Analysis of Suggestions for Improvement as part of the FY 2010 County's Line of Business & Schools Program Review Processes Fall 2008

Request By: Public

Suggestion: Eliminate the DROP Program.

Response By: Retirement Administration Agency

Background: The Deferred Retirement Option Program (DROP) allows an active employee to be treated as if they retired for purposes of the retirement plan while continuing to work and receive a salary for a period of three years. Only members eligible for Normal Retirement may elect to enter DROP. A DROP member continues to work while an amount equal to what the member could have received as a retirement benefit is credited to a DROP account balance. During the DROP period, the retirement plan accumulates the accrued monthly benefit, which is payable to the member at the end of the DROP period. The member's account balance is credited at the annual rate of 5% interest, compounded monthly. At the end of the DROP period, the member terminates employment with the County and begins to receive his/her retirement benefit directly. The retiree can receive the balance of his/her DROP account either in the form of a lump sum distribution, a roll-over to another qualified plan (or IRA), or the retiree may add to their monthly retirement annuity an increase of the actuarial equivalent of the lump sum DROP balance, thereby receiving a higher lifetime monthly benefit.

DROP was established in the Uniformed and Police Retirement Systems on October 1, 2003 and in the Employees' Retirement System on July 1, 2005. The Code was recently amended to extend the sunset provision in all three systems until December 31, 2013. As of November 3, 2008, the Employees' System had 401 employees in DROP, the Police had 49 and Uniformed had 92, for a total of 542 active employees.

Recommendation:

Implementation of this suggestion is not recommended. In order to enter DROP, an employee must already be fully eligible for Normal Retirement benefits. Assuming that the program does not affect employees' decisions regarding their retirement dates, DROP is cost neutral. Thus, implementation of this suggestion does not produce cost savings and eliminates a benefit that many employees consider to be important. Many employees have developed retirement plans and have done significant financial planning with the assumption that DROP will be in existence until 2013. To eliminate DROP without significant advance notice could place personal financial burdens on those who have relied on this information.