

# ***Outline of Deferred Retirement Option Program (DROP)***

## ***Police Officers and Uniformed Retirement Systems***

### **Eligibility:**

- All employees would have option to elect DROP beginning on date of eligibility for normal retirement. (Uniformed – 25 years of service or age 55 with 6 or more years of service; Police Officers – 25 years of service or age 55 with 5 or more years of service)

### **Length of DROP Period**

- Three years.
- Election to enter DROP is irrevocable.
- At end of DROP period, employment must terminate.

### **DROP Account Balance**

- Account is credited with benefit based on compensation and service at time of entry in DROP.
- Amounts credited increase based on retiree COLA's.
- Account balances are credited interest at annual rate of 5%.

### **During DROP Period**

- Employees are considered active employees for all other benefits/personnel policies.

### **End of DROP Period**

- Employee terminates employment/retires
- Monthly retirement payments commence in amount based on compensation and service at the time of entry to DROP increased by any retiree COLA's granted during DROP period.
- Several distribution options will be made available for DROP balance, including:
  - Direct lump sum payments
  - Rollover to IRA or other qualified plan
  - Increase in monthly annuity (actuarial equivalent)

### **Disability/Death During DROP**

- If not service-connected,
  - Monthly retirement payments, if applicable, plus DROP balance
- If service-connected
  - Option of disability/death benefits and forfeiture of DROP, or monthly retirement payments plus DROP balance

# *Summary of Deferred Retirement Option Program (DROP)*

## **Deferred Retirement Option Program (DROP)**

Allows an employee to retire for purposes of the pension plan, while continuing to work and receive salary for a period of 3 years. During the DROP period, the pension plan accumulates the accrued monthly benefit into an account balance identified as payable to the member at the end of the DROP period. The account balance is credited with interest. At the end of the DROP period, the member must terminate employment with the County and begins to receive the retirement benefit directly instead of having it credited as an increase to the DROP account balance. The retiree also receives the balance of the DROP account either in the form of a lump sum distribution, a rollover to another qualified plan (or IRA) or the retiree may elect to have the monthly retirement annuity increased by the actuarial equivalent of the lump sum and thereby receive a higher lifetime monthly benefit.

## **Eligibility**

### Overview

Members are eligible to enter DROP when they become eligible for full unreduced service retirement benefits.

### Details

- All existing rules for retirement eligibility apply.
- **Uniformed System:** Age 55 with 6 or more years of service; or 25 years of service
- **Police Officers System:** Age 55 with 5 or more years of service; or 25 years of service
- Sick leave – unused accumulated sick leave applies for determining retirement eligibility following the same conversion rules as for normal retirement (172 hours equals one month of service). Employees will have the option of converting the entire sick leave balance to retirement credit or all but 40 hours of the total balance in order to begin the DROP period with some sick leave balance.
- Continued Eligibility – Members who continue to work and who do not elect to enter DROP when first eligible for normal retirement, may elect to enter DROP on the first day of any month following their initial eligibility, with a requirement that they provide notice of their decision at least 60 days prior to their entry into DROP.

## DROP Period

### Overview

**The DROP period lasts 3 years from the point of entry.**

### Details

- The DROP entry date must be the first day of the pay period coincident with or following the eligibility date.
- At the end of the DROP period, the member must terminate employment and retire.
- The election to enter DROP is irrevocable following the effective date. A member who has submitted an election to enter DROP may only rescind that election prior to the effective date of entry into DROP.
- An employee who does not choose to enter DROP as soon as he or she is eligible may still enter DROP at a future date at the beginning of a pay period as long as the employee submits his or her application to the Retirement Agency at least 60 days prior to their requested DROP effective date.
- **Unless the Board of Supervisors specifically acts to extend this program, no eligible member may make an application to participate in the DROP with an effective date after December 31, 2013. Any application for DROP would have to be received no less than 60 days prior the last acceptable DROP entry date in December of 2013.**
- The member is expected to work the full term of the DROP period. However, at any time during the DROP period, a member may resign or be terminated. Upon resignation or termination, monthly retirement benefits will begin to be paid and, since the DROP balance is fully vested at all times, the DROP balance will be payable with the same options as available at the end of the DROP period.

## DROP Account Balance

### Overview

A participant's DROP balance will be credited on a monthly basis with the amount that the participant would have received had they not entered DROP and retired. Interest will be credited to the balance at an annual rate of 5%.

### Details

- The initial monthly amount will be the retirement benefit calculated using service and final compensation as of the date of entry in DROP.
- Members entering DROP will be required to make irrevocable elections regarding joint & survivor (spousal) benefits and such elections will be reflected in the calculation of the monthly amount credited to DROP.

- The initial monthly amount will be increased each July 1 based on the annual cost of living adjustment (COLA) provided for retirees.
- Any changes that would have occurred during the DROP period should the member have actually retired will result in adjustments to the monthly amount credited to DROP. For example, if the member attains an age at which the amount of any supplemental benefit increases or decreases, changes that would have occurred to the supplemental benefit will also be made to the amount credited to DROP.
- Interest will be credited to DROP account balances at the end of each month. The monthly rate of interest credited will be based on an annual compound rate of 5.0%. No pro rata interest will be credited for less than a full month.
- The assets supporting DROP account balances remain in the retirement system and represent amounts due to the member. No separate individual investment or bank accounts are established.

