

REPORT ON  
**DEFERRED RETIREMENT OPTIONS**  
AND  
**PARTIAL LUMP SUM OPTIONS**

Office of the New York State Comptroller  
Alan G. Hevesi



New York State and Local Retirement System

Employees' Retirement System

Police and Fire Retirement System

---

# Table of Contents

---

Executive Summary.....	2
Introduction.....	3
Summary of Different Options	
Forward DROPs .....	4
Back DROPs .....	4
Actuarial DROPs.....	4
Diet DROPS.....	4
PLOPs .....	5
Employer Insights.....	6
GFOA Recommendations on DROP Plan Design .....	6
Employee Insights .....	9
Other State’s Plans .....	10
DROPs in the News .....	18
Summary of NYS Legislative Proposals & Associated Costs.....	20
Conclusion.....	23
Bibliography.....	24
Appendix.....	25
Chart of Other State’s DROPs.....	27
Chart of Other State’s PLOPs.....	33
Proposals Pending Before the NYS Legislature .....	36



---

# Executive Summary

---

In 2005, the Legislature introduced ten bills aimed at providing optional retirement payment methods to members of the New York State and Local Retirement System; mainly Deferred Retirement Option Plans (DROPs) and Partial Lump Sum Option Plans (PLOPs).

These optional retirement plans are typically created to allow employers to retain highly experienced, long-term employees. These plans have become more prevalent in recent years and are often provided to members of the uniformed services.

While the intended purpose of these plans is laudable, recently these plans have come under much public scrutiny. There are many types of optional retirement plans. These plans can be complex to administer, difficult to implement and while many can be designed as cost neutral, others can be quite costly for employers.

In light of the many variations and complex issues surrounding optional retirement plans, the Legislature asked the Comptroller's Office to undertake a study of these plans.

This report includes the following:

- A summary of the various types of DROPs and PLOPs;
- Advantages and disadvantages of the different options;
- Option plans offered in other states for police, fire and general employees (plans designed for teachers were not reviewed) and their experiences in offering these plans;
- A summary of the proposed plans introduced in the 2005 legislative session and the costs associated with each plan.

The Comptroller's Office has prepared this report as an educational tool to assist the Legislature with its deliberation in future years. As such, this report will not provide any recommendation.



---

# Introduction

---

Chapter 522 of the Laws of 2005 (included in the appendix) directed the State Comptroller to study deferred retirement option plans and partial lump sum options for certain members, who are eligible to retire regardless of age, of the New York State and Local Retirement System. The Comptroller is required to prepare and convey a written report by April 1, 2006, to the Governor, Temporary President of the Senate and Speaker of the Assembly.

Deferred Retirement Option Plans (DROPs) are programs that typically allow members of a retirement system, once they become retirement eligible, to defer receipt of their retirement benefit for a specified time while they continue to work. At the end of this specified period of time, members withdraw from the DROP and terminate their employment. They receive a retirement benefit based on service credit earned at the time of entering the DROP, plus a lump-sum payment equal to the amount that was deposited into their DROP account during participation in the plan. There are many types of DROPs, including forward DROPs, back DROPs, actuarial DROPs and diet DROPs.

Partial Lump-sum Option Plans (PLOPs) are programs provided to retiring members that allow members to choose to receive a reduced lifetime benefit, in exchange for receiving a portion of their retirement benefit as a lump sum. The monthly retirement benefit is actuarially reduced to account for this upfront distribution. These plans offer another option at retirement and are almost always actuarially cost-neutral. An actuarially cost-neutral plan is designed so that employers are not required to contribute any more simply because of the plan's existence. PLOPs can be provided to those who work beyond their eligibility to retire or they can be provided to all members.



---

# Summary of Different Options

---

## **Deferred Retirement Option Plans (DROPs)**

**Forward (traditional) DROPs** have typically been designed to retain employees who are eligible to retire and this type of plan has been heavily utilized by police and fire retirement systems. Once employees reach retirement age, they can participate by selecting a retirement date in the future and freezing their current benefit. Their retirement benefit amount is calculated based on their salary and service on the date they entered the DROP. They are then allowed to continue working and receive salary. Their frozen monthly pension benefit is placed in an escrow account, which may be interest bearing. Usually, they continue to work for three to five years. This is referred to as the DROP period, with an irrevocable requirement that they must retire at the end of that time period. At the end of the DROP period, the account balance in the DROP account is paid to the retiree in a lump sum, and the monthly retirement benefit begins to be paid to them.

Federal income taxes will be required to be paid on the accumulated amount at the end of the DROP period. However, payment of these taxes can be deferred by rolling over the accumulated benefit amount to a tax deferred account. The salary and service earned by employees after the date of entry into the DROP will not be used in determining their retirement benefits. The plans are designed to encourage members to remain employed after their initial date of retirement eligibility.

**Back DROPs** are the same as forward DROPs except that this DROP election is made retroactively at the time of termination of employment. The member would be aware of their benefit with and without the election of the DROP, so the member can compare the back DROP benefit with the regular retirement benefit before making a decision.

**Actuarial DROPs** are a cost-neutral form of a forward DROP in that the lump sum is calculated by the Retirement System. The lump sum is the value of the difference between the pension at the time of entry into the DROP and at the time of termination if the DROP had not been elected. Therefore, the salary and service earned after entering the DROP will be used in determining the lump sum, but not the on-going monthly retirement benefit.

**Diet DROPs** utilize a short DROP period of less than one year which allows for the accumulation of a relatively small lump sum amount.



## **Partial Lump Sum Options Plans (PLOPs)**

These plans allow retirees, at the time of retirement, to take a permanent reduction in their retirement benefit in order to receive a lump-sum payment at the time of retirement. These options are elected at the time of retirement without any prior notice and there may be criteria established to qualify. PLOPs are cost-neutral options since what the member is receiving as a lump sum will reduce the future amount of the pension to be paid. Within the last several years, PLOPs seem to be gaining in popularity.

## **Examples of how benefits would be paid under the various programs**

Looking first at a forward DROP, let us consider the case of a police officer, age 49, who is eligible to retire with 20 years of service and a final average salary (FAS) of \$50,000. The retirement plan provides a benefit equal to 50 percent of the FAS, but does not provide any additional accruals in the event that the member renders service in excess of 20 years. A forward DROP is elected when the member has 20 years of service. Assuming the DROP period is five years, the member will continue to work and receive their salary from age 49 to age 54, and the monthly retirement benefit that would have been received is deposited into the DROP account. The employer shall continue to pay contributions. At age 54, the member will terminate employment and, the following calculations will apply:

- Annual pension at 20 years of service is  $50\% \times \$50,000 = \$25,000$ . The monthly amount deposited into the DROP account would be \$2,083 ( $\$25,000/12 = \$2,083$ ).
- The DROP account, with no interest, would grow to \$125,000 (5 years worth of retirement benefits). If the plan allowed interest, the amount would be higher.
- At the retirement age of 54, the member would begin receiving the normal benefit of \$2,083 a month (adjusted for any option selection) and also collect the \$125,000 (plus interest, if applicable).

Let us assume that the same member with the same set of circumstances, who is offered the option, elects a back DROP. This member would be able to choose at the time of retirement (age 54) whether to take the DROP or a normal retirement. Unlike the forward DROP, where members irrevocably elect to enter the DROP when they reach normal retirement age and forego any salary increases, a back DROP enables the member to “look back” and take either the DROP or a normal service retirement, depending on which offers the better financial benefit.

The DROP calculation is the same as above.

- Under the DROP, when the member terminates employment, they would begin receiving \$2,083 a month (adjusted for any option selection) and collect \$125,000 (plus interest, if applicable).
- Without the DROP: If the member received salary increases in the last five years and their FAS rose to \$60,000, they could decide not to participate in the back DROP. They would begin receiving an annual pension of 50 percent of the new FAS at age 54 meaning their annual pension would be  $50\% \times \$60,000 = \$30,000$ . The monthly pension would be  $\$30,000/12 = \$2,500$  (adjusted for any option selection.)



The member could forgo the DROP benefit (lump sum plus \$2,083 a month) based on their personal circumstances, and choose to receive an additional \$417 per month.

If the above member, under the same set of circumstances, was eligible for a PLOP, the benefit the member could receive would depend on the amount of the annual pension that was eligible for the lump sum. A typical PLOP would allow a member to take three years worth of benefits as a lump sum and get an actuarially reduced pension. Therefore, under the above example at age 54

- A member would allow receive a lump sum of  $3 \times \$30,000 = \$90,000$  and the annual pension of \$30,000 would be reduced to approximately \$21,800 or \$1,817 a month.

## **Employer Insights**

These plans can be used to influence employee behavior to match the employer's needs. In certain instances where there is a desire to retain experienced personnel for certain positions, such as uniformed personnel, DROPs have been designed to retain employees. Plans have been designed as part of succession planning; to retain staff, to provide training for newly hired staff, and to minimize recruiting costs. Additional costs may be incurred by the retirement system based on the complexity of plan administration, additional counseling for members, increased benefit calculations related to calculation at the start of a DROP period and then recalculation at the end of the DROP period.

Forward DROPs require more administrative work than back DROPs. The main reason for this is that the member will need information to make the decision to elect the DROP and to determine the DROP period. While the amount that will accumulate in the DROP account can be estimated fairly accurately, the member will not know what his/her benefit will be without the DROP. The decision may not be clear cut, especially if the DROP period is five years into the future. In addition, administrative decisions need to be made regarding what happens if someone dies, becomes disabled, is called to military duty, wants to change their termination date, etc. With a back DROP, all the information is known at the time of retirement. PLOPs would be the least costly to administer.

Many popular DROP programs have a cost to employers. A DROP can be designed to be cost-neutral but the ultimate cost of a traditional forward or back DROP can only be determined after evaluating the actual experience of the plan. There is no guarantee of cost-neutrality. The features of a DROP plan that control the cost of the program, such as limiting the deposit to a percentage of the benefit or not paying interest on the DROP account, usually leads to fewer members electing the DROP.

As previously mentioned, a PLOP will guarantee cost-neutrality. It is just another actuarially equivalent option at the time of retirement. The amount of the lump sum payment reduces the future monthly payments.

DROPs may encourage nonproductive employees to stay on the job. Recently, DROPs have been the subject of negative media stories (see DROPs in the News section), often because of the large lump sum payments that can occur.

## **Government Finance Officers Association Recommendations on DROP Plan Design**

In August 2005, the Government Finance Officers Association (GFOA) looked at this issue and (in language taken verbatim from the GFOA Recommended Practice, "Deferred Retirement Option Plans")



(2005)) recommended that, “*except under rare and very limited circumstances, DROPs not be offered by governments. However, if governments do decide to consider such plans, they should conduct a formal decision-making process that includes, at minimum, the following steps:*

1. ***Establish an open and credible review process.*** *Because such plans may have far-reaching financial and operational impacts for governments, it is important that prior to implementing DROPs, all relevant factors be thoroughly considered. Further, potential conflicts of interest among decision-makers who design a DROP should be monitored closely. Instances of self-dealing are costly, unethical, potentially illegal, and may harm the long-term credibility of the government entity. Governments considering implementation of DROPS should conduct a review process that:*
  - *is transparent -- that is, it provides for public participation, open discussion and public decision making based on analysis and facts that are made freely available to the public;*
  - *is comprehensive;*
  - *identifies and corrects potential conflicts of interest;*
  - *includes an active public communication component; and*
  - *is well documented.*
  
2. ***Set and communicate explicit goals up front.*** *Establishing and publicly communicating the desired results of a DROP program early in the process will both enhance transparency in the decision-making process and facilitate the establishment of performance measures and subsequent evaluation of results. Inappropriate goals, such as rewarding a select group of staff, should be explicitly rejected. It is critical that goals not conflict with other retirement plan provisions (for example, a government would not want to provide DROPs for retaining employees while also offering early retirement incentives).*
  - *Both financial and operational goals should be established. Operational goals typically address human resource needs, as follows:*
    - *Succession planning: DROP plans may make it easier to forecast the level and timing of employee separations from service;*
    - *Employee retention: Some governments have pursued a forward DROP that provides incentives for employees to work for a finite period of time, as a means of retaining employees; and*
    - *Separation from service: Certain governments have established back DROPs that may provide incentives for employees to leave governmental service within a window of time.*

*Financial goals, because they are based on actuarial and interest earnings assumptions, should be carefully formulated and decision-makers and the public should be fully informed of the inherent risks. For example, even though a plan may be designed to be cost-neutral, a drop in interest rates below the assumed rate may leave the government with a significant unfunded liability. In addition, governments that agree to DROPs or PLOPs in exchange for wage and other operating cost reductions need to include in their risk analysis the prospect that pension improvements tend to be permanent while wages and other operating costs are subject to frequent reconsideration. Therefore, any savings may be reduced or eliminated in future years.*

3. **Consider and select design options that support financial and operational goals.** The following design elements and their implications should be considered:
- **Eligibility parameters.** Parameters should be set based on employee retention or separation goals. For example, if a government wants to maximize retention, the entry should be no earlier than normal retirement age.
  - **Degree to which decision to participate is binding on employee.** An employee's decision to participate may or may not be irrevocable. Irrevocability is desirable because it a) streamlines plan administration, b) avoids possible adverse selection, c) promotes cost-neutrality, d) supports succession planning, and d) may avoid creating IRS issues.
  - **Length of participation.** Participation should be capped, consistently with achieving goals. For example, a government could allow three to five-year participation based on a need to retain employees or induce a reduction in its workforce over a specific time period.
  - **Permanency of plan.** Governments should consider a sunset provision for DROPs. However, governments should recognize that improvements in pension plans are difficult or impossible to reverse.
4. **Analyze cost impact of design options.** As stated in the preceding section on financial goals, governments should recognize and make clear to the public that costs are based on certain assumptions and that actual costs may exceed assumptions. Governments should engage qualified experts to analyze costs and should focus particularly on:
- **Investment return assumptions and how they were arrived at:** An investment return credited toward the employee account should be conservative and linked to the risk and return of the underlying investments. The government should not guarantee an investment return.
  - **Actuarial impacts and how they were arrived at:** Actuarial impact: government should retain the services of an actuary to determine if one or more DROP plan scenarios under consideration would be "actuarially neutral." Even if neutrality is not an explicit goal of the DROP, governments should know in advance what the estimated costs are, expressed in present value and annualized terms. It may be advantageous to determine if actuarial impacts may vary from one department to another (e.g., the retention effect of a forward DROP may be more pronounced in one department and could influence the scope of the DROP plan roll-out).
5. **Conduct a portfolio analysis.** Because a DROP plan creates an accelerated need for cash payouts, a government should perform additional portfolio analysis to ensure investments can produce sufficient income to meet liquidity needs.
6. **Communicate results of analysis and resulting recommendations widely.** Governments should ensure that the results of the review process are communicated to major stakeholders, typically including the following: elected officials, the public, bond rating agencies, the business community, public employee unions, and citizen groups."



