



## Overview

- ◆ What is DROP?
- ◆ How does DROP work?
- ◆ Benefits During DROP
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- ◆ DROP Entry
- ◆ Other Considerations
- ◆ What happens when I exit DROP?
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- ◆ Disability or Death During DROP

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## What is DROP?

- ◆ DROP allows members of Fairfax County Retirement Systems who are eligible for normal service retirement the option to retire for purposes of the retirement plan while remaining actively employed for an additional 3 years
- ◆ Retirement benefits accumulate and earn interest at an annual rate of 5%, compounded monthly during the 3 years
- ◆ DROP participants are treated as active employees for all other purposes (e.g. promotions, raises, and benefits)
- ◆ Employment is terminated at the end of the 3-year DROP period

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## How Does DROP Work?

### Illustration:

A member must reach the age and/or service requirements specified in the plan for normal retirement

- ◆ **For example:** A normal retirement-eligible member who can retire with a normal retirement benefit of approximately \$3,000 each month, can choose to retire with this benefit amount or choose to participate in DROP
- ◆ **If the member elects to participate in DROP,** his \$3,000 monthly pension is set aside into a DROP account within the Defined Benefit plan for three years, earning interest and COLAs
- ◆ **The employee continues working**  
(and no longer contributes into the Retirement System)

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## How Does DROP Work?

(Example for Plan A or B member of ERS)

### Option #1 – Member enters DROP

Monthly Annuity at DROP Entry Date	=	\$2,000
Pre-Social Security Benefit*	=	\$1,000
<b>Total</b>	=	<b>\$3,000</b>

### Plus

Approximate lump sum balance ( Upon DROP Exit) = **\$115,970**

### Option #2 – Member doesn't enter DROP (works 3 more years)

Monthly Annuity at Retirement (3 years later)	=	\$2,260
Pre-Social Security Benefit*	=	\$1,130
<b>Total</b>	=	<b>\$3,390</b>

\*For employees hired on or after January 1, 2013, the Pre-Social Security Benefit is not payable while a member is in the DROP.

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## How Does DROP Work?

(continued)

- ◆ The member continues to work for Fairfax County and receives a salary. Member no longer contributes to retirement plan **nor** does member continue to earn benefit service credit
- ◆ If the member is eligible to receive the Pre-Social Security Benefit for all or part of the DROP period, that amount is part of the amount that goes into the member's DROP account
- ◆ Member makes Joint and Last Survivor election
- ◆ Member **continues to earn** leave at the same rate and continues to receive eligibility service for the purposes of the health subsidy and length of service awards
- ◆ At the end of the DROP period, the member terminates employment and retires

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## Benefits During DROP

- ◆ **DROP participants are active employees**
  - Contributions to the retirement system **cease**
  - You **remain eligible** for pay raises
  - You **CAN** be terminated for cause
  - You **continue to have active employee benefits including:**
    - Health/Dental
    - 457 Plan
    - Life Insurance
    - Leave Accrual

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## Advantages of DROP

- ◆ **Build a lump sum account balance over a period of three years that can be used for a wide variety of purposes**
- ◆ **The member has flexibility and options for distributions**
- ◆ **Gives member the ability to distribute the DROP lump-sum balance to heirs should the member die while in the program**
- ◆ **Member can continue to work and earn a salary while building a retirement lump sum nest egg**

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## Program Eligibility

- ◆ **Must be eligible for “normal” retirement (Not early retirement)**
- ◆ **Employees’ Retirement System members reach normal retirement eligibility when:**
  - Age 65 with 5 or more years of service or
  - At the minimum age of 50/55 and age and years of service equal at least 80/85\* including sick leave\*\*
- ◆ **Police and Uniformed Retirement System**
  - 25 or more years of service including sick leave\*\* **OR**
    - Age 55 (**Police**)
    - Age 55 with 6 or more years of Service (**Uniformed**)

*\*\*For employees hired on or after Jan. 1, 2013, the maximum number of sick leave hours that can be used towards retirement service credit is 2,080.*

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## Sick Leave & DROP

**Sick leave can be used to gain eligibility and/or extra benefit service when entering DROP**

- 172 hours of sick leave = one month of retirement service credit\*
- You can convert all of your sick leave balance to service credit\* or hold back no more than 40 hours to begin the DROP period with sick leave\*

*\*For employees hired on or after 1/1/2013, the maximum number of sick leave hours that can be used for retirement service credit is 2,080.*

- You continue to earn sick leave during DROP
- Any sick leave not used by the time you exit DROP, is forfeited

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## DROP Entry

- ◆ DROP entry must be at the beginning of a new payroll period
- ◆ DROP applications must be received at least 60 days prior to program entry
  - For example:  
Those who want to enter DROP on April 13, 2019 must apply by February 12, 2019  
*DROP entry must be at beginning of a new payroll period*
- ◆ Visit the Retirement Systems website for a complete schedule of DROP entry dates

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## Other Considerations

- ◆ Once a member enters DROP; the decision is irrevocable. To exit DROP would mean termination of employment
- ◆ Joint & Survivor (spousal) option selection once made cannot be changed
- ◆ DROP participants receive the same COLAs as retirees. COLAs are added to the DROP account
- ◆ Upon DROP exit, employment ends . . . No exceptions
  - You will be paid monthly benefits directly
  - Lump-sum balance is distributed
  - Withdrawing an application prior to DROP entry will result in the member waiting at least 12 months to re-apply

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## What Happens When I Exit DROP?

