

## Optimizing Your Defined Benefit LOSAP with Benefit Enhancements

New York State relies heavily on its volunteer fire and emergency medical personnel. In fact, a remarkable 94.1% of the state's 1,660 registered fire departments are run by volunteers making them the true backbone of our emergency response system<sup>1</sup>. According to the Firefighters Association of the State of New York (FASNY), these dedicated individuals not only safeguard our communities but also generate an estimated \$4.7 billion in annual taxpayer savings. Without these volunteers, municipalities would face the prospect of hiring full-time staff potentially leading to a substantial 28.4% increase in property taxes<sup>2</sup>.

To secure the future of these vital services, a dedicated focus on volunteer recruitment and retention is essential. Length of Service Award Programs (LOSAPs) play a critical role in this effort. This newsletter explores current trends in Defined Benefit LOSAP design, offering best practices and actionable insights to help municipalities strengthen these programs and safeguard the future of their local volunteer fire and emergency medical services.

### Understanding Defined Benefit LOSAPs

A Defined Benefit (DB) LOSAP is a pension-like program for volunteer fire and emergency medical personnel. The monthly payment amount a volunteer receives after reaching a certain age (the "Entitlement Age") is determined in advance based on a set formula. This payment continues for the rest of their lives providing a secure and predictable income stream in retirement. Three primary components that determine the economic value a volunteer receives are:

- **Accrual Rate:** This is the dollar amount a volunteer earns for each year of service credit. It's essentially their "service credit" expressed in dollar terms and paid monthly for their entire lifetime.
- **Maximum Years of Benefit Service:** This sets a limit on the number of years that count toward the benefit calculation acting as a cap on how many years of service credit can increase their monthly payments.
- **Entitlement Age:** This is the age when a volunteer can begin receiving their monthly payments.

The monthly benefit amount is determined by multiplying the LOSAP's accrual rate by the volunteer's total years of service credit earned. For instance, if a plan has a \$20 accrual rate, an entitlement age of 65, and allows for a maximum of 40 years of service, a volunteer with 40 years of eligible service credit would receive \$800 per month (\$20 x 40 years) beginning at age 65 and continuing for life. Under the same plan, a volunteer with 30 years of eligible service credit would receive \$600 per month (\$20 x 30 years) beginning at age 65.

Strategic design of your DB LOSAP is critical to its success in attracting and retaining volunteers. **New York State's General Municipal Law (GML) provides municipalities with flexibility in structuring these plans. The law permits accrual rates of up to \$30 per month for each year of service credit, a maximum of 50 years of service credit, and an entitlement age starting as early as 55 years.**

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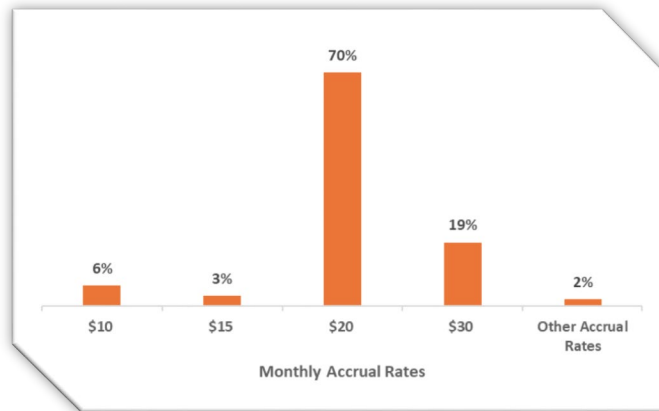
<sup>1</sup> U.S. Fire Administration (USFA), 2024 National Fire Department Registry Summary, available at <https://www.usfa.fema.gov/downloads/pdf/registry-summary-2024.pdf>

<sup>2</sup> Firefighters Association of the State of New York (FASNY), Tax Savings Generated By New York's Volunteer Fire Service, available at <https://fasny.com/wp-content/uploads/2023/03/FASNY-Economic-Study-2023.pdf>

## A Snapshot of the Landscape: Insights from Our Client Data

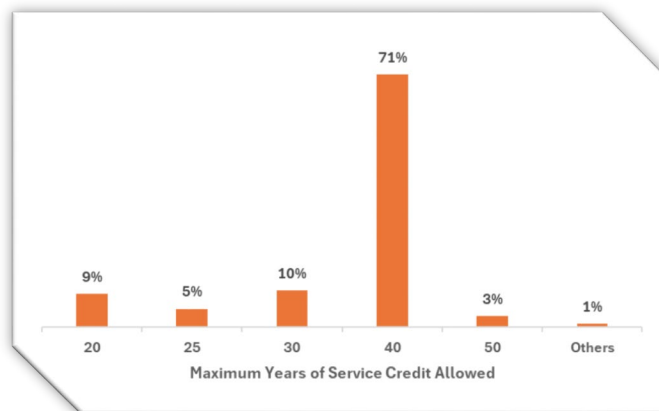
Penflex has been a leading authority on LOSAPs since 1990 and is committed to staying at the forefront of industry trends. We regularly analyze the landscape of DB LOSAPs drawing on data from the plans we administer for municipalities across New York State to identify prevailing practices, emerging trends, and areas where plans might consider enhancements to better attract and retain volunteers.