## **Employee Insights**

Employees will favor a DROP plan if it provides a benefit higher than that allowed under their normal retirement plan. Members, who under their current retirement plan are eligible for the normal retirement benefit and have already reached the maximum amount they may receive, are able to participate in a DROP and take home additional earnings. An employee who is not likely to be promoted or receive additional salary increases would also benefit from a DROP. However, if the employee receives a promotion with a pay raise during the DROP period, then the DROP benefit may be less than the regular benefit, because these increases would not be included in the DROP calculation. Once an irrevocable DROP option is signed, the employee's personal circumstances may change but the employee's termination date is now locked.

Employees who expected to receive promotional opportunities through staff retirements may be disillusioned by the unplanned retention of staff through the use of DROPs. The lump sum feature of both DROPs and PLOPs is attractive in that it provides a lump sum option for employees needing cash to, for example, pay off a mortgage, take a vacation, or consolidate debts. If the member rolls over the DROP account or the PLOP account, they can defer their taxable income to later years. However, if the employee elects to spend the DROP or PLOP amount, the income tax consequences may be severe. Employees should seek tax advice before making any decisions.



---

## Other State's Plans

---

DROP plans came into existence roughly two decades ago as an enticement for retirement-eligible police officers and firefighters to stay on the job for a few more years. Since then, the idea has spread to other types of public employees. At first, DROPs were the domain of police and fire departments and were tightly focused on the goal of staff retention. But soon other state and local employees began bargaining for DROPs too. DROPs that apply to all public employees can be found in states that offer a significant retirement benefit at relatively young ages. A DROP program is not available in any state where the minimum age to retire is at least 55.

The following state-by-state review discusses DROP and PLOP provisions in state-wide Employee Retirement Systems and in state-wide Police and Fire Retirement Systems. Programs in Teachers' Retirement Systems are not included except for the California State Teachers' Retirement System. In summary, 13 states have DROP programs. Seven of these states limit the DROP to law enforcement personnel. The remaining six provide the DROP to all employees. Thirteen states provide PLOPs which apply to all personnel. In addition, Pennsylvania which is not included allows members to take their pre-tax contributions as a lump sum since this applies to members who entered prior to 1982.

### ■ Alabama

Alabama created a DROP for members of the Employees' Retirement System (ERS) which became effective June 1, 2002. Eligibility for the DROP requires age 55 with 25 years of service (52 for highway patrol). Members can retire without the DROP at 25 years of service regardless of age. Participation in the DROP requires a member to stay at least an additional three years (more if 25 years is achieved prior to age 55 or 52 for highway patrol members). There is no penalty for involuntary termination, disability, or death of the participant in the first three years. Both the employer and the member will continue making contributions as required by law to the ERS. The DROP account will earn interest at the same rate as active member accounts. A participating member is not eligible to receive retiree's cost-of-living adjustments (COLAs) during the DROP period.

### ■ Arizona

The normal retirement benefit for public safety officers provides that at 20 years of service, a member is entitled to a 50 percent of final average salary benefit. For the 20th through the 25th year, an additional 2 percent per year accrues. Public safety officers were provided with a DROP in 2001. A member with 20 or more years of credited service under the System may enter into the DROP. The member must voluntarily and irrevocably elect to enter into the program with his/her employer for a period of up to 60 months. There is no minimum period. During the DROP period, no member or employer contributions are made to the System. The member pays 7.65 percent of their salary prior



to entering the DROP. Interest on the DROP account is currently 8.5 percent annually. In the future, rather than a fixed rate, there will be variable interest rates.

If the member wishes to stay employed beyond the five years, any accumulated interest in the DROP account will be forfeited. The program is very popular. The State also offers a reverse DROP for public safety officers which was recently enacted and is currently being re-evaluated as there has not been much interest in the program. A member with 20 or more years of credited service under the System, who has not elected to participate in the DROP, may elect to participate in the back DROP, which they refer to as a reverse DROP. Under the reverse DROP, members must voluntarily and irrevocably elect to terminate employment and receive a retirement as if they had elected the DROP on a “reverse DROP date.” This date is the first day of the month immediately following completion of 20 years of credited service, or a date not more than 60 consecutive months before the date the member elects to participate in the reverse DROP, whichever is later.

The member’s pension will be calculated using credited service and average monthly benefit compensation in effect on the reverse DROP date. However, interest on the DROP account will be calculated at 3.5 percent annually, as opposed to the current DROP interest rate of 8.5 percent. Neither the member, nor the employer, is entitled to a refund of contributions made between the reverse DROP date and the date the member elects to participate in the Reverse DROP.

The state retirement system has a PLOP. Employees may retire, without penalty, at age 62 with ten years of service credit, at age 65, or at the point when a combination of their age and service credit equals 80. For those employees who are at least 50 with five years of service, there are substantial early retirement penalties. At retirement, a member can elect to receive a lump sum equal to the amount payable for any number of months, up to 36 of the monthly option 0 benefit. It is a popular program.

## ■ Arkansas

The Public Employees’ System has both a DROP and a PLOP. Members can retire at 28 years of service, regardless of age. The DROP was instituted in 1997 to get members to stay longer. A member can choose a DROP period of up to seven years. If members do not terminate employment within seven years, they will forfeit the DROP account. The amount of the frozen pension that goes into the DROP account depends on the number of years of service members have when they enter the DROP. With 30 or more years of service, 75 percent of the frozen pension is deposited. For members with 28 years of service, the deposit is 63 percent (the amount is prorated for service between 28 and 30 years). The State police deposit is 100 percent. Interest is credited at 6 percent. The amount and interest credited may be adjusted prospectively based upon the Board’s determination of the actuarial appropriateness. The provisions of the DROP will be reviewed at three year intervals, or more frequently if necessary. If an adjustment is required, existing participant’s amounts will be adjusted prospectively. The DROP is a popular benefit.

In addition to the DROP, a partial annuity withdrawal (PAW) program is available. This was started in 2002 and has also proven popular. Members can choose to get a lump sum that reflects the number of months they stayed beyond the date they are first eligible to retire, without a reduction, up to a maximum of 60 months. So, a member must remain in service until he or she has 33 years of service, to receive the maximum lump sum benefit under the PAW program. A member retiring at his/her first day of eligibility would not be eligible to receive a lump sum.



## ■ California

The California Public Employees' Retirement System does not offer a DROP or PLOP to its members. The Teachers' Retirement System does offer a limited PLOP to members who have more than 30 years of service. The amount of the PLOP is the value of the additional pension benefit which can be attributed to benefit enhancements that have been enacted since 2000. There is a maximum amount of 15 percent of the value of the total pension on the amount which can be received under the PLOP.

## ■ Florida

DROP is a very popular program with Florida Retirement System's (FRS) members. DROP became effective July 1, 1998. It allows members to retire without terminating employment for up to five years while their retirement benefits accumulate and earn interest compounded monthly at an effective annual rate of 6.5 percent. The DROP election must be made within one year of normal retirement age with certain exceptions.

The police and fire unions were the driving force behind the establishment of DROP to encourage employees who exceeded normal retirement age to retire. DROP participation was expanded to include all FRS members to make the program more economically feasible. When the DROP period ends, members must terminate employment. At that time, they will receive their accumulated DROP benefits and begin to receive their monthly retirement benefit as calculated when they retired and entered DROP, plus any applicable cost of living increases.

## ■ Georgia

The Employees' Retirement System of Georgia offers their members a PLOP as a retirement option. A member is eligible for a normal retirement without any penalties for early retirement if they have 30 years of service or are age 60 with ten years of service. At normal retirement, members may elect a lump sum distribution in an amount between one and 36 months of their maximum monthly retirement benefit. COLAs are not applied to the PLOP distribution, only to the monthly retirement benefit.

## ■ Indiana

Police and fire members currently can retire at 20 years of service at age 52. Their benefit is 50 percent of final average salary at 20 years with additional 2 percent accruals for every year until a maximum of 74 percent of final average salary is attained at 32 years of service. A DROP was made available for members of the police and fire retirement plans from January 1, 2003 to December 31, 2007. Membership in the plan must begin by December 31, 2006 and the DROP period is from one to three years.

The DROP was designed to be cost-neutral. Members continue to make 6 percent employee contributions (unless they have reached 32 years of service before entering DROP) and employers pay 21 percent. 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. All members must terminate DROP by December 31, 2007.



If a member becomes disabled while in the DROP period, any disability benefit for which they may be eligible would be calculated as if the member never entered the DROP. Benefits for survivors of members who die while in the DROP will be determined on the date of death, as if the member never entered the DROP. Members must retire on their chosen DROP date, but can choose to take the DROP benefit, or can choose to take the benefit as if DROP had not been elected.

## ■ Kansas

Members of the Kansas Public Employees' Retirement System have the option, at retirement, of taking a portion of their benefit in a lump sum, with an accompanying permanent reduction in their future monthly benefit payments. This partial lump-sum option (PLSO) means they may choose to take a single lump sum payment equal to a given percentage of the actuarial present value of their lifetime benefit. The PLSO is available in 10, 20, 30, 40 or 50 percent amounts.

## ■ Louisiana

The State Employees' Retirement System allows members three retirement options: (1) regular retirement, (2) a DROP or (3) an Initial Benefit Option (IBO), which is a partial lump sum of up to 36 months of a member's maximum monthly benefit. General members can retire with 2.5 percent per year of final average salary at (1) 30 years of service (2) age 55 and 25 years of service and (3) age 60 and ten years of service. Early retirement is available at 20 years of service or age 50 with ten years of service. A new plan for general employees will be effective in 2007, eliminating the ability to retire prior to age 60. A DROP is not part of the new package but a back DROP is being considered.

DROP may be elected when you are first eligible for a normal retirement for a maximum of three years, and the window is open for election for the next three years. The window closes when you have been eligible to retire for three years. So, at that time of first eligibility to retire, you can elect DROP for three years. If you decide to elect DROP one year after eligibility, you can only adopt DROP for two years, etc. If you elect DROP, you can retire at the DROP date or continue to work. If you continue to work, you will receive additional benefits in the DROP.

Members of the State police and firefighters can retire with 25 years of service and receive 3.33 percent of their final average salary per year of service. A DROP for the State police was created in the 1980s. It was modified in 1996 and again in 2001. The pre-1996 plan is designated the "Old DROP" and the plan in effect in 1996 is known as the "New DROP." If you were hired prior to September 8, 1978, and have 20 or more years of service, you may enter DROP on any date you desire. The "New DROP" requires 25 years of service and a member must enter within 60 days of retirement eligibility in order to take advantage of the full 36-month participation period. A DROP participant may choose to continue working when DROP participation ends. The DROP account then begins to earn interest. An IBO, which is similar to the general members IBO and was instituted in 1996, is also available to police and firefighters.

## ■ Maryland

Members of the Law Enforcement Officers' Pension System may elect to participate in the DROP when they have at least 25 years, but less than 30 years of eligible service. The DROP participation period is limited to the lesser of five years, the difference between 30 years of service and the member's eligible service upon election, or the term selected by the member which may not exceed five years.



While employed, a DROP participant makes no employee contributions, does not earn service credit, will have no change in their FAS calculation, is not eligible to receive an ordinary disability benefit, but may be eligible to receive an accidental disability retirement benefit. If a DROP participant dies while in DROP, the balance in his/her account is paid to the surviving spouse, children or beneficiaries. For each month of DROP participation, the retiree's monthly check which is deposited in the DROP account earns interest at the annual rate of 6 percent, compounded monthly.

## ■ Michigan

Michigan's DROP allows members of the State Police Retirement System, who have 25 or more years of credited service, to choose the length of time they wish to extend their employment and defer their pension benefits, up to a maximum of six years. The current benefit is 60 percent of final average salary once you have 25 years of service. While participating in the DROP, a percentage of the monthly pension benefit is credited to the member's account and earns interest. The percentage of a member's pension that they receive is based on the length of their participation in the DROP. The percentages are 30 percent of the pension if the DROP period is less than one year; 50 percent if more than one but less than two years; 60 percent if more than two but less than three years and so on up to 100 percent for six years participation. The DROP account earns 3 percent interest each year. The DROP amount can not be determined until termination. When a participant terminates employment, they may leave the DROP account with the Retirement System.

## ■ Mississippi

The Public Employees' System has a partial lump sum option. You must have been eligible to retire for three years in order to elect the lump sum. Currently members can retire at any age with 25 years of service and receive a 50 percent of final average salary benefit. The lump sum can be 12, 24 or 36 months of the maximum monthly benefit. The Highway Patrol offers a similar program except the member needs only to be eligible for an unreduced benefit, which is achieved with 25 years of service.

## ■ Missouri

Effective January 1, 2002, a back DROP plan 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 past the age when they could retire without any early age reductions. At the time of retirement, a member will receive an estimate of their benefit without the back DROP and also the amounts under the various back DROP periods. The lump sum under the back DROP is 90 percent of the accumulated monthly deposits (with COLA) from various back DROP dates. The back DROP periods are in increments of one year and cannot exceed five years. As an example, if a member has been eligible for an unreduced benefit for three years and six months, they will have four choices of back DROP periods - one year, two years, three years or three years and six months (the date the member was first eligible to retire with an unreduced benefit). For a member that has been eligible for six years, the back DROP periods will be one, two, three, four or five years.

## ■ Montana

Since 2002, eligible members of the Municipal Police Officers' Retirement System (MPORS) with at least 20 years of membership service have been offered a forward DROP. The maximum DROP period is



five years. Both employees and employers continue to make regular contributions to MPORS. Interest is paid on the trust fund rate of return, which was 7.9 percent last year. Although salary increases earned during the DROP are not included, any COLA benefit is included. If the member dies while participating in the DROP, the surviving spouse or dependent children are entitled to the DROP benefit. Members are not eligible for MPORS disability benefits. They may continue to work after the DROP period ends, but are considered newly hired.

## ■ North Dakota

North Dakota added the option of a partial lump sum distribution (PLSO) to the state public employee retirement plan. It is only available to members who can retire without an early retirement reduction. This means that members must be either age 65 or are at a point where a combination of their age and years of service equal 85. The PLSO is equal to 12 monthly payments of a single life/normal retirement benefit.

