



Summary of DROP's Among State Pension Plans

Prepared with information provided by:

- NASRA/Debby Kaller 2000 Survey of Large Public Pension Plans and
 - NCSL Summary of Pension Legislation

DROP's Offered in 2001 and Year DROP Became Effective

4 SS Covered Plans

Arkansas PERS (1997), Florida RS (1998), Maryland RS (State Police 1999), *South Carolina RS (2001)*

3 Non-SS Covered Plans

Louisiana SERS (1991), Louisiana TRS (1992), Texas TRS (1997)

DROP Legislation - 2002

Alabama. S.B. 82 (2002 Ala. Acts, Act # 23) created a DROP for members of the Teachers' Retirement System and the Employees' Retirement System. Eligibility requires age of 55 with 25 years of service (52 for highway patrol). Membership in the plan must be for at least three and for no more than five years. A person can participate only once.

Indiana. S.B. 60 created a DROP for members of the police and firefighters' retirement plans, which cover municipal employees. Membership in the plan must begin by December 31, 2006, and must extend from at least 12 months to no more than 36 months. The DROP benefit will consist of the member's retirement benefit for the number of months the person is in the program, with no accumulation of interest and no COLA increases in the retirement benefit while a person is in the DROP. Accumulations may be withdrawn in a lump sum or in three equal annual payments, or rolled over to an IRA. Details: http://www.state.in.us/perf/members/drop_faq.html

Louisiana. Act 136 (H.B. 129) eliminated the sunset provision in the 2000 legislation that established the optional retirement plan and extended opportunities for enrollment for members of the Louisiana State Employees Retirement System.

Ohio. S.B. 134 created a DROP for the Ohio Police and Fire Pension Fund. Eligible members of the fund may elect to participate any time before filing an application for retirement benefits. Eligible members are those who have completed 25 years of active service and who are at least 48 years old. Members may participate in the plan for no more than eight years. During participation in the plan, the member's retirement benefit and employee contributions accrue for a benefit (although there are restrictions on the accrual if the person participates in the DROP for less than three years.) The member is not required to retire at the end of the eight year period, but if he or she continues in covered employment, the member will forfeit the DROP accrual and will be treated as if ordinary active service had continued throughout the period.

DROP Legislation – 2001

Arizona. Employers may offer eligible, active members of the AZ State Retirement System (ASRS) who have reached normal retirement age an option to work up to 36 months after the date of the agreement, not make ASRS contributions in the period, make, along with the employer, contributions to a supplemental 401(a) plan through the period, and at the end of the period use the contributions to purchase up to 36 months ASRS credit and receive an additional 36 months credit. Members who accept this option cannot purchase other credited service. *SB 1295.*

Florida. Any elected officer participating in the Deferred Retirement Option Program (DROP) may cease participating in DROP and enroll in the Elected Officers' Class or Senior Management Service Class or end DROP participation without terminating his/her term of office, effective July 1, 2001. *SB 2 (awaiting governor's review 5/15/01).*

Missouri. A DROP effective January 1, 2002, was made available to members of the state employees' retirement system and the highway employees and highway patrol employees' retirement system. It is available to employees who have continued to work at least two years beyond retirement age. *SB 371.*

Montana. The Legislature created a DROP for members of the [Municipal Police Officers' Retirement System \(MPORS\)](#). Members may choose a DROP period from one month to five years. When the DROP commences, the retirement plan will deposit benefit amounts in a DROP fund monthly, including any benefit enhancements made available to other retirees in the period. Members and employers will make usual contributions to the retirement fund during the period of the DROP. Funds in a DROP will accumulate interest at "a rate reflecting the retirement system's annual investment earnings." A member may continue employment after the DROP, but cannot participate in more than one DROP and cannot receive benefits until actual retirement. *HB 452.*

Ohio: Legislation to create a DROP for police and firefighters in Ohio was under consideration by the Legislature, but not enacted, at the date of this report, November 2001. *SB 134.*

South Carolina: The State Optional Retirement Program (ORP) was extended to public school district employees as of July 1, 2001. [It was previously available only to teachers and administrators.] The higher education ORP established in 1987 with limited employee eligibility will be expanded in eligibility and consolidated with the State ORP in July 2002. *SB 484.*

Virginia. The Legislature enacted an optional retirement benefit provision with some similarities to a DROP. It is called a Partial Lump-Sum Option Payment (PLOP).

The legislation creates a new option for the payment of retirement benefits to eligible retiring members. It benefits employers by providing an incentive for experienced workers to stay on the job. To be eligible for PLOP, a member must satisfy the requirements for an unreduced service retirement benefit and remain in service for at least one year beyond the point in time when he or she qualifies for the unreduced benefit. Members selecting the PLOP must also have worked in a VRS- covered position for at least one year beyond January 1, 2001.

PLOP provides a cash payment of up to 36 times the amount of the monthly service retirement benefit, depending on the number of years the member works beyond becoming eligible for an unreduced benefit. An eligible member who remains in service for at least three years after becoming eligible for an unreduced service retirement benefit is eligible for the maximum payment of 36 times the monthly benefit amount; 24 times the monthly benefit for two years; and 12 times the monthly benefit for one year. The lump-sum distribution is paid at the time the first monthly benefit payment is made, and is subject to taxes at the time it is received, unless it is rolled over into an Individual Retirement Account. If an eligible member elects PLOP, his or her retirement allowance is reduced on an actuarially equivalent basis to reflect the payment of the lump-sum distribution. *SB 843 (HB 2629)*.

DROP Legislation – 2000

Arizona. S.B. 1328 created a DROP for members of the Public Safety Personnel Retirement System.

Connecticut. Public Act 00-192, Sec. 98, allows the Retirement Commission to create a DROP for members of the Municipal Employees' Retirement Fund, whose members can participate if the municipality in which they work adopts the plan.

Maryland. H.B. 605 authorized a DROP for members of the Law Enforcement Officers' Pension System.

South Carolina. H. 4775, the appropriations bill, created a Teacher and Employee Retention Incentive (TERI) program, or DROP program. The program allows eligible employees to retire and defer receiving retirement benefits for five years while continuing employment. Upon termination of employment or the end of the TERI period, the employee will receive the accumulation of benefits in either a taxable lump-sum distribution or through a rollover into a qualified tax-sheltered annuity. Beneficiaries will then begin receiving their monthly retirement service benefit plus any COLAs granted during the TERI period. No interest is paid on the accumulation of benefits. TERI participants do make retirement system contributions. They are exempt from service retirement earnings limitations during the TERI period.