WEST VIRGINIA LEGISLATURE

2022 REGULAR SESSION

Introduced

House Bill 4462

By Delegates Storch, Pethtel, Evans, Anderson, Bates, Graves and Espinosa

(By Request of the Municipal Pensions Oversight Board)

[Introduced January 31, 2022; referred
to the Committee on Pensions and Retirement then Finance]

A BILL to amend and reenact §8-22-25a of the Code of West Virginia, 1931, as amended, relating to requiring actuarial reports to be prepared and presented to the Legislature’s Joint Committee on Pensions and Retirement regarding active deferred retirement option plans every five years.

Be it enacted by the Legislature of West Virginia:

ARTICLE 22. RETIREMENT BENEFITS GENERALLY; POLICEMEN’S PENSION AND RELIEF FUND; FIREMEN’S PENSION AND RELIEF FUND; PENSION PLANS FOR EMPLOYEES OF WATERWORKS SYSTEM, SEWERAGE SYSTEM OR COMBINED WATERWORKS AND SEWERAGE SYSTEM.

§8-22-25a. Deferred retirement option plans; authorization; requirements; limitations.

(a) A deferred retirement option plan (DROP) is a method to encourage retention of a worker beyond normal retirement age by permitting the worker to freeze retirement benefits at a certain time prior to ceasing work, to continue to work for a specified period, and to have retirement benefits which accrue while the employee continues working set aside in an account which the worker will then receive in a lump sum upon finally discontinuing work. The Legislature acknowledges that a DROP may be a useful and economical tool for retaining experienced and trained employees and for planning for turnovers in the workforce. Experience, however, dictates that a DROP may place a heavy financial burden on the employer and the affected retirement system, negating any positive benefit offered by the DROP if the DROP is not carefully planned to be economically favorable to the employer and revenue neutral for the affected retirement system while remaining attractive to the targeted employee.

(b)(1) The governing bodies of municipalities participating in policemen’s and firemen’s pension and relief funds pursuant to §8-22-16 through §8-22-28 of this code, are authorized to voluntarily offer DROPs. A participating municipality may design and establish a DROP to best meet the municipality’s needs so long as the DROP complies with federal law, the requirements set forth in this section and be approved by the Municipal Pensions Oversight Board.

(2) Prior to approval by the Municipal Pensions Oversight Board, a municipality shall submit a proposed DROP to the board for analysis by the qualified actuary retained or employed by the board. The actuary shall examine the plan and, in light of the elements of the DROP and the actuarial projections of the impact of the DROP on the affected pension and relief fund, advise the board of the anticipated impact on the municipal pension and relief fund. The board shall seek to approve only those DROPs which, in the best judgment of the actuary, are designed to have no negative impact on the member’s pension and relief fund. The submitting municipality shall reimburse the board for actuarial costs of analyzing the plan.

(c) To be eligible to enter a DROP, the member of the policemen’s or firemen’s pension and relief fund must be in active employment and an active member of his or her pension and relief fund for at least six months beyond attaining eligibility for regular retirement as provided in §8-22-25 of this code and have received a satisfactory performance evaluation within the prior 12 months. The member may defer retirement for a period of not less than one nor more than five years but must complete the period by age 65. The member may elect to commence participation after July 1, 2011.

(d)(1) During the DROP participation period, the member shall continue with full-time employment in a covered position subject to the municipality’s requirements. A member’s retirement benefits are calculated as of the DROP participation date and a member may not accumulate additional retirement benefits during the DROP participation period. Upon beginning participation, the member is treated as retired and receiving benefits for purposes of the retirement system: *Provided*, That for the purpose of distributing premium tax proceeds required in §33-3-14d of this code, he or she shall be included in the calculation of the municipality’s average number of policemen or firemen for each month that he or she works at least one hundred hours. During the DROP participation period, the employer shall continue to make regular contributions to the employee’s pension and relief fund.

(2) Benefit payments are accumulated for the member in the pension and relief fund in an accumulation account during the DROP participation period. At the end of the participation period, the amount in the accumulation account owing to the member, plus interest not to exceed three and one-half percent, shall be paid to the member in a lump sum. Monthly retirement payments shall be paid directly to the member starting in the month following the end of the DROP participation period.

(3) A member may voluntarily terminate DROP participation early with 60 days’ advance notice. Deferred accumulated benefits will be paid with no interest for the DROP period and benefits payments will commence following the early termination date. Covered employment must terminate before benefit distributions may be made. Should the employer wish to terminate the employment during the participation period, the member may terminate participation with 30 days’ notice and the deferred accumulation balance shall be paid with interest according to the DROP design: *Provided*, That if the employee is terminated for cause during the participation period, the member may terminate participation with 30 days’ notice and the deferred accumulation balance shall be paid without interest according to the DROP design.

(4) A member who is unable to continue working because of disability shall cease participation the first day of the month following notice of disability to the employer and the pension and relief fund. The accumulation account balance shall be paid to the member with no interest. No additional benefits are due the member on account of the disability.

(5) In the event of death of a member during DROP participation, the accumulation account of the member through the member’s date of death is payable to the member’s beneficiary or beneficiaries, with interest according to DROP design.

(6) A member entering the DROP is contractually obligated to terminate employment at the end of the DROP participation period. Failure to terminate voluntarily results in termination of employment for cause, except that a member who continues to work with the consent of the employer past the DROP participation period shall have all benefits frozen during the extension period and no additional benefit accumulates. During the period of time the member continues to work beyond the end of the DROP participation period with the consent of the employer, the employer shall continue to make regular contributions to the employee’s pension and relief fund. Regular retirement benefits will commence the month following eventual employment termination or death. The member’s accumulation account balance is frozen in value following the end of the DROP participation period.

(e) The oversight board shall annually report to the Legislature’s Joint Committee on Pensions and Retirement, and to the Legislature as required by §4-1-23 and §5-1-20 of this code, on DROPs submitted to the board for approval and the status of any DROP that has been approved. ~~including~~ Once every five years, the oversight board shall have its contracted actuary provide a report to the Legislature’s Joint Committee on Pensions and Retirement on the status of each active Deferred Retirement Option Plan (DROP). The reports shall include any experienced impact on an affected pension and relief fund.

NOTE: The purpose of this bill is to mandate the presentation of an actuarial report to the Legislature’s Joint Committee on Pensions and Retirement regarding active deferred retirement option plans (DROPs) every five years.

Strike-throughs indicate language that would be stricken from a heading or the present law, and underscoring indicates new language that would be added.