## ■ Ohio

Police and fire members are eligible to retire at 25 years of service, if they are at least 48 years old, and are eligible to receive 60 percent of their final average salary. For years beyond 25, an additional benefit of 1.5 percent per year is generated up to a maximum of 72 percent at 33 years of service. In 2002, Ohio created a DROP for the Ohio Police and Fire Pension Fund. Members who are eligible for a normal service retirement, who are at least 48 years of age or older with 25 years of more of service credit, can enter the DROP. The DROP account is credited with interest of 5 percent plus an annual 3 percent COLA. As members continue to work, a portion of their employee contribution which is 10 percent also accumulates into the DROP. In the first and second years of the DROP account, 5 percent of their annual salary goes into the account; in the second and third year, 7.5 percent of their annual salary and the ten percent salary in years four through eight. To receive the benefit of DROP, members must work at least three years and terminate employment and retire within eight years. They will lose their accumulated interest if they participate in DROP for less than three years. If they work more than eight years from the DROP effective date, they forfeit all DROP benefits, but will receive normal retirement benefits and regain service credit for the DROP participation period.

The program was adopted as a no-cost provision. It requires a study every five years and if it is not cost-neutral, the law allows the plan to be changed or eliminated. Changes to the plan will not affect the existing DROP participants.

As of January 1, 2004, the PLOP became a retirement option for general employees. The lump sum payment cannot be less than 6 times, or more than 36 times, the monthly amount that would be payable to the member under the maximum monthly benefit, but it cannot generate a monthly benefit that is less than 50 percent of that maximum monthly benefit.

## ■ Oklahoma

All three of the state of Oklahoma's public safety retirement systems have DROPs and back DROPs. The basic benefit for police and fire is 2.5 percent per year, up to a maximum of 30 years. Members can retire at 20 years and receive 50 percent of their final average salary or, if they remain until they reach 30 years of service, they will receive 75 percent of their final average salary. In all three plans the member can enter the DROP at their normal retirement date, which is after 20 years of service. The



annual benefit amount is frozen at that time. The annuity payment goes into an account. The member's employee contributions of 8 percent into the system cease. The employer continues to pay employer contributions. One-half of these contributions go into the member's DROP account and one-half go to the system. The lowest rate of interest a firefighter earns is 7.5 percent on their DROP account which is the actuarial investment assumption of all three of these systems at the present time. The highest the police member can earn is 2 percent below the actual rate of return earned by the system on its assets.

One system (Oklahoma firefighters) permits its members to keep the funds in the account earning a minimum of 7.5 percent interest after the DROP period ceases and the member actually retires. The members can draw down funds whenever they choose. Under IRS rules, members must begin to get distributions at age 70½.

A study of a deferred retirement option retirement option that the Oklahoma Legislature directed the Public Employees' Retirement System (ERS) to undertake was issued in December 2004, and it concluded with a recommendation that a DROP should not be adopted for ERS for several reasons. First, there is no indication that Oklahoma state and local government needs to provide an incentive available to all public employees to work past normal retirement date, (b) the cost of a DROP plan similar to the plans of other state retirement systems will be significant, (c) a DROP plan would change current public policy against public employees getting a pension at the same time as drawing a full paycheck, and (d) experience in other states indicates that DROP plans have been controversial and have led to negative publicity. If the state needed to provide an incentive to certain employees to continue to work past their normal retirement date, a narrowly tailored salary incentive would be a more appropriate and cost-effective way to achieve that goal. The report also recommended that if policymakers want public employees to retire with some option for a sizable cash lump-sum, a PLOP is a design change that can be made actuarially neutral.

## ■ Oregon

It appears that retiring members have a number of choices at retirement, including the ability to take a total lump sum which would sever their relationship with the retirement system. Another choice is the ability to receive member contributions in a lump sum. So, a traditional PLOP is not available, nor are DROP plans.

## ■ South Carolina

The Teacher and Employee Retention Incentive (TERI) program is a DROP program. The program allows employees eligible to retire and to 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. Pensioners 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 make retirement system contributions. They are exempt from service retirement earnings limitations during the TERI period.

In June 2005, a lawsuit was filed as a result of the enactment of a new state law requiring workers to pay an additional 6.25 percent of their salary. The workers claimed that requiring them to pay into the system but denying them the credit for extra service, which would increase their pensions, was similar to a pay cut.



## ■ Virginia

Members are eligible to receive unreduced benefits at age 50 with 30 years of service, or at age 65 with 5 years of service. In the aftermath of a number of years where the Legislature debated a variety of DROP proposals, the Virginia Legislature enacted a PLOP, structured along the lines of the Mississippi plan. It was instituted to provide 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 time when they qualified for an unreduced pension

The PLOP provides a cash payment of up to 36 times the amount of the monthly service retirement benefit, depending on the number of months 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. It is a popular program but it does present cash flow issues to the Retirement System.

---

## DROPs in the News

---

While we are unaware of any negative reports concerning statewide DROP plans, there have been numerous examples of municipal DROP plans which have been the subject of unflattering articles in the press. An article in the May 31, 2004 edition of *Fortune* was entitled “The \$366 Billion Outrage” and cited as an example of pension abuse the case that a city worker in San Diego qualifying for retirement could instead remain on the job and receive both his salary and an early-activated pension through a DROP plan. The DROP monies earned a guaranteed 8 percent annual rate of interest, plus a 2 percent annual cost of living adjustment. When the employee actually decides to retire, he could collect the amount that has accumulated or let it keep compounding at that generous rate of return indefinitely. According to Diann Shipione a system trustee, the average city worker participating in the plan earning about \$50,000 a year, is eligible to collect a lump sum of about \$305,000 at retirement. A fire battalion chief would receive \$780,000; a senior librarian would receive \$765,000.

DROP plans that allow for an early retirement with pensions based on high final average salaries that have guaranteed rates of return and cost-of-living adjustments can lead to distortions. According to a July 2004 *Governing Magazine* article entitled “Retirement Rage,” that happened in the City of Houston after a very attractive early retirement plan – retirement at age 45 after 25 years of service with 90 percent of final salary – was enacted in the early 1990s. It was such a lure that 44 percent of the work force quit over the next five years and a DROP was subsequently instituted to keep employees in place. It provided a guaranteed 8.5 percent rate of return on undrawn funds.

Consider a hypothetical 40-something municipal employee making \$40,000 a year in Houston. Under the City’s pension plan, he/she could retire at age 65 and get annuities totaling \$2.7 million, according to Joseph Esuchanko, a Michigan actuary. “It was very possible for a municipal employee to retire and have income greater than when he/she was working,” said Mr. Esuchanko, whose calculations shocked the Houston city officials who hired him.

Houston’s DROP appears to have had significant fiscal costs for the City at the same time as the City’s pension fund faced a deficit of \$1.9 billion. However, last year, a constitutional amendment in Texas to guarantee public employee pension benefits allowed cities an option to drop out of the amendment based on a referendum vote. With the Mayor’s support, Houston citizens, provoked by DROP excesses and worried about the pension fund’s deficit, defeated the pension guarantee provision by a 3-1 margin.

In Wisconsin, the *Milwaukee Journal Sentinel* calculated that the pensions of top Milwaukee County Executives would grow as much as 253 percent under a plan approved in 2000. In Milwaukee County, residents were so angry to learn that DROP would turn some officials into millionaires that they held



a recall election and voted seven county supervisors out of office. If the County Executive retired in 2004, he would have earned a lump sum payment of about \$1.2 million and still been eligible to collect a \$92,000 annual pension for life. But if he won another term and served until 2008, he could claim a lump sum payment of \$2.04 million and collect a \$136,800 annual pension. Two of his aides resigned under fire and the personnel director was prosecuted for misrepresenting the benefit's cost. He was fined \$11,000 and sentenced to 60 days in jail.

Several years ago, the State of South Carolina instituted a "Teacher and Employee Retention Incentive" (TERI) aimed at teachers and "key employees." It was structured as a forward DROP but the plan was not available to all non-teachers. State employers could identify "key employees" to participate. It was later amended to include all employees. First, a study indicated that the plan increased the unfunded liability of the retirement system by \$100 million. Second, the IRS advised the system that if the plan continued it would have to be available to all employees. There were comments and complaints that the program had the effect of keeping non-productive employees on the payroll longer, and by keeping some of the employees around who could otherwise retire, the state was not promoting less-experienced employees who were ready for promotion.

In 2005, concerned about the financial security of South Carolina's 89,000 current and 181,000 future retirees, the Legislature enacted a law requiring TERI participants to contribute 6.25 percent of their salary. The program's participants filed a class action lawsuit claiming that the law, which would require them to pay into the system but would deny them service credit for the time spent in TERI which would have increased their pension, was akin to a pay cut.

An article entitled "DROP Outs," which appeared in the September 2004 edition of *Governing Magazine* detailed when the City of Philadelphia added a DROP plan to its municipal pension plan in 1999, the goal was to retain older workers and their considerable on-the-job expertise. It worked for police officers and firefighters, whose average retirement age was delayed. But DROP had the opposite effect for other city employees. On average, they started to retire two years earlier than expected. Some departments, such as the city courts, found themselves in a sudden staffing crunch. According to City Finance Director, Janice Davis, "In attempting to protect ourselves from people retiring, we created a wave of retirements all at one time." A September 2004 article in *Governing Magazine* chronicled many of the high-profile problems with DROP plans around the country. One of the conclusions of the article was, "whatever your view of DROPs, there is one sure thing about them: They are a public relations grenade waiting to explode."

---

# Summary of New York State Legislative Proposals & Associated Costs

---

There were ten bills introduced during the 2005 legislative session which would have created DROP or PLOP programs for members of the Retirement System. The bills fall into five different categories: (1) traditional forward DROPs; (2) forward DROPs that have been adjusted to reduce employer costs; (3) actuarial forward DROPs; (4) Back DROPs, and (5) PLOPs. The bills and their fiscal notes are included in the appendix.

The traditional *forward DROP* bills are S.4662 and S.4663. Both have a similar design. An eligible member may elect to participate in the DROP and specify a DROP date which will become the actual date of retirement, when employment will cease. The DROP period is from one to five years. The member's pension is frozen upon entry into DROP, and the DROP account receives monthly deposits with 5 percent interest. At the end of the DROP period, the member receives the DROP account and begins receiving the previously frozen pension.

The DROP member is considered an active member for retirement purposes and annual employer contributions will continue to be made during the DROP period. If the DROP member leaves employment before or after the end of the DROP, he/she would forfeit all DROP benefits and be treated as though there was no DROP election. Also, if a DROP member dies or becomes disabled during the DROP period, the member is treated as though there was no DROP election.

Eligible members are certain police and fire members covered by a plan that provides half-pay at 20 years, with additional 60ths for each year of service after 20 years. For Tier 1 members, the maximum annual benefit is 75 percent of final average salary, which is reached at 35 years of service. For Tier 2 members, the maximum annual benefit is 66.67 percent of final average salary which is reached at 30 years of service. For those members who elect DROP who have already reached their maximum percentage pension, electing the DROP would provide a significant lump sum, while members would only forfeit the increase in their final average salary during the DROP years.

For those members still accruing additional 60ths, the DROP lump sum would be offset by the final average salary increases and the additional 60ths accruals. Overall, the Actuary expects an increase in annual employer rates of at least 1 percent of payroll.

S.5481/A. 8084 and A.8082 are forward DROPs that have been modified to mitigate employer costs. The programs apply to police and fire members that are covered by plans with half-pay at 20 years and the 20-year plans that provide additional 60ths after 20 years. If the member would have hit a maximum



benefit without the DROP, the deposit into the DROP account is only 60 percent of the member's annual benefit. In addition, interest on the DROP account is 3 percent annually. This means that all members covered by the plans with half-pay at 20 years (Section 384-d) without the additional 60ths would only have deposits of 60 percent of the frozen annual pension.

The 60 percent deposit for those subject to a maximum, combined with the 3 percent interest on the DROP account, is expected to eliminate an increase in employer costs. However, if salaries of DROP members during the DROP period do not increase at similar rates as members who have not elected DROP, there could still be employer costs.

S.4076/A.7161 and S.4159/A.6383 are *actuarial DROPS*. They completely eliminate any chance that the DROP program will have employer costs since the lump sum is an actuarial determined amount. Otherwise, the programs still function as forward DROP plans, with the member electing to participate and specifying the date of DROP termination. These two plans apply to certain correction officers and security hospital treatment assistants that are currently covered by half-pay at 25 years retirement plans.

S.3915/A.4951, S.4223/A.4952 and S.4667 are all *back DROPS*. Members elect to participate at the end of their working career. Members will know exactly what their pension will be without electing DROP and will know the pension and lump sum if DROP is elected.

The first two bills require an employer to first elect the DROP and would apply to sheriffs and police and fire personnel covered by half-pay at 20 years, with and without additional 60ths who elect into the program. The lump sum will be calculated assuming a maximum of five years and interest at the actuarial valuation interest rate (currently 8 percent).

The third bill applies to the State police and has a maximum DROP period of eight years with interest on the DROP account at the actuarial valuation interest rate.

Under all of these back DROPS, the member would be eligible to retire immediately upon the employer electing the back DROP.

It is expected that the cost of a back DROP will be higher than a similar forward DROP, and the employer will see significant immediate costs.

The last bill is S.5479/A.8083, which is a *PLOP*. It applies to all members of either the Employees' Retirement System or Police and Fire Retirement System who retire more than one year after they are first eligible to retire. The provisions of this PLOP are unusual in that the lump sum is determined as a percentage of the actuarial present value of the entire pension. In almost all cases, the longer members continue to work after being eligible to retire, the larger their lump sum. For each completed year of employment after eligibility to retire, members are eligible to take 5 percent of the total value of their pension. The maximum lump sum is 25 percent of the total value of their pension. Members would be offered this option along with all of the other options that are available at retirement. Since the lump sum is an actuarially determined amount, the PLOP is cost-neutral for employers. If enacted, this would take effect on April 1, 2007, allowing members who have been eligible to retire for five years to immediately retire with a 25 percent of the total value lump sum. As written, the bill will not change the COLAs if the member selects to receive the partial lump sum distribution.