- **Accrual Rate: Evaluating the Dollar Value of Service**



A significant majority (70%) of plans utilize a \$20 accrual rate - a figure that likely reflects the historical context from when many LOSAPs were established in the 1990s. While increasing the accrual rate to this \$20 level is a positive step for plans whose accrual rate is currently lower, it's important to acknowledge that inflation erodes the purchasing power of fixed benefits over time. An accrual rate that seemed generous at plan inception may not provide the same level of financial security in today's inflationary environment. Notably, a growing number of plans have adopted this \$30 maximum accrual rate indicating a trend toward more competitive benefits.

- **Maximum Years of Benefit Service: Honoring Long-Term Commitment**



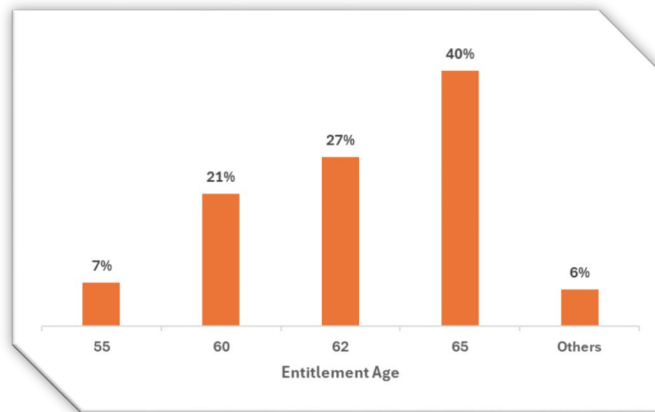
The majority (71%) of plans still follow the traditional 40-year limit for maximum service accruals, which is understandable given its historical significance. However, **New York State amended the law in 2021 to allow for a maximum service credit of up to 50 years**<sup>3</sup>. Recently, we see an emerging trend from plan sponsors to increase to a 50-year limit as an effective way to honor and reward long-term commitments from volunteers.

<sup>3</sup> McNeil & Co., New York – New Legislation Signed Into Law, available at <https://www.mcneilandcompany.com/new-york-new-legislation-signed-into-law>

At plan inception, many plans included a "buyback" provision allowing volunteers to receive credit for up to five years of service prior to that inception date. Many volunteers in established plans with buyback provisions have reached or are rapidly approaching their plan's 40-year maximum. As a result, we are now seeing many long-tenured volunteers in these plans who are no longer able to accrue ANY additional service credit under current plan terms. This can be demotivating for dedicated volunteers who continue to serve their communities.

The 2021 amendment to the law, which permits a maximum service credit of 50 years, offers a resolution to this matter. This benefit enhancement would be of considerable value to this dedicated cohort of long-serving volunteers; furthermore, we find that the incremental cost associated with such a plan change to be relatively modest as it predominantly affects only a small group of your most experienced and long-service volunteers.

- **Entitlement Age: Determining When Benefits Commence**



The most common entitlement age remains 65 (40%) likely chosen to align with the typical age for unreduced Social Security benefits. However, we've also observed a significant prevalence of lower entitlement ages with 62 and 60 also being frequently utilized. This demonstrates the flexibility available in tailoring your plan to your specific needs and demographics.

However, it's crucial to understand that lowering the entitlement age can significantly increase plan liabilities and required annual contributions. With people living longer today than in prior generations, the plan will likely pay out benefits for more years than originally anticipated. Also, plans with a high proportion of retirees are more vulnerable to market downturns as there is less time to recover from investment losses before benefits need to be paid. Therefore, any decision to lower the entitlement age must be made cautiously and in conjunction with a thorough assessment of your program's overall funded status and long-term financial sustainability. If you're considering such a change, Penflex will work with you and your sponsorship board to carefully model the financial impact to ensure it aligns with your municipality's budget and goals.

***Now is the time to enhance your LOSAP and secure the future of your volunteer emergency services.***

Penflex is here to provide the actuarial expertise and support your need throughout the process. We can provide detailed actuarial cost estimates for any one of these amendments, or any combination of plan design changes you may be considering. Additionally, we can help you prepare the legal documents necessary to implement these changes, ensuring compliance with NYS General Municipal Law.

**Please contact Nicole Meeker (Manager of Business Development and Accounts) at (607) 423-4811 or [nmeeker@penflexinc.com](mailto:nmeeker@penflexinc.com) today to schedule a customized actuarial consultation specific to your LOSAP and its volunteer members.**