



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: **HB 3004**

March 1, 2023

SPONSOR (S): Yang Rohr

SYSTEM: Downstate Firefighters (Article 4)

FISCAL IMPACT

HB 3004 establishes in Article 4 a Deferred Retirement Option Plan (DROP plan) for eligible firefighters in Article 4 (Downstate Firefighter Pension Funds). A basic explanation of the mechanics of a DROP plan is provided below in the Comment section. An actuarial analysis would be needed to assess the fiscal impact of implementing a DROP Plan for Article 4 funds.

SUBJECT MATTER: HB 3004 amends the Downstate Firefighter Article of the Pension Code. The bill provides for a Deferred Retirement Option Plan (DROP) for eligible firefighters. The bill sets forth the eligibility requirements under which a firefighter may enroll into a DROP plan. The bill establishes special accounts for participating firefighters into which their retirement pensions will be paid during participation in the DROP plan; such funds will be disbursed after termination of service. HB 3004 establishes that a firefighter's retirement pension amount is based on service up to the point they enroll in the DROP plan. More information is provided below in the Comment section.

COMMENT:

DROP Plans Explained

Deferred Retirement Option Plans, or DROP Plans, are designed to encourage continued employment past the eligible retirement age for a period of time, usually three to five years. During this time, workers continue to draw a salary but are considered as having retired for annuity purposes. The pension amount an employee would have otherwise been eligible to begin receiving as of the DROP date is then credited to a DROP account. The credited amount at the end of the DROP period is available to the employee in a lump-sum payment that can be cashed out, paid out over time, or rolled over into an IRA. In exchange for the ability to continue to

draw a salary while accumulating what is essentially a tax-sheltered retirement savings account, employees agree to fix their retirement benefits as of the date they enter the DROP plan.

DROP Plan Instituted by HB 3004 (Tier 1 and Tier 2)

HB 3004 provides a DROP plan for Tier 1 and Tier 2 members of Downstate Firefighter Pension Funds (Article 4). The calculation of a firefighter's retirement pension at the conclusion of participation in the DROP plan is based on the firefighter's salary and accumulated service on the date they began participation in the DROP plan, and includes any annual increases that would have accrued if the firefighter had retired on that date. The date of retirement for a firefighter who enrolls in a DROP plan is deemed to be the date they began participation in the DROP plan under HB 3004. In other words, for pension purposes, DROP participants are considered retired, but they remain in active service during the DROP period.

HB 3004 outlines DROP plan eligibility requirements for a firefighter in a Downstate Firefighter fund. DROP plans will first become available on January 1, 2024. In order to be eligible to participate in the DROP plan, a firefighter must be in active service, be at least 50 years old, and have at least 20 years of creditable service in the fund. These requirements apply to both Tier 1 and Tier 2 firefighters alike.

Under HB 3004, a firefighter must elect to participate in the DROP plan within 3 years after becoming eligible. The election to participate must be made in writing and must indicate the date in which the participant seeks to begin in the DROP plan. Under the proposed bill, there is a 3-year limit to how long a firefighter may participate in the DROP plan. Alternatively, the DROP plan shall end at either the termination of service, death of the participant, or disability.

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