Example: Under S.5479/A.8083 which creates a PLOP, consider a Tier 4 general member who has 25 years of service at age 55. If the member retires prior to age 56, there is no lump sum option available. At 56 and later, the member will have the ability to take a lump sum. The following chart provides examples of what the PLOP benefit would be at various ages and years of service:

<b>Age</b>	<b>Service</b>	<b>FAS</b>	<b>Pension w/o PLOP</b>	<b>Lump sum Available</b>	<b>Pension with lump sum</b>
55	25	\$50,000	\$18,250	n/a	n/a
56	26	52,500	20,748	\$11,300	\$19,710 (95% of original pension)
57	27	55,125	23,516	25,300	21,164 (90% of original pension)
58	28	57,881	26,579	42,500	22,592 (85% of original pension)
59	29	60,775	28,962	63,100	23,970 (80% of original pension)
60	30	63,814	38,288	99,500	28,716 (75% of original pension)
61	31	67,005	41,208	105,700	30,906 (75% of original pension)
62	32	70,355	44,323	112,100	33,242 (75% of original pension)

The bill requires that the value of the lump sum be determined using the actuarial valuation tables, which are different for ERS and PFRS. Due to the significant number of women in the ERS workforce, the mortality tables used in ERS will provide a higher lump sum for the same annual pension than in PFRS.

Annual pensions in the Retirement System rarely, but occasionally, exceed \$200,000 annually. The lump sum available could exceed \$500,000.



---

## Conclusion

---

In reviewing statewide public employee systems, including police and fire personnel (but not teaching personnel), we found that almost half of the states have a statewide DROP or PLOP program. Thirteen states have DROP programs and thirteen states have PLOP programs. All of the PLOP programs apply to all public employees. Of the 13 DROP programs, six are applicable to all public employees and the remaining programs are only for law enforcement/fire personnel. Four of the states have both DROP and PLOP programs. Of these four, Arkansas and Louisiana allow both DROP and PLOP for their entire employee population.

Reviewing the DROP provisions for states where the program applies to all employees, it is interesting to note that the normal retirement age (the age at which a member can retire without an early retirement reduction) is either (a) 25 years of service at any age (b) 28 years of service at any age (c) 30 years of service at any age or (d) the rule of 80 (age plus service equals 80). For DROP programs that apply to law enforcement or fire personnel, normal retirement is usually 20 or 25 years of service, and some states have a minimum age. The normal retirement age for general members of the New York State and Local Employees' Retirement Systems is (a) age 55 for Tier 1 and (b) age 55 with 30 years of service or age 62 with 5 years of service for Tier 2, 3 and 4 members. For members of the New York State and Local Police and Fire Retirement System, almost all members can retire with 20 years of service at any age. Most DROP programs were instituted to encourage members to remain working beyond their normal retirement age, and appear to have been implemented without significantly increasing employer contributions.

In the past few years, most of the activity regarding DROP and PLOP programs has centered on the introduction of new PLOP programs. All of the PLOP programs are actuarially cost-neutral. Some of these programs were instituted instead of a DROP. The implemented PLOP programs fall into three categories: (1) those that allow the lump sum at any age at which a member may take a service retirement (2) those that allow the lump sum only at normal retirement age, or later, and (3) those programs that require the member to stay after normal retirement age. Eight states allow the partial lump sum as just another option at service retirement, while two states restrict the lump sum to normal retirement age or above. Three states require the member to continue to work after normal retirement age, with an additional three years of employment needed to allow the maximum lump sum. The different categories show how the programs can be tailored to target different objectives.

---

# Bibliography

---

Information on each state's DROP and PLOP plans was obtained from plan descriptions on each state's web site and through conversations with retirement system personnel in each state.

"A Study of A Deferred Retirement Option," *Oklahoma Public Employees Retirement System*, December 1, 2004.

"Benefit Design in Public Employee Retirement Systems," *GFOA Pension & Benefits* newsletter, Fall/Winter 2004.

Calhoun, Carol V. and Tepfor, Arthur H., "Deferred Retirement Option Plans ("DROP Plans)," *Pension & Benefits Week*, October 13, 1998.

"Deferred Retirement Option Plans," *GFOA Recommended Practice*, 2005.

"Design and Actuarial Aspects of Deferred Retirement Option Programs," *Society of Actuaries*, 2003.

Dezube, Robert and Garrett, John "Eyes Wide Open – The Pros and Cons of Deferred Retirement Option Plans," *Governing Finance Review*, December 2005.

Murphy, Bruce, "daddy dearest," *Milwaukee Magazine*, January 2002.

Olleman, Mark, "Phased Retirement for Public Plans: Look Close, Be Careful," *Benefits & Compensation Digest*, January 2006.

"Pension authors under fire," *Milwaukee Journal Sentinel*, January 8, 2002.

Petersen, John E., "Retirement Rage," *Governing*, July 2004.

Revell, Janice, "The \$366 billion outrage," *Fortune*, May 31, 2004.

"Some Cities Struggling to Keep Pension Promises," *New York Times*, May 5, 2004.

"Summary of Public Pension Plans Incorporating Retention Efforts: A State by State Analysis of Retention Efforts Within Public Pension Plans," *North Carolina Retirement Division*, February 2003.

Swope, Christopher, "DROP Outs" *Governing*, September 2004.



# Appendix

Section 1 – Survey of basic design features in 13 state’s DROP plans

Section 2 – Survey of basic design features in 13 state’s PLOP plans

Section 3 – Chapter 522 of the Laws of 2005 (S.5851) mandating NYSLRS to study DROP and PLOP plans

Section 4 – Copies of legislation and fiscal notes referenced in Summary of New York State Legislative Proposals & Associated Costs

---

# Survey of DROP & PLOP Designs

---

The following charts were compiled to provide the reader with a survey of basic design features in 22 different state's plans. The information was obtained from reviewing the plan descriptions on each state's public website and from conversations with retirement system personnel. The focus of this study was on statewide plans which affected only general state employees and public safety personnel. We did not reference any teacher retirement plans or to those plans offered by municipalities.

Our intent was to provide a quick summary of the highlights of each state's plan for comparison purposes. For purposes of the chart, "normal retirement age" is considered the age at which a member may retire without any reduction in their benefit for early retirement. References to "COLA" and to "employee contributions" are for COLA and for employee contributions made during the DROP period. Many systems have employee contributions that cease when a member enters the DROP. "YCS" refers to years of credited service.

Our summaries have not been verified by the plan sponsor and it is conceivable that plans may have changed their provisions since publication. The following surveys are included for comparison purposes only and should not be used by participants in these plans.

The first set of charts summarizes the various DROP plans.

The second set summarizes the various PLOP plans.



---

# **DROP Summaries**

---



<b>System</b>	<b>Alabama</b>	<b>Arizona</b>	<b>Arkansas</b>
<b>Type of Plan</b>	Forward DROP	Forward DROP, Back DROP (referred to as a Reverse DROP)	Forward DROP
<b>Groups Covered</b>	All public employees	Public safety officers	Public employees
<b>Eligibility for Normal Retirement</b>	Age 60 w/ 10 YCS or 25 YCS	Age 62 w/ 15 YCS; 20 YCS	Age 65 w/ 5 YCS; age 60 w/ 20 YCS; 28 YCS
<b>Normal Retirement Benefit</b>	2.0125%/year; for State Police 2.875%/year	50% FAS @ 20 years; If > 25 YCS, additional 2.5%/year up to a maximum of 80%; at 30 YCS 75%; at 32 YCS 80%	2.11% for years thru 6/30/01; 2.07% for years thereafter
<b>Eligibility for DROP</b>	55 w/ 25 YCS; for State Police age 52 w/ 25 YCS	At normal retirement age	At normal retirement age
<b>Term of DROP Period</b>	Minimum of 3 years, maximum of 5 years	Up to 5 years	Up to 7 years
<b>Special Features</b>	Can retire anytime between 3 & 5 years; member does not have to specify the date		With 30+YCS, 75% of annual pension deposited into DROP; With 28 YCS, 63% deposited; State Police deposit is 100%
<b>Interest</b>	Yes, currently 4%	For Forward DROP, currently 8.5% annually, but will be variable in future; For Reverse DROP, rate is 3.5% annually	Credited at 6%, but may be adjusted prospectively based on actuarial appropriateness
<b>COLA</b>	No	No	Yes, on the monthly benefit from date entered DROP; do not receive any COLA in the DROP account
<b>Mandatory Retirement</b>	No	No, but will forfeit interest in DROP account	Yes, if you stay after 7 years, you forfeit the DROP account
<b>Employee Contributions</b>	Yes, 5% into DROP account; 10% for State Police	No	No, Non-contributory system
<b>Experience</b>	Implemented in June 2002 to retain valuable employees & reduce health care costs, the plan has not been in place long enough to comment on either the experience or the cost	Forward DROP enacted in 2001; Reverse DROP just implemented	DROP instituted in 1997 to retain employees



<b>System</b>	<b>Florida</b>	<b>Indiana</b>	<b>Louisiana</b>
<b>Type of Plan</b>	Forward DROP	Forward DROP	Forward DROP
<b>Groups Covered</b>	Public employees	Police & fire	All public employees
<b>Eligibility for Normal Retirement</b>	30 YCS or age 62 w/ 6 YCS; for special risk employees – 25 YCS	20 YCS	30 YCS or age 55 w/ 25 YCS or age 60 w/ 10 YCS
<b>Normal Retirement Benefit</b>	1.6%/year for general employees; 3% for special risk employees	50% FAS @ 20 YCS plus 2%/year thereafter (maximum 74% @ 32 YCS)	2.5%/year
<b>Eligibility for DROP</b>	1 year window after normal retirement age except w/ 30 YCS, you may elect between NRA & age 57; special risk may delay until age 52	Age 52 w/ 20 YCS	At normal retirement age
<b>Term of DROP Period</b>	Up to 5 years; employers may extend up to additional 3 years	From 1 to 3 years; Open enrollment from 1/1/03 to 12/31/07	Up to 3 years
<b>Special Features</b>		Member must retire at end of DROP, but can choose to take DROP benefit or take normal benefit as if DROP not elected	A 3 year window opens when member is eligible for normal retirement. If elect DROP when first eligible, then DROP lasts 3 years, if you elect 1 year after first eligible, then DROP lasts 2 years, etc.
<b>Interest</b>	Yes, compounded monthly at an annual rate of 6.5%	No	Only after DROP participation ends
<b>COLA</b>	Yes, 3%	No	No
<b>Mandatory Retirement</b>	Yes	If you change your termination date, it is as if you never elected DROP	No
<b>Employee Contributions</b>	No, non-contributory system	Yes, 6% unless member has 32 YCS when enter DROP; contribution does not go into DROP account	No
<b>Experience</b>	Very popular. Established via legislative mandate, effective July 1, 1998 due to police & fire unions seeking to encourage employees who had exceeded normal retirement age to retire. Subsequently, the program was expanded to all public employees. Cost is funded by employer contributions as a percentage of payrolls on salaries of DROP participants; currently DROP rate is 11.74% which is different that the way all other benefit improvements are funded (shared & spread)	Intended to be cost-neutral	



<b>System</b>	<b>Louisiana</b>	<b>Maryland</b>	<b>Michigan</b>
<b>Type of Plan</b>	Forward DROP	Forward DROP	Forward DROP
<b>Groups Covered</b>	State police & firefighters	2 different systems - State Police & Law Enforcement Officers	State Police
<b>Eligibility for Normal Retirement</b>	Age 50 w/ 20 YCS; 25 YCS	State Police – age 50 or 22 YCS Law Enforcement – age 50 or 25	25 YCS
<b>Normal Retirement Benefit</b>	For firefighters – 3.33%/year	State Police – 2.55%/year up to maximum of 28 YCS Law Enforcement – 2%/year up to maximum of 30 YCS	60% at 25 YCS; no further accruals
<b>Eligibility for DROP</b>	Hired prior to 9/8/78, enter DROP at any time; “New” plan requires 25 YCS & must enter w/in 60 days of eligibility	At normal retirement age	At normal retirement age
<b>Term of DROP Period</b>	Up to 3 years	State Police – Up to 4 years (depending on service/age) Law Enforcement – Up to 5 years (depending on service)	Up to 6 years
<b>Special Features</b>	Pre-1996 is referred to as “Old DROP” & 1996- is “New DROP”; Same features as plan for general state employees		For DROP participants, a percentage of monthly benefit is credited to account based on length of participation. 30% if less than 1 year; 50% if > 1 year, but < 2; 60% if > 2, but < 3; up to 100% for 6 years.
<b>Interest</b>	Only after DROP participation ends	6%, compounded monthly	Yes, 3% annually
<b>COLA</b>	No	Yes	No
<b>Mandatory Retirement</b>	No	Yes	Yes
<b>Employee Contributions</b>	No	No	No, non-contributory system
<b>Experience</b>		Program implemented to retain seasoned officers & facilitate personnel planning. The plan is administered manually due to relatively small number of members (approximately 200). Actual costs are less than expected due to low participation rate. Actuary estimated 50% participation rate. Legislation currently under consideration would expand program to correctional officers which would increase participation threefold.	Can leave DROP account w/ retirement system Done to achieve cash flow savings. Budgets were cut in advance of DROP. The forecasted annual savings were 30-40% of the total cost of an employee.



<b>System</b>	<b>Missouri</b>	<b>Montana</b>	<b>Ohio</b>
<b>Type of Plan</b>	Back DROP	Forward DROP	Forward DROP
<b>Groups Covered</b>	State employees & Highway Employees & Highway Patrol Employees	Municipal police officers	Police & fire
<b>Eligibility for Normal Retirement</b>	Age 65 w/ 4 YCS; age 62 w/ 5 YCS; age 60 w/ 15 YCS; Rule of 80	20 YCS	Age 48 w/ 25 YCS
<b>Normal Retirement Benefit</b>	1.7%/year	2.5%/year	60% at NRA w/ additional 1.5%/year up to a maximum of 72%
<b>Eligibility for DROP</b>	Eligible for normal retirement & continue working for at least 2 years	At normal retirement age	At normal retirement age
<b>Term of DROP Period</b>	Up to 5 years prior to actual retirement date in 1 year increments	Up to 5 years	Minimum of 3 years, maximum of 8 years
<b>Special Features</b>	Lump sum (90% of amount you would have received between back DROP date & actual retirement date)		If work more than 8 years, forfeit DROP benefits, but regain service credit
<b>Interest</b>		Yes, based on trust fund's rate of return (currently 7.9%)	Yes, 5%, but members lose accumulated interest if they participate for < 3 years
<b>COLA</b>	Yes	Yes	Yes, 3%
<b>Mandatory Retirement</b>	No	No, but are considered newly hired if continue to work after DROP	If stay beyond 8 years, as if DROP had never been elected
<b>Employee Contributions</b>	No, non-contributory system	Yes	Yes, employees continue 10% contributions, but in 1st & 2nd years 5% goes into DROP; in 3rd year 7.5%; & 10% in years 4 - 8
<b>Experience</b>	Effective 1/1/02	DROP enabling legislation enacted in 2001	DROP was created in 2002. A study of fiscal costs is required every 5 years & if plan is not cost neutral, the plan may be changed or eliminated w/o affecting existing participants.

