Response to Questions on the FY 2005 Advertised Budget Plan

Request By: Chairman Connolly

Question: What is the cost of expanding the DROP program to all County employees?

Response: During FY 2004 the Deferred Retirement Option Program (DROP) benefit enhancement was implemented for employees in the Uniformed and Police Officers' Retirement Systems. To expand the program to those in the Employees' Retirement System would require a 0.12% increase in the Employer Contribution rate and would result in an increase of $314,780 in the General Fund contribution to the retirement system in FY 2005. This amount does not include an additional estimated impact of $182,590 in Other Funds. These cost estimates reflect the net effect of required changes in the employer contribution rates as of July 1, 2004, to implement the program and amortize the liability based on actuarial assumptions for projected participation in the program and other variables.

The DROP program is a provision with a defined benefit retirement system that provides additional flexibility in the distribution of benefits. DROP plans allow an employee who reaches retirement eligibility to agree to defer leaving employment until a specified date in the future, on condition of being deemed to have retired for purposes of the retirement system. The amount of the retirement benefit that would have been paid had the employee terminated employment and retired is credited to a DROP account that accumulates while the employee continues to work. At the end of the DROP period, the employee terminates employment and can receive the accumulated balance in the DROP account as well as begin receiving monthly retirement benefits based on his employment and compensation at the time of electing to enter the DROP. An employee who elects to enter a DROP plan and chooses a "deemed" retirement date transforms the traditional retirement benefit into a combination of a lump-sum account and a traditional pension benefit calculated as if the employee had actually retired on the date of entry in the DROP plan.

If the plan was extended to employees in the Fairfax County Employees' Retirement System (FCERS), the major provisions would include:

Eligibility

- All employees would have the option to elect DROP beginning on date of eligibility for normal retirement. (FCERS - when age plus service equal 80).
- Members are eligible to enter DROP when they become eligible for full unreduced service retirement benefits. FCERS: Age 65 with 5 years of service; or age 50 with Rule of 80

Length of Drop Period

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

DROP Account Balance

- Account is credited with benefit accrued up to the point of DROP entry.
- Amounts credited increase based on retiree COLA's.
- Account balances are credited interest at annual rate of 5 percent.

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 the amount of accrued benefit at 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 employer 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.