### **Contributions During DROP**

Member contributions to the retirement system cease upon entry to DROP. Also, salaries of members in DROP are not included in the base for determination of employer contributions to the retirement system.

### **Retirement After DROP**

#### Overview

When the three-year DROP period is over, the member must actually terminate employment with the County and retire. The member begins receiving a monthly retirement annuity and elects one of the options for distribution of the DROP account balance.

#### Details

- The member may elect from one of four options that will be provided for distribution of DROP account balances:
  - Distribution of the DROP balance or any portion of the DROP balance directly to member. (Under current tax law, this option will be taxed as ordinary income when received and may also be subject to a 10% tax penalty if paid before age 59½.)
  - Rollover to a qualified plan or IRA of the amount of the DROP balance not distributed directly to the member as a single lump sum.
  - Conversion of 100% of the DROP balance to an additional monthly annuity. The additional annuity amount will be based on actuarial conversion factors designed to provide an annuity that (on average) will have the same actuarial value as the DROP account balance.

- Conversion of 50% of the DROP balance to an additional monthly annuity and distribution of the other 50% either as a direct lump sum or as a rollover or a combination of a direct payment and rollover.
- The member begins receiving a monthly annuity based on the retirement benefit accrued at the point of entry into DROP.
  - Generally the initial monthly annuity received will be equal to the last monthly amount credited to the DROP account.
  - The monthly annuity will be based on
    - Years of retirement eligible service earned up to the point of entry to DROP
    - Conversion of any unused sick leave balance at the time of entry to DROP
    - Average final compensation at the point of DROP entry
    - The joint and survivor (spousal option) benefit elected at the point of entry to DROP
    - Any changes in eligibility for supplemental (pre-Social Security) benefits that occurred during DROP
  - Adjustments for retiree COLA's granted during the DROP period.
  - Any unused sick leave accumulated during the DROP period will not be converted to retirement service and will be forfeited.

## **Disability During DROP Period**

### Non-Service Connected Disability

#### Overview

Benefits and payments are the same as if the member resigns or is terminated prior to the end of the DROP period.

#### Details

- If a member becomes disabled during the DROP period other than as a result of a service-connected disability, the monthly benefit which would otherwise be payable to the DROP account will be paid to the retiree.
- The irrevocable election made at time of entry to DROP regarding the joint & survivor (spousal) option continues to apply.
- The retiree will also be eligible to receive the balance of the DROP account in one of the optional forms provided.

### Service-Connected Disability

#### Overview

A member will have the option receiving benefits as though DROP was never selected or as if he/she had resigned or was terminated during the DROP period.

#### Details

- Option 1 – This option determines benefits as though DROP participation had not occurred. The member elects to forfeit the accumulated DROP

balance and receive service-connected disability benefits based on the provisions of the applicable retirement system. In the Police System, benefits are initially established at 66<sup>2</sup>/<sub>3</sub>% of the member's salary at the time of injury. In the Uniformed System, the benefit is initially established at 40% of salary at time of retirement or, if the member qualifies for severe service-connected disability, at 90% of salary.

- Option 2 – The member elects to leave the DROP plan prior to the end of the DROP period. The DROP balance is distributed based on the member's election of the distribution options available and begins to receive a retirement annuity. The annuity is based on the retirement benefit accrued up to the point of entry to DROP and the decision on the joint & last survivor (spousal) option made when the member entered DROP.

## **Death During DROP Period**

### Non Service-Connected Death

If a member dies during the DROP period, then the joint & survivor (spousal) election made by the member at the point of entry to DROP determines whether and in what amount monthly benefits will be payable to the spouse. That is, if the member elected a form of payment that included a spousal benefit (such as a 50% joint and survivor option), then the monthly benefit payments to the surviving spouse will commence based on the terms of the form of payment elected. If the member did not elect a joint and contingent spouse option, then monthly benefits will not be payable. The surviving spouse and children benefit in the Police Officers Retirement System will be payable.

The designated beneficiary will be eligible to receive the balance in the DROP account at the time of death.

### Service-Connected Death

If a member dies in the line of duty during the DROP period, the beneficiary may select one of two options:

- Option 1 – The beneficiary elects to receive benefits as though DROP participation had not occurred. The DROP account balance is forfeited and a monthly survivor benefit commences based on the member's service and compensation through the date of death.
- Option 2 – The beneficiary elects benefits the same as in the case of non-service connected death of the member. That is, receipt of the DROP balance and any Joint & contingent option the member elected at the time DROP was entered.

In both cases, the surviving spouse and children benefit provided in the Police Officers System is payable.

## **Other Human Resources Considerations**

DROP participants are active employees for all other purposes, including:

1. Promotions
2. Pay increases
3. Health and life insurance benefits
4. Vacation accruals
5. Sick leave accruals (unused leave to be translated into additional retirement benefits must be used at the entry point to the DROP plan. Additional leave accrued during DROP cannot be added to retirement benefit service later but may be used prior to retirement)
6. Benefit improvements effective during DROP period
7. Contributions to the 457 plan