<b>System</b>	<b>Oklahoma</b>	<b>South Carolina</b>
<b>Type of Plan</b>	Forward & Back DROP	DROP (called TERI, Teacher & Employee Retention Incentive)
<b>Groups Covered</b>	Police & fire	All public employees
<b>Eligibility for Normal Retirement</b>	20 YCS	Age 65 w/ 5 YCS or 28 YCS
<b>Normal Retirement Benefit</b>	2.5%/year	1.82%/year
<b>Eligibility for DROP</b>	At normal retirement age	Eligible for any service retirement
<b>Term of DROP Period</b>	Up to 5 years	Up to 5 years
<b>Special Features</b>	One-half of employer's contribution goes into DROP account. DROP for firefighters allows them to maintain account after retirement & earn a minimum 7.5% interest	
<b>Interest</b>	Yes, currently 7%; maximum is 2% below the actual rate or return on System assets	No
<b>COLA</b>	No	Yes
<b>Mandatory Retirement</b>	Yes	Yes
<b>Employee Contributions</b>	No	Yes, currently the subject of litigation as new law required members to pay an additional 6.25%
<b>Experience</b>		



---

# **PLOP Summaries**

---



System	Arizona	Arkansas	Georgia	Hawaii
Type of Plan	PLOP	PLOP (known as PAW)	PLOP	PLOP
Groups Covered	Public employees	Public employees	Public Employees	Public employees
Eligibility for Normal Service Retirement	Age 65; age 62 w/ 10 YCS; Rule of 80	Age 65 w/ 5 YCS; age 60 w/ 20 YCS; 28 YCS	30 YCS or age 60 w/ 10 YCS	Age 55 w/ 25 YCS
Eligibility for Early Retirement	Age 50 w/ 5 YCS	25 YCS	25 YCS	Age 55 w/ 5 YCS
Eligibility for PLOP	Date of earliest retirement eligibility	Must remain beyond eligibility for normal retirement	Normal retirement age	Date of earliest retirement eligibility
Payment Options	Lump sum distribution in amount of any number of months up to 36 months of Option Ø	Lump sum amount based on number of months that the member remained past normal retirement eligibility date, up to 60 months of Option Ø	Lump sum distribution in amount between 1 month and 36 months of Option Ø	Partial or full refund of employee contributions
Experience	Enabling legislation enacted in 2001	PAW implemented in 2002	Enabling legislation enacted in 2004	

System	Kansas	Kentucky	Louisiana	Mississippi
Type of Plan	PLOP	PLOP	PLOP	PLOP
Groups Covered	Public employees	Public employees	Public employees	Public employees
Eligibility for Normal Service Retirement	Age 62 w/ 10 YCS; Rule of 85	27 YCS	30 YCS; age 55 w/ 25 YCS; age 60 w/ 10 YCS	Age 60 w/ 4 YCS; 25 YCS
Eligibility for Early Retirement	Age 55 w/ 10 YCS	Age 55 w/ 25 YCS	20 YCS; age 50 w/ 10 YCS	NA
Eligibility for PLOP	Date of earliest retirement eligibility	Date of earliest retirement eligibility	Date of earliest retirement eligibility	3 years after normal retirement eligibility date
Payment Options	10, 20, 30, 40 or 50% of the present value of the total benefit	Lump sum distribution based on 12, 24, or 36 month benefit levels	Lump sum distribution in amount up to 36 months	Lump sum distribution in 12, 24, or 36 month benefit levels
Experience	Enabling legislation enacted in 2000	Enabling legislation enacted in 2002	Extended to ERS members in 2002	Enabling legislation enacted in 2000



<b>System</b>	<b>North Dakota</b>	<b>Ohio</b>	<b>Oregon</b>	<b>Texas</b>
<b>Type of Plan</b>	PLOP	PLOP	Lump Sum	PLOP
<b>Groups Covered</b>	Public employees	Public employees	Public employees	Public employees
<b>Eligibility for Normal Service Retirement</b>	Age 65 or Rule of 85	Age 60 w/ 5 YCS; 30 YCS	Age 60; 30 YCS	Age 60 w/ 5 YCS; Rule of 80
<b>Eligibility for Early Retirement</b>	Age 55	Age 55 w/ 25 YCS	Age 55	NA
<b>Eligibility for PLOP</b>	Normal retirement age	Date of earliest retirement eligibility	Date of earliest retirement eligibility	Date of earliest retirement eligibility
<b>Payment Options</b>	Lump sum equal to 1 year's benefits	Lump sum distribution of benefit in amount from 6 months to 36 months	Can get full value & cash out or take partial lump sums	Lump sum distribution of up to 36 months
<b>Experience</b>	Enabling legislation enacted in 2005	Enabling legislation enacted in 2002		

<b>System</b>	<b>Virginia</b>
<b>Type of Plan</b>	PLOP
<b>Groups covered</b>	Public employees
<b>Eligibility for normal service retirement</b>	Age 50 w/ 30 YCS or age 65 w/ 5 YCS
<b>Eligibility for early retirement</b>	Age 55 w/ 5 YCS; Age 50 w/ 10 YCS
<b>Eligibility for PLOP</b>	Members must remain in service for at least 1 additional year beyond normal retirement age
<b>Payment Options</b>	Payment up to 36 times monthly service retirement benefit depending on how long member works. A member who continues to work for 3 years past normal retirement age is eligible for maximum 36 times; work for 2 years, eligible for 24 times; work for 1 year, eligible for 12 times
<b>Experience</b>	Program instituted in 2001 for retention purposes. Popular program, but does present cash flow problems



---

# **Proposals Pending Before the NYS Legislature**

---



IN SENATE

June 20, 2005

Introduced by Sen. ROBACH -- read twice and ordered printed, and when printed to be committed to the Committee on Rules

AN ACT directing the state comptroller to study deferred retirement option plans and partial lump sum options for members of the state and local retirement plans and state police and fire retirement plans who are eligible to retire regardless of age

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1       **Section 1.** Study of deferred retirement option plans and partial lump  
2 sum option plans for members of the state and local retirement plan and  
3 the state police and fire retirement plan who are eligible to retire  
4 regardless of age. a. The comptroller shall engage the services of an  
5 actuary and may employ such other necessary technical and administrative  
6 assistance as he or she may require to prepare and convey a written  
7 report by April 1, 2006 to the governor, temporary president of the  
8 senate and speaker of the assembly evaluating the feasibility of offer-  
9 ing a deferred retirement option and a partial lump sum option for  
10 members enrolled in the state and local retirement system provided for  
11 in section 10 of the retirement and social security law and the New York  
12 state policemen's and firemen's retirement system under article 8 of the  
13 retirement and social security law.  
14       **1.** For the purposes of this act the term "deferred retirement option"  
15 shall mean an option which a member may elect upon eligibility for a  
16 full service retirement benefit undiminished by statutory penalty, to  
17 maintain full employment for a term of years thereafter and receive a  
18 salary for such service provided such member agrees to forego any credit  
19 in the retirement system for such additional term of service and agrees  
20 that any service pension calculation he or she subsequently receives  
21 shall be based upon the term of years then credited to such member and  
22 further that for the duration of such additional service, the retirement  
23 benefit to which such member would have been entitled had such member

EXPLANATION--Matter in italics (underscored) is new; matter in brackets  
[-] is old law to be omitted.

1 ceased employment or a portion thereof, is accumulated but retained by  
2 the retirement system for the duration of such additional service for  
3 distribution, together with accumulated interest thereon, to the member  
4 as a lump sum at the conclusion of such additional service.

5       **2.** For the purposes of this act the term “partial lump sum option”  
6 shall mean an option that a member may select upon retirement that will  
7 provide the member with a lump sum, one time payment of a portion of the  
8 actuarial reserves in the retirement system held on his or her behalf  
9 provided any periodic pension payments to which the member is entitled  
10 are actuarially reduced commensurate with the payment of the lump sum  
11 from such reserves.

12       **b.** The written report required by subdivision a of this section shall  
13 include but not be limited to:

14       **(1)** a description of the various types of deferred retirement option  
15 plans (DROPs) and partial lump sum option plans (PLOPs);

16       **(2)** what programs are available in other states;

17       **(3)** other states’ experience with offering these types of plans;

18       **(4)** the advantages and disadvantages of these plans from an employer  
19 and employee perspective; and

20       **(5)** an estimation of the costs associated with implementing such  
21 plans.

22       **§ 2.** This act shall take effect immediately.



IN SENATE

April 18, 2005

Introduced by Sen. ROBACH -- read twice and ordered printed, and when printed to be committed to the Committee on Civil Service and Pensions

AN ACT to amend the retirement and social security law, in relation to a deferred retirement option plan payable to members of the division of state police employed in the titles of investigator, senior investigator and investigative specialist

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. The retirement and social security law is amended by adding  
2 a new section 381-c to read as follows:  
3 § 381-c. Deferred retirement option plan payable to members of the  
4 division of state police employed in the titles of investigator, senior  
5 investigator and investigative specialist. a. Deferred retirement option  
6 plan. The deferred retirement option plan, (hereinafter referred to as  
7 "DROP"), is a retirement plan under which an eligible member may elect  
8 to participate, deferring receipt of retirement benefits while continu-  
9 ing employment with the division of state police. For the purposes of  
10 this section, an "eligible member" is any member employed by the divi-  
11 sion of state police in the titles of investigator, senior investigator  
12 or investigative specialist. During the period of continued employment,  
13 the eligible member's monthly retirement benefit shall be deferred and  
14 held by the retirement system on behalf of the member plus interest  
15 compounded monthly at an effective annual rate of five percent, for the  
16 specified period of participation in DROP as provided in subdivision c  
17 of this section. Upon completion of the DROP period, the eligible member  
18 shall receive the total amount of retirement benefits deferred under  
19 DROP without optional modification as permitted by subdivision e of this  
20 section and shall begin to receive the previously determined normal  
21 service retirement benefit with optional modification as further  
22 provided in subdivision d of this section.

EXPLANATION--Matter in italics (underscored) is new; matter in brackets  
[-] is old law to be omitted.



1 **b. Participation in DROP.** Any eligible member who is currently  
 2 employed by the division of state police and qualifies to retire pursu-  
 3 ant to section three hundred eighty-one-b of this title by reason of  
 4 completing twenty years of creditable service may elect to participate  
 5 in DROP.

6 **c. Election in DROP.** Such election must be on a form supplied by the  
 7 retirement system and may be for any period of time not less than twelve  
 8 months or more than sixty months in duration. Any eligible member who  
 9 elects to participate in DROP is considered retired although employment  
 10 continues, except for retirement system purposes which shall consider  
 11 the eligible member's date of retirement the day following the expira-  
 12 tion of the DROP period. Provided, however, that all loans and excess  
 13 contributions must be resolved by the date of entry into DROP and no  
 14 additional loans or excess contributions shall be permitted after the  
 15 date of entry into DROP. Upon expiration of the time period selected by  
 16 the eligible member, such member's participation in DROP shall termi-  
 17 nate.

18 **d. Benefits payable under DROP.** (1) Effective with the date of partic-  
 19 ipation in DROP, the eligible member's normal service retirement benefit  
 20 shall be calculated, using creditable service and final average salary  
 21 as if the effective date of retirement was the date of entry into DROP.  
 22 The amount deferred pursuant to DROP shall be calculated based upon the  
 23 eligible member's zero option retirement allowance. The eligible member  
 24 shall, however, elect his or her actual optional retirement benefit at  
 25 the completion of the DROP period.

26 (2) If the eligible member dies prior to completion of the period of  
 27 participation in DROP, the eligible member shall be treated as if such  
 28 DROP election did not exist. In lieu of the DROP payment, a death bene-  
 29 fit shall be payable consistent with the terms of this chapter and all  
 30 salary and service reported for such eligible member during the DROP  
 31 period shall be considered in calculating the eligible member's death  
 32 benefit.

33 (3) If the eligible member is approved for disability benefits  
 34 provided by this chapter during the DROP period, the eligible member  
 35 shall be treated as if such DROP election did not exist. In lieu of the  
 36 DROP payment, a disability retirement benefit shall be payable consist-  
 37 ent with the terms of this chapter and all salary and service reported  
 38 for such eligible member during the DROP period shall be considered in  
 39 calculating the eligible member's disability retirement benefit.

40 (4) If an eligible member otherwise fails to complete his or her peri-  
 41 od of service as elected pursuant to subdivision c of this section, the  
 42 eligible member shall be treated as if such DROP election did not exist.  
 43 In lieu of the DROP payment, the normal service retirement benefit shall  
 44 be payable consistent with the terms of this chapter and all salary and  
 45 service reported for such eligible member during the DROP period shall  
 46 be considered in calculating the eligible member's service retirement  
 47 benefit.

48 (5) If an eligible member remains employed after his or her partic-  
 49 ipation in DROP is terminated, such member shall forfeit all DROP bene-  
 50 fits and continue employment as if such DROP election did not exist.  
 51 Such member shall then be eligible to elect DROP consistent with the  
 52 terms of this section.

53 (6) If an eligible member is approved for disability benefits after  
 54 benefits payable pursuant to DROP have been paid, the eligible member  
 55 may elect to receive the disability benefits in lieu of DROP benefits.



1 but such disability benefits must be actuarially adjusted for any bene-  
2 fits paid under DROP.

3 e. Method of payment. At the conclusion of the member's participation  
4 in DROP, the retirement system shall pay the deferred service retirement  
5 benefits in one of the following methods as elected by the member:

6 (1) Lump sum. All accrued DROP benefits, plus interest, less withhold-  
7 ing as required by the internal revenue service, shall be paid to the  
8 DROP participant or eligible beneficiary or as otherwise determined by  
9 operation of law;

10 (2) Direct rollover. All accrued DROP benefits, plus interest, shall  
11 be paid from the retirement system to a custodian of an eligible retire-  
12 ment plan or other eligible plan or account as provided pursuant to the  
13 internal revenue code as directed by the member or eligible beneficiary;  
14 or

15 (3) Partial lump sum. A portion of the DROP benefits shall be paid to  
16 the DROP participant or eligible beneficiary, less withholding required  
17 by the internal revenue service and the remaining DROP benefits may be  
18 rolled over as otherwise permitted by the internal revenue code.