- ◆ **At the end of the DROP period, the member terminates employment and retires**
  - ✓ Complete DROP Exit Notification Form
  - ✓ Monthly benefit amount starts being Direct Deposited into member's own bank account
  - ✓ Member makes decisions regarding
    - **Health Insurance**
    - **Dental Insurance**
    - **Life Insurance**
  - ✓ Choose what to do with lump sum balance

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## What Happens When I Exit DROP? *(continued)*

- ◆ **Member chooses among five options for their DROP balance**
  - ✓ Receive a lump sum distribution by check (remember, this is taxable income)
  - ✓ Roll over entire DROP balance to an IRA or other qualified retirement plan (non-taxable income)
  - ✓ Combine Rollover and Refund
  - ✓ Apply 100% to increase your monthly annuity
  - ✓ Apply 50% to increase your annuity and receive a 50% distribution
    - 50% distribution can be a combination of rollover and refund in any percentages

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## Tax Considerations

- ◆ **Lump or Partial Sum Payment**
  - IRS may impose a 10% penalty if you are paid before age 55\* (\*Age 50 in the case of qualified public safety employees)
  - Taxed as ordinary income in distribution year
  - Subject to 20% Federal tax withholding
  - Subject to 4% Virginia state tax withholding
- ◆ **Roll over funds to an IRA or other qualified retirement plan**
  - No tax consequences/tax deferred
- ◆ **Roll over funds to County Deferred Compensation Plan**
  - May utilize investment funds/options available through Deferred Compensation Plan
  - Different payout/distribution rules apply to monies that are rolled over
- ◆ **Purchase additional monthly annuity**
  - No immediate tax consequences
  - Increased monthly payments are taxed as ordinary income

*If member does not indicate a distribution election, a lump sum check is mailed directly to member – minus 24% for taxes*

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## Common Types of Rollover Vehicles\*

- ◆ IRA – Individual Retirement Account (IRA) Savings Plans– Traditional and Simplified Employee Pension (SEP) 408(k)
- ◆ Employer Defined Benefit Plan – 401(a)
- ◆ Employer Defined Contribution Plan – 401(k)
- ◆ Small Business Defined Benefit Plan – 412(i)
- ◆ Teacher’s Defined Compensation Plan – 403(b)
- ◆ Government Deferred Compensation Plan – 457
- ◆ Retirement Plan for Self-Employed Individuals – Keogh

*\* Check with your retirement plan sponsor to determine if DROP funds qualify for rollover into their account*

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## Having trouble making your decision?

- ◆ Visit the Retirement Systems website at <http://www.fairfaxcounty.gov/retirement>
  - You can calculate your own estimate on the website:
    - [Click on Retirement Account Log-in and establish an account](#)
    - [Log In to your account in Web Member Services \(WMS\)](#)
    - [Click on "Benefit Estimator"](#)
- ◆ Make an appointment for counseling if you are eligible for normal service retirement within one year
- ◆ Consult a tax advisor
- ◆ Consult a certified financial planner or personal financial advisor
- ◆ Talk with your family members

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## What Next?

If you are eligible for NORMAL Retirement within the next year, and are considering entering the DROP, you may contact the Retirement Systems office to schedule a DROP counseling appointment

*"Walk-in" counseling for DROP is NOT available.*

*Best Wishes as you plan for your retirement!*

FAIRFAX COUNTY  
**Retirement**SYSTEMS  
EMPLOYEES' POLICE Officers UNIFORMED

12015 Lee Jackson Memorial Hwy., Suite 350  
Fairfax, VA 22030

703-279-8200

[www.fairfaxcounty.gov/retirement](http://www.fairfaxcounty.gov/retirement)

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# Disability or 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

*This slide and the following 4 slides were not included as part of the topics on the “Understanding DROP” Presentation DVD*



# Disability During DROP

**Non-Service Connected Disability**

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.



## Disability During DROP

### Service-Connected Disability

#### Overview

A member will have the option of 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 retirement system (ERS and PRS -  $66\frac{2}{3}\%$  of salary; URS - 40% or 90%).
- ◆ 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.

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## Death During DROP

### Non Service-Connected Death

- ◆ If a member dies during the DROP period, then the joint & last 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 last 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 designated beneficiary will be eligible to receive the balance in the DROP account at the time of death.

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## Death During DROP

### Service-Connected Death (ERS & URS)

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 & Last Survivor option the member elected at the time DROP was entered.