6 ~~board of trustees.~~

7 ~~K.(1) If employment is not terminated at the end of the period of~~
8 ~~participation, payments into the individual account balance in the Deferred~~
9 ~~Retirement Option Plan shall cease.~~

10 ~~(2) Payment from the individual account balance in the Deferred Retirement~~
11 ~~Option Plan shall not be made until employment is terminated, nor shall the monthly~~
12 ~~benefits being paid into the Deferred Retirement Option Plan during the period of~~
13 ~~participation be payable to the individual until he terminates employment.~~

14 ~~(3) If employment is not terminated at the end of the period of participation,~~
15 ~~the member shall resume active membership in the system and accrual of further~~
16 ~~benefits pursuant to the rules of this retirement system, and subject to the provisions~~
17 ~~of Paragraph (7) of this Subsection. As provided by Subsection G of this Section,~~
18 ~~the individual account of a member whose employment is not terminated at the end~~
19 ~~of the period of participation shall earn interest and shall be assessed administrative~~
20 ~~fees for each year the member remains an active member in the system.~~

21 ~~(4) Upon termination of employment following the period of participation~~
22 ~~in the Deferred Retirement Option Plan, a lump sum payment equal to the payments~~
23 ~~made to his individual account in the Deferred Retirement Option Plan during the~~
24 ~~period of participation shall begin to be paid to the retiree. The After~~
25 ~~commencement of the participation period, the retiree member may not only change~~
26 ~~the distribution option originally selected except as provided in Subparagraph (7)(d)~~
27 ~~of this Subsection, nor may the retiree change any or the beneficiary designation~~
28 ~~originally made when he commenced participation in the Deferred Retirement~~

1 ~~Option Plan except as provided in Subparagraph (7)(d) of this Subsection~~ designated
2 pursuant to R.S. 11:3385 as provided by the laws or rules of the system.

3 (2) The member may change the beneficiary designated to receive the
4 balance of the member's DROP account at any time by filing a beneficiary
5 designation in writing on a form acceptable to the board of trustees.

6 ~~(5) If the member's employment terminates by reason of his death following~~
7 ~~the period of participation in the Deferred Retirement Option Plan, a lump sum~~
8 ~~payment equal to the balance in his individual account in the Deferred Retirement~~
9 ~~Option Plan shall be paid to his named beneficiary or, if none, to his estate, upon~~
10 ~~written application made to the fund office; in addition, normal survivor benefits~~
11 ~~payable to survivors of retirees under this retirement system shall be payable.~~

12 ~~(6) If the member becomes disabled and terminates his employment~~
13 ~~following the period of participation in the Deferred Retirement Option Plan, a lump~~
14 ~~sum payment equal to the payments made to his individual account in the Deferred~~
15 ~~Retirement Option Plan shall be paid to the member upon written application to the~~
16 ~~fund office. The monthly benefits that were being paid into the Deferred Retirement~~
17 ~~Option Plan during the period of participation shall begin being paid to the retiree.~~

18 ~~(7) Upon termination of employment, the retiree shall receive an L. Upon~~
19 ~~termination of participation in the plan but not employment, credits to the DROP~~
20 ~~account shall cease, and no retirement benefits shall be paid to the member until~~
21 ~~employment is terminated. No payment shall be made based on credits in the~~
22 ~~account until employment is terminated. During such period of continued~~
23 ~~employment, employer and employee contributions shall resume, and the member~~
24 ~~shall accrue additional creditable service and an additional retirement benefit based~~
25 ~~solely on any additional service rendered since termination of participation in the~~
26 ~~Deferred Retirement Option Plan, using the normal method of computation of the~~
27 ~~benefits, as permitted under applicable law or the administrative code adopted by the~~
28 ~~board, subject to the following:~~

1 (a) (1) If the ~~member was first employed after December 31, 1967, and his~~
2 member's period of additional service is less than his average compensation period
3 at the commencement of participation in the Deferred Retirement Option Plan, the
4 average compensation figure used to calculate the additional benefit shall be that
5 used to calculate his original benefit. If his period of additional service is equal to
6 or longer than his average compensation period at the commencement of
7 participation in the Deferred Retirement Option Plan, the average compensation
8 figure used to calculate the additional benefit shall be based on his compensation
9 during the period of additional service.