19 For the purposes of this subdivision, the term "eligible beneficiary"  
20 is one who qualifies to rollover benefits from a qualified defined bene-  
21 fit plan to another eligible plan or account as provided by the internal  
22 revenue code.

23 The forms of payment provided by this subdivision must comply with the  
24 minimum distribution requirements of the internal revenue code.

25 f. Regulations. The comptroller shall prescribe such regulations as  
26 may be required for the effective administration and implementation of  
27 the provisions of this section.

28 § 2. The past service costs attributable to the operation of this act  
29 shall be paid by the state of New York and may be paid in five annual  
30 installments commencing with the fiscal year ending 2006.

31 § 3. This act shall take effect immediately.

April 18, 2005

Hon Joseph E Robach  
New York State Senate  
LOB Room 902  
Albany NY 12247

Dear Senator Robach:

Re: Fiscal Note #2005-119

This is in response to your request for a fiscal note for legislative bill draft # 10914-01-5 (Research #119).

The fiscal note, required by Section 50 of the Legislative Law, which may not be altered and which must be appended to the bill in its entirety, is:

**“This bill would allow certain investigators in the division of state police to elect to participate in a Deferred Retirement Option Plan (DROP), deferring receipt of retirement benefits while continuing their current employment. The features of this DROP are:**

1. Members may elect to participate in the DROP upon the attainment of retirement eligibility.
2. The service retirement benefit shall be fixed at the commencement of DROP participation.
3. The NYS&LPFRS shall consider DROP participants active members, and annual employer contributions shall continue to be made on behalf of such members.
4. The length of participation in the DROP must be specified at the time of election, and may not be less than 1 year, nor exceed 5 years. However, if the affected member should leave employment before or after the scheduled DROP termination date, such member shall forfeit all DROP benefits, and shall be treated as though there were no DROP election.
5. During the DROP period, the monthly pensions of such participants will be deferred and held by the NYS&LPFRS on their behalf, and shall accrue interest at 5%. Such account must be distributed in full at the end of the specified DROP period.
6. If an affected member should die or become disabled during the DROP period, such member would be treated as though there were no DROP election.
7. Upon termination from DROP, such participants shall receive their deferred payments together with interest thereon, and shall also begin to receive their previously determined pensions.

“If this bill is enacted, it is estimated that there would be an increase in the annual contributions of the State of New York in excess of 1% of payroll.

**“In addition to the annual contributions discussed above, there would be past service costs which would depend on the current salary, age and length of service of the affected members. These past service costs would be borne by the State of New York.**

**“If the anticipated retirement experience of members who are eligible for this benefit changes significantly in the future, there would be additional increases in employer costs.**

**“This estimate, dated April 18, 2005, and intended for use only during the 2005 Legislative Session, is Fiscal Note No. 2005-119, prepared by the Actuary for the New York State and Local Police and Fire Retirement System.”**

If you have questions about these estimates, please call us at (518) 474-4537.

Sincerely,

Teri E. Landin  
Retirement System Actuary  
ef I: /2005-119.doc



IN SENATE

April 18, 2005

Introduced by Sen. ROBACH -- read twice and ordered printed, and when printed to be committed to the Committee on Civil Service and Pensions AN ACT to amend the retirement and social security law, in relation to the establishment of a deferred retirement option plan for certain members of the New York state and local police and fire retirement system

**The People of the State of New York, represented in Senate and Assembly, do enact as follows:**

1       **Section 1.** The retirement and social security law is amended by adding  
2 a new section 384-f to read as follows:  
3       **§ 384-f. Deferred retirement option plan payable to certain members.**  
4 **a. Deferred retirement option plan. The deferred retirement option plan,**  
5 **(hereinafter referred to as "DROP"), is a retirement plan under which an**  
6 **eligible member may elect to participate, deferring receipt of retire-**  
7 **ment benefits while continuing employment. For the purposes of this**  
8 **section, "eligible members" are any members employed by a participating**  
9 **employer that provides the additional benefits contained in section**  
10 **three hundred eighty-four-e of this title and are members eligible to**  
11 **retire and receive benefits pursuant to section three hundred eighty-**  
12 **four-e of this title. During the period of continued employment, the**  
13 **eligible member's monthly retirement benefit shall be deferred and held**  
14 **by the retirement system on behalf of the member plus interest**  
15 **compounded monthly at an effective annual rate of five percent, for the**  
16 **specified period of participation in DROP as provided in subdivision c**  
17 **of this section. Upon completion of the DROP period, the eligible member**  
18 **shall receive the total amount of retirement benefits deferred under**  
19 **DROP without optional modification as permitted by subdivision e of this**  
20 **section and shall begin to receive the previously determined normal**  
21 **service retirement benefit with optional modification as further**  
22 **provided in subdivision d of this section.**

EXPLANATION--Matter in **italics** (underscored) is new; matter in brackets  
[-] is old law to be omitted.

**b. Participation in DROP. Any eligible member who is currently employed by a participating employer that provides the additional benefits contained in section three hundred eighty-four-e of this title and actually is a member eligible to retire and receive benefits pursuant to section three hundred eighty-four-e of this title may elect to participate in DROP.**

**c. Election in DROP. Such election must be on a form supplied by the retirement system and may be for any period of time not less than twelve months or more than sixty months in duration. Any eligible member who elects to participate in DROP is considered retired on the day following the expiration of the DROP period. Provided further, however, all loans and excess contributions must be resolved by the date of entry into DROP and no additional loans or excess contributions shall be permitted after the date of entry into DROP. Upon expiration of the time period selected by the eligible member, such member's participation in DROP shall terminate.**

**d. Benefits payable under DROP. (1) Effective with the date of participation in DROP, the eligible member's normal service retirement benefit shall be calculated, using creditable service and final average salary as if the effective date of retirement was the date of entry into DROP. The amount deferred pursuant to DROP shall be calculated based upon the eligible member's zero option retirement allowance. The eligible member shall, however, elect his or her actual optional retirement benefit at the completion of the DROP period.**

**(2) If the eligible member dies prior to completion of the period of participation in DROP, the eligible member shall be treated as if such DROP election did not exist. In lieu of the DROP payment, a death benefit shall be payable consistent with the terms of this chapter and all salary and service reported for such eligible member during the DROP period shall be considered in calculating the eligible member's death benefit.**

**(3) If the eligible member is approved for disability benefits provided by this chapter during the DROP period, the eligible member shall be treated as if such DROP election did not exist. In lieu of the DROP payment, a disability retirement benefit shall be payable consistent with the terms of this chapter and all salary and service reported for such eligible member during the DROP period shall be considered in calculating the eligible member's disability retirement benefit.**

**(4) If an eligible member otherwise fails to complete his or her period of service as elected pursuant to subdivision c of this section, the eligible member shall be treated as if such DROP election did not exist. In lieu of the DROP payment, the normal service retirement benefit shall be payable consistent with the terms of this chapter and all salary and service reported for such eligible member during the DROP period shall be considered in calculating the eligible member's service retirement benefit.**

**(5) If an eligible member remains employed after his or her participation in DROP is terminated, such member shall forfeit all DROP benefits and continue employment as if such DROP election did not exist. Such member shall then be eligible to elect DROP consistent with the terms of this section.**

**(6) If an eligible member is approved for disability benefits after benefits payable pursuant to DROP have been paid, the eligible member may elect to receive the disability benefits in lieu of DROP benefits, but such disability benefits must be actuarially adjusted for any benefits paid under DROP.**



1 e. Method of payment. At the conclusion of the member's participation  
2 in DROP, the retirement system shall pay the deferred service retirement  
3 benefits in one of the following methods as elected by the member:

4 (1) Lump sum. All accrued DROP benefits, plus interest, less withhold-  
5 ing as required by the internal revenue service, shall be paid to the  
6 DROP participant or eligible beneficiary or as otherwise determined by  
7 operation of law;

8 (2) Direct rollover. All accrued DROP benefits, plus interest, shall  
9 be paid from the retirement system to a custodian of an eligible retire-  
10 ment plan or other eligible plan or account as provided pursuant to the  
11 internal revenue code as directed by the member or eligible beneficiary;  
12 or

13 (3) Partial lump sum. A portion of the DROP benefits shall be paid to  
14 the DROP participant or eligible beneficiary, less withholding required  
15 by the internal revenue service and the remaining DROP benefits may be  
16 rolled over as otherwise permitted by the internal revenue code.

17 For the purposes of this subdivision, the term "eligible beneficiary"  
18 is one who qualifies to rollover benefits from a qualified defined bene-  
19 fit plan to another eligible plan or account as provided by the internal  
20 revenue code.

21 The forms of payment provided by this subdivision must comply with the  
22 minimum distribution requirements of the internal revenue code.

23 f. Regulations. The comptroller shall prescribe such regulations as  
24 may be required for the effective administration and implementation of  
25 the provisions of this section.

26 § 2. This act shall take effect immediately.

Hon Joseph E Robach  
New York State Senate  
LOB Room 902  
Albany NY 12247

Dear Senator Robach:

Re: Fiscal Note #2005-347

This is in response to your request for a fiscal note for legislative bill draft # 10912-01-5 (Research #347).

The fiscal note, required by Section 50 of the Legislative Law, which may not be altered and which must be appended to the bill in its entirety, is:

**“This bill would allow all members covered under the provisions of Section 384-e of the Retirement and Social Security Law to elect to participate in a Deferred Retirement Option Plan (DROP), deferring receipt of retirement benefits while continuing their current employment. The features of this DROP are:**

1. Members may elect to participate in the DROP upon the attainment of 20 years of service.
2. The service retirement benefit shall be fixed at the commencement of DROP participation.
3. The New York State and Local Police and Fire Retirement System shall consider DROP participants active members, and annual employer contributions shall continue to be made on behalf of such members.
4. The length of participation in the DROP must be specified at the time of election, and may not be less than 1 year, nor exceed 5 years. However, if the affected member should leave employment before or after the scheduled DROP termination date, such member shall forfeit all DROP benefits, and shall be treated as though there were no DROP election.
5. During the DROP period, the monthly pensions of such participants will be deferred and held by the Retirement System on their behalf, and shall accrue interest at 5%. Such account must be distributed in full at the end of the specified DROP period.
6. If an affected member should die or become disabled during the DROP period, such member would be treated as though there were no DROP election.
7. Upon termination from DROP, such participants shall receive their deferred payments and shall also begin to receive their previously determined pensions.

**“If this bill is enacted, employers who have elected Section 384-e benefits would see increases in their annual billings in excess of 1% of payroll.**

**“In addition to the annual contributions discussed above, there would be past service costs which would depend on the current salary, age and length of service of the affected members. These past service costs would be shared by the State of New York and the participating employers in the New York State and Local Police and Fire Retirement System.**

**“If the anticipated retirement experience of members who are eligible for this benefit changes significantly in the future, there would be additional increases in employer costs.**

**“This estimate, dated April 18, 2005, and intended for use only during the 2005 Legislative Session, is Fiscal Note No. 2005-347, prepared by the Actuary for the New York State and Local Police and Fire Retirement System.”**

If you have questions about these estimates, please call us at (518) 474-4537.

Sincerely,

Teri E. Landin  
Retirement System Actuary  
ef I: /2005-347.doc



IN SENATE

May 25, 2005

Introduced by COMMITTEE ON RULES -- read twice and ordered printed, and when printed to be committed to the Committee on Civil Service and Pensions AN ACT to amend the retirement and social security law, in relation to a deferred retirement option plan payable to members of the New York state and local police and fire retirement system

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1       **Section 1.** The retirement and social security law is amended by adding  
2 a new section 381-c to read as follows:

3       § 381-c. Deferred retirement option plan payable to members and offi-  
4 cers of the division of state police. a. Deferred retirement option  
5 plan. The deferred retirement option plan, (hereinafter referred to as  
6 "DROP"), is a retirement plan under which an eligible member may elect  
7 to participate, deferring receipt of retirement benefits while continu-  
8 ing employment with the division of state police. For the purposes of  
9 this section, an "eligible member" is any member or officer employed by  
10 the division of state police. During the period of continued employ-  
11 ment, the eligible member's monthly retirement benefit shall be deferred  
12 and held by the retirement system on behalf of the member plus interest  
13 compounded monthly at an effective annual rate of three percent, for the  
14 specified period of participation in DROP as provided in subdivision c  
15 of this section. Upon completion of the DROP period, the eligible member  
16 shall receive the total amount of retirement benefits deferred under  
17 DROP without optional modification as permitted by subdivisions d and e  
18 of this section and shall begin to receive the previously determined  
19 normal service retirement benefit with optional modification as further  
20 provided in subdivision d of this section.

21       b. Participation in DROP. Any eligible member who is currently  
22 employed by the division of state police and qualifies to retire pursu-  
23 ant to section three hundred eighty-one-b of this title by reason of

EXPLANATION--Matter in italics (underscored) is new; matter in brackets  
[-] is old law to be omitted.

1 completing twenty years of creditable service may elect to participate  
 2 in DROP.

3 c. Election in DROP. Such election must be on a form supplied by the  
 4 retirement system and may be for any period of time not less than twelve  
 5 months or more than sixty months in duration. Any eligible member who  
 6 elects to participate in DROP is considered retired on the day following  
 7 the expiration of the DROP period. Provided, however, that all loans  
 8 and excess contributions must be resolved by the date of entry into DROP  
 9 and no additional loans or excess contributions shall be permitted after  
 10 the date of entry into DROP. Upon expiration of the time period  
 11 selected by the eligible member, such member's participation in DROP  
 12 shall terminate.

13 d. Benefits payable under DROP. (1) Effective with the date of partic-  
 14 ipation in DROP, the eligible member's normal service retirement benefit  
 15 shall be calculated, using creditable service and final average salary  
 16 as if the effective date of retirement was the date of entry into DROP.  
 17 The amount deferred pursuant to DROP shall be calculated based upon the  
 18 eligible member's zero option retirement allowance until such member has  
 19 obtained the applicable maximum service retirement limit based upon  
 20 years of service. Any additional participation in DROP after a member  
 21 has obtained the maximum service retirement limit based upon years of  
 22 service shall be calculated based upon sixty percent of the member's  
 23 full annual retirement allowance. In addition, for the purposes of this  
 24 section, the annual retirement allowance for any member electing DROP  
 25 shall be calculated using a three year final average salary as defined  
 26 elsewhere in this article. The eligible member shall, however, elect  
 27 his or her actual optional retirement benefit at the completion of the  
 28 DROP period.

