
DIGEST

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HB 40 Engrossed

2018 Regular Session

Ivey

Abstract: Provides the option to allocate Deferred Retirement Option Plan (DROP) account funds between a system rate account and money market account to members of the Firefighters' Retirement System (FRS) eligible to participate in DROP on or after Jan. 1, 2019, and eliminates board option to place certain funds in a self-directed account.

Present law allows a member of FRS with at least 20 years of service who is eligible for retirement to elect to participate in DROP. Upon entering DROP, the participant's membership in the system terminates and employer and employee contributions are no longer paid. The monthly retirement benefits that would have been payable had the participant entered retirement shall be paid into a DROP account. Upon termination of employment, the participant may not change the option elected for his original benefit.

For a member who was eligible to participate in DROP before Jan. 1, 2004, present law provides that after the participant terminates employment, his DROP account balance shall earn the same interest rate as the system's investment portfolio, less the cost of merger notes and administrative costs. The account balance may not be diminished or impaired.

For a member who was eligible to participate in DROP on or after Jan. 1, 2004, present law provides that after leaving DROP, the participant may irrevocably elect for his individual account balance to earn the same interest rate as the system's investment portfolio, less the cost of merger notes and administrative costs, provided he waives the protection afforded by present law prohibiting the diminishment or impairment of retirement benefits (system rate account). If the participant does not elect to place his DROP balance in a system rate account, his balance shall be placed in money market investments chosen by the FRS board, to be credited with interest at the actual rate of return earned by the account, less 1/4% (money market account), or the FRS board may choose to place the funds in a self-directed account. Proposed law requires that the member's election be made prior to the end of the participation period.

Proposed law eliminates the self-directed account as an option available to the board.

For a member eligible to participate in DROP on or after Jan. 1, 2019, proposed law provides that after leaving DROP, the participant may allocate the balance of his DROP account between a system rate account and a money market account, pursuant to all other conditions of present law. Provides that such allocation shall be a one-time, irrevocable event. If the participant fails to choose an allocation within a prescribed period, the entire balance of his DROP account shall be irrevocably allocated to a money market account.

Proposed law provides that a member eligible to participate in DROP between Jan. 1, 2004, and Dec. 31, 2018, and has a balance in his DROP account may elect to allocate the balance of his DROP account as provided by proposed law upon the earlier of retirement or within six months of the effective date of this Act.

Proposed law provides that a member with a balance in his DROP account as of Dec. 31, 2018, may convert the balance to a true annuity as provided by present law within six months of the effective date of this Act.

Effective July 1, 2018.

(Amends R.S. 11:2257(E)-(K); Adds R.S. 11:2257(G))

Summary of Amendments Adopted by House

The Committee Amendments Proposed by House Committee on Retirement to the original bill:

1. Add requirement that election to earn the system's investment interest be made prior to the end of the participation period.
2. Reinstate present law requirement that plan participant may not change his original benefit option election.
3. Allow a current or past DROP participant to allocate the balance of his account as provided by proposed law.
4. Allow a current or past DROP participant to convert his account balance to a true annuity as provided by present law.
5. Add an effective date.