10 ~~(b) If the member was first employed before December 31, 1967, and his~~
11 ~~period of additional service is less than one year, the average compensation figure~~
12 ~~used to calculate the additional benefit shall be that used to calculate his original~~
13 ~~benefit. If his period of additional service is twelve or more months, the average~~
14 ~~compensation figure used to calculate the additional benefit shall be based on his~~
15 ~~compensation during the period of additional service.~~

16 ~~(c) (2)~~ Both the ~~The~~ distribution option originally selected and the
17 beneficiary designated pursuant to R.S. 11:3385 when the member commenced
18 participation in the Deferred Retirement Option Plan shall ~~also~~ apply to any
19 additional benefits accrued based on ~~for~~ additional creditable ~~service:~~ earned. If the
20 beneficiary designated pursuant to R.S. 11:3385 predeceases the member, the
21 member ~~(d) The beneficiary designated to receive the additional retirement benefit~~
22 ~~shall be the same beneficiary designated to receive the original benefit, unless that~~
23 ~~beneficiary has predeceased the member. In that event, he shall designate a new~~
24 ~~beneficiary for any additional benefits accrued.~~

25 ~~(e) If the member was first employed before December 31, 1967, and~~
26 ~~originally elected to retire with benefits under the new system applicable to~~
27 ~~employees employed after that date, the election shall also apply to any additional~~
28 ~~benefits accrued for additional service. If he elected to retire with benefits applicable~~

1 to employees employed before December 31, 1967, the election shall also apply to
2 any additional benefits accrued for additional service.

3 (f) (3) If the member is found by the board to be disabled pursuant to R.S.
4 11:3376, the service-connected disability benefit shall be limited to the additional
5 amount payable pursuant to R.S. 11:3381 or 3384 based on service rendered since
6 termination of participation in the Deferred Retirement Option Plan. The lump sum
7 payment made from the individual account balance in the Deferred Retirement
8 Option Plan shall be paid to the member within one year of termination of
9 employment, and the monthly payments that were being paid into the Deferred
10 Retirement Option Plan during the period of participation shall begin to be paid to
11 the retiree. The the board's service-connected disability determination made
12 pursuant to this Subparagraph shall apply to all benefits paid to and accrued by the
13 member based on all creditable service rendered ~~both before and since termination~~
14 ~~of participation in the Deferred Retirement Option Plan~~ as a member and to the
15 DROP account.

16 (g)(i) (4)(a) ~~In no event shall the~~ The additional benefit shall not exceed an
17 amount which, when combined with the original benefit, equals one hundred percent
18 of the average of any three highest consecutive years of compensation earned by a
19 member electing to retire under the old system both during participation and after
20 leaving the Deferred Retirement Option Plan.

21 (ii) (b) ~~In no event shall the~~ The additional benefit shall not exceed an
22 amount which, when combined with the original benefit, equals one hundred percent
23 of the average of any four highest consecutive years of compensation earned by a
24 member retiring under the new system with an average compensation period of four
25 years, both during participation and after leaving the Deferred Retirement Option
26 Plan.

27 (iii) (c) For any member whose average compensation period is longer than
28 four years, ~~in no event shall~~ the additional benefit shall not exceed an amount which,
29 when combined with the original benefit, equals one hundred percent of the average

1 of the highest consecutive months of compensation for any period equal to the
2 average compensation period applicable when the member entered the Deferred
3 Retirement Option Plan, both during participation and after leaving the Deferred
4 Retirement Option Plan.

5 ~~L. M.~~ In lieu of terminating employment and accepting a service retirement
6 allowance under R.S. 11:3381 and 3384, any member of this system who has not less
7 than twelve years of creditable service in this system, and who is eligible to receive
8 a service retirement benefit, may elect to participate in the Deferred Retirement
9 Option Plan on a retroactive basis, and receive a ~~lump-sum~~ lump-sum benefit of up
10 to five years, based upon the value of the pension benefit on the retroactive date
11 selected.

12 ~~M. N.~~ Notwithstanding any other provision of law to the contrary, a member
13 may participate in the Deferred Retirement Option Plan provided by this Section and
14 also make an election to receive an initial ~~lump-sum~~ lump-sum benefit as set forth
15 in R.S. 11:3385.2.

16 O. Any appeal of a determination made pursuant to the provisions of this
17 Section shall be lodged and conducted pursuant to the laws and rules of the system.