29 (2) If the eligible member dies prior to completion of the period of  
 30 participation in DROP, the eligible member shall be treated as if such  
 31 DROP election did not exist. In lieu of the DROP payment, a death bene-  
 32 fit shall be payable consistent with the terms of this chapter and all  
 33 salary and service reported for such eligible member during the DROP  
 34 period shall be considered in calculating the eligible member's death  
 35 benefit.

36 (3) If the eligible member is approved for disability benefits  
 37 provided by this chapter during the DROP period, the eligible member  
 38 shall be treated as if such DROP election did not exist. In lieu of the  
 39 DROP payment, a disability retirement benefit shall be payable consist-  
 40 ent with the terms of this chapter and all salary and service reported  
 41 for such eligible member during the DROP period shall be considered in  
 42 calculating the eligible member's disability retirement benefit.

43 (4) If an eligible member otherwise fails to complete his or her peri-  
 44 od of service as elected pursuant to subdivision c of this section, the  
 45 eligible member shall be treated as if such DROP election did not exist.  
 46 In lieu of the DROP payment, the normal service retirement benefit shall  
 47 be payable consistent with the terms of this chapter and all salary and  
 48 service reported for such eligible member during the DROP period shall  
 49 be considered in calculating the eligible member's service retirement  
 50 benefit.

51 (5) If an eligible member remains employed after his or her partic-  
 52 ipation in DROP is terminated, such member shall forfeit all DROP bene-  
 53 fits and continue employment as if such DROP election did not exist.  
 54 Such member shall then be eligible to elect DROP consistent with the  
 55 terms of this section.



1 (6) If an eligible member is approved for disability benefits after  
 2 benefits payable pursuant to DROP have been paid, the eligible member  
 3 may elect to receive the disability benefits in lieu of DROP benefits,  
 4 but such disability benefits must be actuarially adjusted for any bene-  
 5 fits paid under DROP.

6 e. Method of payment. At the conclusion of the member's participation  
 7 in DROP, the retirement system shall pay the deferred service retirement  
 8 benefits in one of the following methods as elected by the member:

9 (1) Lump sum. All accrued DROP benefits, plus interest, less withhold-  
 10 ing as required by the internal revenue service, shall be paid to the  
 11 DROP participant or eligible beneficiary or as otherwise determined by  
 12 operation of law;

13 (2) Direct rollover. All accrued DROP benefits, plus interest, shall  
 14 be paid from the retirement system to a custodian of an eligible retire-  
 15 ment plan or other eligible plan or account as provided pursuant to the  
 16 internal revenue code as directed by the member or eligible beneficiary;  
 17 or

18 (3) Partial lump sum. A portion of the DROP benefits shall be paid to  
 19 the DROP participant or eligible beneficiary, less withholding required  
 20 by the internal revenue service and the remaining DROP benefits may be  
 21 rolled over as otherwise permitted by the internal revenue code.

22 For the purposes of this subdivision, the term "eligible beneficiary"  
 23 is one who qualifies to rollover benefits from a qualified defined bene-  
 24 fit plan to another eligible plan or account as provided by the internal  
 25 revenue code.

26 The forms of payment provided by this subdivision must comply with the  
 27 minimum distribution requirements of the internal revenue code.

28 f. Regulations. The comptroller shall prescribe such regulations as  
 29 may be required for the effective administration and implementation of  
 30 the provisions of this section.

31 § 2. The retirement and social security law is amended by adding a new  
 32 section 384-f to read as follows:

33 § 384-f. Deferred retirement option plan payable to members eligible  
 34 to retire pursuant to section three hundred eighty-four-d or three  
 35 hundred eighty-four-e of this title.a. Deferred retirement option  
 36 plan. The deferred retirement option plan, (hereinafter referred to as  
 37 "DROP"), is a retirement plan under which an eligible member may elect  
 38 to participate, deferring receipt of retirement benefits while continu-  
 39 ing employment. For the purposes of this section, an "eligible member"  
 40 is any member eligible to retire pursuant to section three hundred  
 41 eighty-four-d or three hundred eighty-four-e of this title. During the  
 42 period of continued employment, the eligible member's monthly retirement  
 43 benefit shall be deferred and held by the retirement system on behalf of  
 44 the member plus interest compounded monthly at an effective annual rate  
 45 of three percent, for the specified period of participation in DROP as  
 46 provided in subdivision c of this section. Upon completion of the DROP  
 47 period, the eligible member shall receive the total amount of retirement  
 48 benefits deferred under DROP without optional modification as permitted  
 49 by subdivisions d and e of this section and shall begin to receive the  
 50 previously determined normal service retirement benefit with optional  
 51 modification as further provided in subdivision d of this section.

52 b. Participation in DROP. Any eligible member who qualifies to retire  
 53 pursuant to section three hundred eighty-four-d or three hundred eight-  
 54 y-four-e of this title by reason of completing twenty or more years of  
 55 creditable service may elect to participate in DROP.

1 c. Election in DROP. Such election must be on a form supplied by the  
 2 retirement system and may be for any period of time not less than twelve  
 3 months or more than sixty months in duration. Any eligible member who  
 4 elects to participate in DROP is considered retired on the day following  
 5 expiration of the DROP period. Provided further, however, all loans and  
 6 excess contributions must be resolved by the date of entry into DROP and  
 7 no additional loans or excess contributions shall be permitted after the  
 8 date of entry into DROP. Upon expiration of the time period selected by  
 9 the eligible member, such member's participation in DROP shall termi-  
 10 nate.

11 d. Benefits payable under DROP. (1) Effective with the date of partic-  
 12 ipation in DROP, the eligible member's normal service retirement benefit  
 13 shall be calculated, using creditable service and final average salary  
 14 as if the effective date of retirement was the date of entry into DROP.  
 15 The amount deferred pursuant to DROP shall be calculated based upon the  
 16 eligible member's zero option retirement allowance until such member has  
 17 obtained the applicable maximum service retirement limit based upon  
 18 years of service. Any additional participation in DROP after a member  
 19 has obtained the maximum service retirement limit based upon years of  
 20 service shall be calculated based upon sixty percent of the member's  
 21 full annual retirement allowance. In addition, for the purposes of this  
 22 section, the annual retirement allowance for any member electing DROP  
 23 shall be calculated using a three year final average salary as defined  
 24 elsewhere in this article. The eligible member shall, however, elect  
 25 his or her actual optional retirement benefit at the completion of the  
 26 DROP period.

27 (2) If the eligible member dies prior to completion of the period of  
 28 participation in DROP, the eligible member shall be treated as if such  
 29 DROP election did not exist. In lieu of the DROP payment, a death bene-  
 30 fit shall be payable consistent with the terms of this chapter and all  
 31 salary and service reported for such eligible member during the DROP  
 32 period shall be considered in calculating the eligible member's death  
 33 benefit.

34 (3) If the eligible member is approved for disability benefits  
 35 provided by this chapter during the DROP period, the eligible member  
 36 shall be treated as if such DROP election did not exist. In lieu of the  
 37 DROP payment, a disability retirement benefit shall be payable consist-  
 38 ent with the terms of this chapter and all salary and service reported  
 39 for such eligible member during the DROP period shall be considered in  
 40 calculating the eligible member's disability retirement benefit.

41 (4) If an eligible member otherwise fails to complete his or her peri-  
 42 od of service as elected pursuant to subdivision c of this section, the  
 43 eligible member shall be treated as if such DROP election did not exist.  
 44 In lieu of the DROP payment, the normal service retirement benefit shall  
 45 be payable consistent with the terms of this chapter and all salary and  
 46 service reported for such eligible member during the DROP period shall  
 47 be considered in calculating the eligible member's service retirement  
 48 benefit.

49 (5) If an eligible member remains employed after his or her partic-  
 50 ipation in DROP is terminated, such member shall forfeit all DROP bene-  
 51 fits and continue employment as if such DROP election did not exist.  
 52 Such member shall then be eligible to elect DROP consistent with the  
 53 terms of this section.

54 (6) If an eligible member is approved for disability benefits after  
 55 benefits payable pursuant to DROP have been paid, the eligible member  
 56 may elect to receive the disability benefits in lieu of DROP benefits,



1 but such disability benefits must be actuarially adjusted for any bene-  
 2 fits paid under DROP.

3 e. Method of payment. At the conclusion of the member's participation  
 4 in DROP, the retirement system shall pay the deferred service retirement  
 5 benefits in one of the following methods as elected by the member:

6 (1) Lump sum. All accrued DROP benefits, plus interest, less withhold-  
 7 ing as required by the internal revenue service, shall be paid to the  
 8 DROP participant or eligible beneficiary or as otherwise determined by  
 9 operation of law;

10 (2) Direct rollover. All accrued DROP benefits, plus interest, shall  
 11 be paid from the retirement system to a custodian of an eligible retire-  
 12 ment plan or other eligible plan or account as provided pursuant to the  
 13 internal revenue code as directed by the member or eligible beneficiary;  
 14 or

15 (3) Partial lump sum. A portion of the DROP benefits shall be paid to  
 16 the DROP participant or eligible beneficiary, less withholding required  
 17 by the internal revenue service and the remaining DROP benefits may be  
 18 rolled over as otherwise permitted by the internal revenue code.

19 For the purposes of this subdivision, the term "eligible beneficiary"  
 20 is one who qualifies to rollover benefits from a qualified defined bene-  
 21 fit plan to another eligible plan or account as provided by the internal  
 22 revenue code.

23 The forms of payment provided by this subdivision must comply with the  
 24 minimum distribution requirements of the internal revenue code.

25 f. Regulations. The comptroller shall prescribe such regulations as  
 26 may be required for the effective administration and implementation of  
 27 the provisions of this section.

28 § 3. Any past service costs attributable to the operation of this act  
 29 shall be paid by the state of New York and all employers that provide  
 30 benefits pursuant to section 384-d or 384-e of the retirement and social  
 31 security law and any individual employer may elect to pay this cost in  
 32 five annual installments.

33 § 4. This act shall take effect immediately.

FISCAL NOTE.--Pursuant to Legislative Law, Section 50:

This bill would allow certain members of the New York State and Local Police and Fire Retirement System (NYS&LPFRS) who are covered by the provisions of twenty year retirement plans to elect to participate in a Deferred Retirement Option Plan (DROP), deferring receipt of retirement benefits while continuing their current employment. The features of this DROP are:

1. Members may elect to participate in the DROP upon the attainment of retirement eligibility.
2. The service retirement benefit shall be fixed at the commencement of DROP participation.
3. The NYS&LPFRS shall consider DROP participants active members, and annual employer contributions shall continue to be made on behalf of such members.
4. The length of participation in the DROP must be specified at the time of election, and may not be less than 1 year, nor exceed 5 years. However, if the affected member should leave employment before or after the scheduled DROP termination date, such member shall forfeit all DROP benefits, and shall be treated as though there were no DROP election.
5. During the DROP period, a fixed percentage of the monthly pensions of such participants will be deferred and held by the NYS&LPFRS on their behalf, and shall accrue interest at 3%. Such fixed percentage shall be 100% for tier 1 members who have less than 35 years of service and tier

- 2 members who have less than 30 years of service. It shall be 60% for tier 1 members who have greater than 35 years of service and tier 2 members who have greater than 30 years of service. Such account must be distributed in full at the end of the specified DROP period.
6. Members with one-year final average salary benefits who elect DROP must forfeit their one-year final average salary benefit.
7. If an affected member should die or become disabled during the DROP period, such member would be treated as though there were no DROP election.
8. Upon termination from DROP, such participants shall receive their deferred payments together with interest thereon, and shall also begin to receive their previously determined pensions.

If this bill is enacted, assuming that the average salary increase for the affected members is at least 5% per year during the DROP period, we anticipate that there would not be an increase in the contributions of the State of New York and the participating employers in the New York State and Local Police and Fire Retirement System. However, if the salary increase during the DROP period averages less than 5% per year, there will be increases in the annual contributions. The extent of the increase will depend mostly on the salary experience during the DROP period.

In addition to the possible increase in annual contributions discussed above, if the salary increase during the DROP period averages less than 5% per year, there would also be past service costs which would depend on the salary experience during the DROP period. These costs would be shared by the State of New York and the participating employers in the New York State and Local Police and Fire Retirement System.

This estimate, dated April 18, 2005, and intended for use only during the 2005 Legislative Session, is Fiscal Note No. 2005-349, prepared by the Actuary for the New York State and Local Police and Fire Retirement System.



IN ASSEMBLY

May 3, 2005

Introduced by M. of A. ABBATE, JOHN -- read once and referred to the Committee on Governmental Employees -- committee discharged, bill amended, ordered reprinted as amended and recommitted to said committee

AN ACT to amend the retirement and social security law, in relation to a deferred retirement option plan payable to certain members of the New York state and local police and fire retirement system

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1       **Section 1.** The retirement and social security law is amended by adding  
2 a new section 381-c to read as follows:

3       § 381-c. Deferred retirement option plan payable to members and offi-  
4 cers of the division of state police. a. Deferred retirement option  
5 plan. The deferred retirement option plan, (hereinafter referred to as  
6 “DROP”), is a retirement plan under which an eligible member may elect  
7 to participate, deferring receipt of retirement benefits while continu-  
8 ing employment with the division of state police. For the purposes of  
9 this section, an “eligible member” is any member or officer employed by  
10 the division of state police. During the period of continued employ-  
11 ment, the eligible member’s monthly retirement benefit shall be deferred  
12 and held by the retirement system on behalf of the member plus interest  
13 compounded monthly at an effective annual rate of three percent, for the  
14 specified period of participation in DROP as provided in subdivision c  
15 of this section. Upon completion of the DROP period, the eligible member  
16 shall receive the total amount of retirement benefits deferred under  
17 DROP without optional modification as permitted by subdivisions d and e  
18 of this section and shall begin to receive the previously determined  
19 normal service retirement benefit with optional modification as further  
20 provided in subdivision d of this section.

21       b. Participation in DROP. Any eligible member who is currently  
22 employed by the division of state police and qualifies to retire pursu-

EXPLANATION--Matter in italics (underscored) is new; matter in brackets  
[-] is old law to be omitted.

1 ant to section three hundred eighty-one-b of this title by reason of  
 2 completing twenty years of creditable service may elect to participate  
 3 in DROP.

