

LOCAL FINANCE NOTICECHRISTINE TODD WHITMAN
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ACTING DIRECTOR**Length of Service Award Programs - A Clarification**

Since Local Finance Notice FD-98-2 (also MC-98-6) was issued, the Division has received a number of calls requesting guidance on various aspects of the law. One area that has been a common area of confusion has been the provision related to the maximum amount of the annual contribution and its relationship to prior service credit. This Notice is intended to provide additional guidance on this subject.

The minimum and maximum annual LOSAP benefits are set in the law: the minimum is \$100 and the maximum is \$1,150 (which is subject to an annual inflation increase). The maximum is just that, the maximum amount any volunteer may receive in a year; this includes any payment for a prior year service that may be authorized in a plan. This means that \$1,150 is the maximum that may be allocated to a volunteer each year, regardless of any prior year service benefit.

For example, if an annual benefit is set at \$600 per year, and the local plan permits an experienced volunteer to receive five years of prior year service credit (\$3,000), the \$3,000 must be paid out over six years of service as follows:

Year	Base benefit (exclusive of inflation)	Prior Service	Total Benefit	Remaining portion of \$3,000 prior service due
1	\$600	\$550	\$1,150	\$2,450
2	\$600	\$550	\$1,150	\$1,900
3	\$600	\$550	\$1,150	\$1,350
4	\$600	\$550	\$1,150	\$800
5	\$600	\$550	\$1,150	\$250
6	\$600	\$250	\$850	\$0

The table shows that the annual payment cannot exceed \$1,150; the prior service must be made up by the difference between the \$1,150 and the base benefit amount. Therefore, if a base benefit is set close to or at the maximum \$1,150, there is little or no balance available to be used for prior year service credit. Local units adopting LOSAPs must take this into account when designing their plans.

Questions have also been received concerning the "vesting" issue. As was explained in the previous Notice, the vesting issue only affects volunteers with less than five years of service and relates to the time when they will be entitled to receive a benefit. Thus, there cannot be prior service calculations in relation to vesting. How vesting will be handled for those volunteers with less than five years of service is subject to a forthcoming amendment to the law. Thus, plans should not include vesting requirements for prior year service.

Questions concerning these matters can be referred to John C. Pavlik at the Division of Local Government Services, at 609-984-2105.

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