DIGEST

The digest printed below was prepared by House Legislative Services. It constitutes no part of the legislative instrument. The keyword, one-liner, abstract, and digest do not constitute part of the law or proof or indicia of legislative intent. [R.S. 1:13(B) and 24:177(E)]

Arnold

HB No. 27

Abstract: Provides relative to the Deferred Retirement Option Plan (DROP) within the Firefighters' Pension and Relief Fund in the city of New Orleans (NOFF).

Present law authorizes qualifying members of NOFF to enter DROP upon attaining sufficient age and years of creditable service. Provides that while participating in DROP, the member is treated as though he is retired, and his benefit check is paid to his DROP account while he continues working. The DROP participation period may not exceed five years. Proposed law retains present law.

Present law provides for individual member accounts within DROP. Proposed law provides that DROP accounts are notional accounts for recordkeeping purposes only.

Present law provides that upon commencement of participation in DROP, membership in the system shall terminate. Proposed law removes present law. Present law allows the

member to continue employment after DROP and to accrue additional benefits in the system for all post-DROP employment. Proposed law retains present law.

Present law requires employee and employer contributions to cease while the member is in DROP. Further requires employee and employer contributions to resume if the member continues employment after completing DROP. Proposed law retains present law.

Proposed law provides that the DROP account shall be subject to Internal Revenue Service laws, rules, and regulations covering governmental defined benefit plans.

Present law provides that DROP accounts are not subject to fees, charges, or expenses during the member's period of participation. Further prohibits interest credits to the accounts during the period of participation. Proposed law retains present law.

Present law provides that if a member continues employment after his DROP participation, his account shall be credited with interest each year based on the composite one-year rate of return of the fund. Proposed law removes the requirement that the member continue employment after his DROP participation in order to receive interest on his account. Retains present law calculation of interest credits until Jan. 1, 2015. Proposed law provides that on and after Jan. 1, 2015, interest shall be credited to all DROP accounts based on a five-year rolling average of the composite rate of return of the fund.

Present law authorizes a flat 2% administration fee. Proposed law authorizes the board to set the administration fee each year, up to a maximum of 2%.

Proposed law provides that in no event shall the member's account be diminished or impaired.

Present law requires the administration fee to be deducted from DROP accounts. Proposed law repeals present law. Further requires the administration fee established by the board to be deducted from the interest credit amount prior to interest being credited to the account.

Proposed law requires the board of trustees to distribute a retiree's DROP withdrawals within a reasonable period of time from receipt of the member's written request for such.

Present law provides that if a member dies during participation in DROP, a lump-sum payment of his account shall be paid to his named beneficiary. If there is no named beneficiary, the lump sum shall be paid to his estate. Proposed law provides that if a member dies at any time before his DROP account has been distributed in its entirety, the named beneficiary may elect to receive the balance of the member's DROP account in any form of payment approved by the board of trustees. Further provides that if there is no named beneficiary, the account shall be distributed to the following individuals, in the following order:

- (1) The surviving spouse.
- (2) The surviving child or children, to be shared equally.
- (3) The surviving parents.
- (4) The deceased member's estate.

Present law authorizes a member to change his beneficiary designation after starting DROP if the designated beneficiary predeceases the member. Proposed law authorizes a member to change his beneficiary designation in accordance with the laws and rules of the system. Further authorizes the member to change the beneficiary designated to receive his DROP account balance at any time by filing a form with the board.

Present law authorizes a member who finishes DROP and continues working to change his beneficiary designation only if the beneficiary predeceases the member. Proposed law retains present law.

Present law provides that for a member continuing employment after DROP a service-connected disability determination shall only apply to service rendered after DROP. Proposed law provides that the service-connected disability determination for such a member applies to all service and includes the DROP account.

Present law authorizes a member to participate in DROP on a retroactive basis. Further authorizes a participant in DROP to receive an initial lump sum benefit, notwithstanding present law. Proposed law retains present law.

Proposed law provides that any appeal of a determination made pursuant to present law and proposed law shall be lodged and conducted pursuant to the laws and rules of the system.

(Amends R.S. 11:3385.1)

Summary of Amendments Adopted by House

Committee Amendments Proposed by House Committee on Retirement to the original bill.

1. Removes provisions requiring administrative expenses to be deducted from DROP accounts and provides instead for removing administrative expenses from the interest credit amount before interest is credited to the DROP account.