4 c. Election in DROP. Such election must be on a form supplied by the  
 5 retirement system and may be for any period of time not less than twelve  
 6 months or more than sixty months in duration. Any eligible member who  
 7 elects to participate in DROP is considered retired on the day following  
 8 the expiration of the DROP period. Provided, however, that all loans  
 9 and excess contributions must be resolved by the date of entry into DROP  
 10 and no additional loans or excess contributions shall be permitted after  
 11 the date of entry into DROP. Upon expiration of the time period  
 12 selected by the eligible member, such member's participation in DROP  
 13 shall terminate.

14 d. Benefits payable under DROP. (1) Effective with the date of partic-  
 15 ipation in DROP, the eligible member's normal service retirement benefit  
 16 shall be calculated, using creditable service and final average salary  
 17 as if the effective date of retirement was the date of entry into DROP.  
 18 The amount deferred pursuant to DROP shall be calculated based upon the  
 19 eligible member's zero option retirement allowance until such member has  
 20 obtained the applicable maximum service retirement limit based upon  
 21 years of service. Any additional participation in DROP after a member  
 22 has obtained the maximum service retirement limit based upon years of  
 23 service shall be calculated based upon sixty percent of the member's  
 24 full annual retirement allowance. In addition, for the purposes of this  
 25 section, the annual retirement allowance for any member electing DROP  
 26 shall be calculated using a three year final average salary as defined  
 27 elsewhere in this article. The eligible member shall, however, elect  
 28 his or her actual optional retirement benefit at the completion of the  
 29 DROP period.

30 (2) If the eligible member dies prior to completion of the period of  
 31 participation in DROP, the eligible member shall be treated as if such  
 32 DROP election did not exist. In lieu of the DROP payment, a death bene-  
 33 fit shall be payable consistent with the terms of this chapter and all  
 34 salary and service reported for such eligible member during the DROP  
 35 period shall be considered in calculating the eligible member's death  
 36 benefit.

37 (3) If the eligible member is approved for disability benefits  
 38 provided by this chapter during the DROP period, the eligible member  
 39 shall be treated as if such DROP election did not exist. In lieu of the  
 40 DROP payment, a disability retirement benefit shall be payable consist-  
 41 ent with the terms of this chapter and all salary and service reported  
 42 for such eligible member during the DROP period shall be considered in  
 43 calculating the eligible member's disability retirement benefit.

44 (4) If an eligible member otherwise fails to complete his or her peri-  
 45 od of service as elected pursuant to subdivision c of this section, the  
 46 eligible member shall be treated as if such DROP election did not exist.  
 47 In lieu of the DROP payment, the normal service retirement benefit shall  
 48 be payable consistent with the terms of this chapter and all salary and  
 49 service reported for such eligible member during the DROP period shall  
 50 be considered in calculating the eligible member's service retirement  
 51 benefit.

52 (5) If an eligible member remains employed after his or her partic-  
 53 ipation in DROP is terminated, such member shall forfeit all DROP bene-  
 54 fits and continue employment as if such DROP election did not exist.  
 55 Such member shall then be eligible to elect DROP consistent with the  
 56 terms of this section.



1 (6) If an eligible member is approved for disability benefits after  
2 benefits payable pursuant to DROP have been paid, the eligible member  
3 may elect to receive the disability benefits in lieu of DROP benefits,  
4 but such disability benefits must be actuarially adjusted for any bene-  
5 fits paid under DROP.

6 e. Method of payment. At the conclusion of the member's participation  
7 in DROP, the retirement system shall pay the deferred service retirement  
8 benefits in one of the following methods as elected by the member:

9 (1) Lump sum. All accrued DROP benefits, plus interest, less withhold-  
10 ing as required by the internal revenue service, shall be paid to the  
11 DROP participant or eligible beneficiary or as otherwise determined by  
12 operation of law;

13 (2) Direct rollover. All accrued DROP benefits, plus interest, shall  
14 be paid from the retirement system to a custodian of an eligible retire-  
15 ment plan or other eligible plan or account as provided pursuant to the  
16 internal revenue code as directed by the member or eligible beneficiary;  
17 or

18 (3) Partial lump sum. A portion of the DROP benefits shall be paid to  
19 the DROP participant or eligible beneficiary, less withholding required  
20 by the internal revenue service and the remaining DROP benefits may be  
21 rolled over as otherwise permitted by the internal revenue code.

22 For the purposes of this subdivision, the term "eligible beneficiary"  
23 is one who qualifies to rollover benefits from a qualified defined bene-  
24 fit plan to another eligible plan or account as provided by the internal  
25 revenue code.

26 The forms of payment provided by this subdivision must comply with the  
27 minimum distribution requirements of the internal revenue code.

28 f. Regulations. The comptroller shall prescribe such regulations as  
29 may be required for the effective administration and implementation of  
30 the provisions of this section.

31 § 2. Any past service costs attributable to the operation of this act  
32 shall be paid by the state of New York and may be paid in five annual  
33 installments.

34 § 3. This act shall take effect immediately.

FISCAL NOTE.--Pursuant to Legislative Law, Section 50:

This bill would allow members in the division of state police to elect to participate in a Deferred Retirement Option Plan (DROP), deferring receipt of retirement benefits while continuing their current employment. The features of this DROP are:

1. Members may elect to participate in the DROP upon the attainment of retirement eligibility.
2. The service retirement benefit shall be fixed at the commencement of DROP participation.
3. The NYS&LPFRS shall consider DROP participants active members, and annual employer contributions shall continue to be made on behalf of such members.
4. The length of participation in the DROP must be specified at the time of election, and may not be less than 1 year, nor exceed 5 years. However, if the affected member should leave employment before or after the scheduled DROP termination date, such member shall forfeit all DROP benefits, and shall be treated as though there were no DROP election.
5. During the DROP period, a fixed percentage of the monthly pensions of such participants will be deferred and held by the NYS&LPFRS on their behalf, and shall accrue interest at 3%. Such fixed percentage shall be 100% for tier 1 members who have less than 35 years of service and tier 2 members who have less than 30 years of service. It shall be 60% for

tier 1 members who have greater than 35 years of service and tier 2 members who have greater than 30 years of service. Such account must be distributed in full at the end of the specified DROP period.

6. Members with one-year final average salary benefits who elect DROP must forfeit their one-year final average salary benefit.
7. If an affected member should die or become disabled during the DROP period, such member would be treated as though there were no DROP election.
8. Upon termination from DROP, such participants shall receive their deferred payments together with interest thereon, and shall also begin to receive their previously determined pensions.

If this bill is enacted, assuming that the average salary increase for the affected members is at least 5% per year during the DROP period, we anticipate that there would not be an increase in the annual contributions of the State of New York. However, if the salary increase during the DROP period averages less than 5% per year, there will be increases in the contributions of the State of New York. The extent of the increase will depend mostly on the salary experience during the DROP period.

In addition to the possible increase in annual contributions discussed above, if the salary increase during the DROP period averages less than 5% per year, there would also be a past service cost which would depend on the salary experience during the DROP period. This would be borne by the State of New York over a five year period.

This estimate, dated April 18, 2005, and intended for use only during the 2005 Legislative Session, is Fiscal Note No. 2005-351, prepared by the Actuary for the New York State and Local Police and Fire Retirement System.



IN SENATE

April 7, 2005

Introduced by Sens. SPANO, LEIBELL -- read twice and ordered printed, and when printed to be committed to the Committee on Civil Service and Pensions -- committee discharged, bill amended, ordered reprinted as amended and recommitted to said committee -- recommitted to the Committee on Civil Service and Pensions in accordance with Senate Rule 6, sec. 8 -- committee discharged, bill amended, ordered reprinted as amended and recommitted to said committee

AN ACT to amend the retirement and social security law, in relation to a deferred retirement option plan for correction officers employed by the Westchester county department of correctional services

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1     **Section 1.** The retirement and social security law is amended by adding  
2 a new section 89-w to read as follows:

3     § 89-w. Deferred retirement option plan for correction officers  
4 employed by the Westchester county department of correctional services.

5     a. Deferred retirement option plan. The deferred retirement option plan  
6 (hereinafter referred to as "DROP"), is a retirement plan under which an  
7 eligible member may elect to participate, deferring receipt of retire-  
8 ment benefits while continuing employment with the DROP payable to the  
9 employees of the Westchester county department of correctional services.  
10 Upon commencement of the DROP period, the eligible member's monthly  
11 retirement benefit without optional modification shall be calculated and  
12 fixed as if the date of retirement were the effective date of entry into  
13 the DROP. Upon completion of the DROP period, the eligible member may  
14 elect an optional form of payment and shall receive such calculated and  
15 fixed monthly retirement benefit, as adjusted for optional modification  
16 if the member so chooses, plus an actuarially determined lump sum bene-  
17 fit as provided in subdivision d of this section.

18     b. Participation in DROP; definition. (1) Any eligible member who is  
19 currently employed by the Westchester county department of correctional

EXPLANATION--Matter in italics (underscored) is new; matter in brackets  
[-] is old law to be omitted.

1 services and qualifies to retire pursuant to section eighty-nine-e of  
 2 this title by reason of completing twenty-five years of creditable  
 3 service may elect to participate in DROP.

4 (2) As used in this section, "eligible member" means a correction  
 5 officer, correction officer-sergeant, correction officer-captain,  
 6 assistant warden, associate warden, warden, or deputy commissioner of  
 7 the Westchester county department of correctional services.

8 c. Election in DROP. Such election must be on a form supplied by the  
 9 retirement system and may be for any period of time not less than twelve  
 10 months or more than sixty months in duration. Any eligible member who  
 11 elected to participate in DROP is considered retired although employment  
 12 continues, except for retirement system purposes, which shall consider  
 13 the eligible member's date of retirement the day following the expira-  
 14 tion of the DROP period. Provided, however, that all loans and excess  
 15 contributions must be resolved by the date of entry into DROP, and no  
 16 additional loans or excess contributions shall be permitted after the  
 17 date of entry into DROP. Upon expiration of the time period selected by  
 18 the eligible member, such member's participation in DROP shall termi-  
 19 nate.

20 d. Benefits payable under DROP. (1) Effective with the participation  
 21 in DROP, the eligible member's normal service retirement benefit shall  
 22 be calculated and fixed, using creditable service and final average  
 23 salary as if the effective date of retirement was the date of entry into  
 24 DROP. In addition to this normal service retirement benefit, the eligi-  
 25 ble member shall receive an actuarially determined lump sum benefit  
 26 which shall be equal to the difference between the actuarial present  
 27 value of the pension benefit without optional modification which the  
 28 eligible member would have received had he or she not opted to partic-  
 29 ipate in DROP and retired on the date the DROP period terminated, and  
 30 the actuarial present value of the pension benefit without optional  
 31 modification which the eligible member would have received had he or she  
 32 retired upon commencement of the DROP. The mortality and interest rates  
 33 used in determining actuarial equivalence shall be those in effect for  
 34 this purpose on the date the DROP period terminates. The eligible member  
 35 shall, however, elect his or her actual method of payment of the lump  
 36 sum benefit as provided in subdivision e of this section at the  
 37 completion of the DROP period.

38 (2) If the eligible member dies prior to the completion of the period  
 39 of participation in DROP, the eligible member shall be treated as if  
 40 such DROP election did not exist. In lieu of the DROP payment, a death  
 41 benefit shall be payable consistent with the terms of this chapter, and  
 42 all salary and service reported for such eligible member during the DROP  
 43 periods shall be considered in calculating the eligible member's death  
 44 benefit.

45 (3) If the eligible member is approved for disability benefits  
 46 provided by this chapter during the DROP period, the eligible member  
 47 shall be treated as if such DROP election did not exist. In lieu of the  
 48 DROP payment, a disability retirement benefit shall be payable consist-  
 49 ent with the terms of this chapter and all salary and service reported  
 50 for such eligible member during the DROP period shall be considered in  
 51 calculating the eligible member's disability retirement benefit.

52 (4) If an eligible member otherwise fails to complete his or her peri-  
 53 od of service as elected pursuant to subdivision c of this section, the  
 54 eligible member shall be treated as if such DROP election did not exist.  
 55 In lieu of the DROP payment, the normal service retirement benefits  
 56 shall be payable consistent with the terms of this chapter and all sala-



1 ry and service reported for such eligible member during the DROP period  
 2 shall be considered in calculating the eligible member's service retire-  
 3 ment benefit.

4 (5) If an eligible member remains employed after his or her partic-  
 5 ipation in DROP is terminated, such member shall forfeit all DROP bene-  
 6 fits and continue employment as if such DROP election did not exist.  
 7 Such member shall then be eligible to elect DROP consistent with the  
 8 terms of this section.

9 (6) If any eligible member is approved for disability benefits after  
 10 benefits payable pursuant to DROP have been paid, the eligible member  
 11 may elect to receive the disability benefits in lieu of DROP benefits,  
 12 but such disability benefits must be actuarially adjusted for any bene-  
 13 fits paid under DROP.

14 e. Methods of payment. At the conclusion of the member's participation  
 15 in DROP, the retirement system shall pay the deferred service retirement  
 16 benefits on one of the following methods as elected by the member:

17 (1) Lump sum. All accrued DROP benefits, plus interest, less withhold-  
 18 ing as required by the internal revenue service, shall be paid to the  
 19 DROP participant or eligible beneficiary or as otherwise determined by  
 20 operation of law.

21 (2) Direct rollover. All accrued DROP benefits, plus interest, shall  
 22 be paid from the retirement system to a custodian of an eligible retire-  
 23 ment plan or other eligible plan or account as provided pursuant to the  
 24 internal revenue code as directed by the member or eligible beneficiary;  
 25 or

26 (3) Partial lump sum. A portion of the DROP benefits shall be paid to  
 27 the DROP participant or eligible beneficiary, less withholding required  
 28 by the internal revenue service and the remaining DROP benefits may be  
 29 rolled over as otherwise permitted by the internal revenue code.  
 30 For the purpose of this subdivision, the term "eligible beneficiary"  
 31 is one who qualifies to rollover benefits from a qualified defined bene-  
 32 fit plan to another eligible plan or account as provided by the internal  
 33 revenue code.

34 The forms of payment provided by this subdivision must comply with the  
 35 minimum distribution requirements of the internal revenue code.

36 f. Regulations. The comptroller shall promulgate such regulations as  
 37 may be required for the effective administration and implementation of  
 38 the provisions of this section.

39 § 2. The cost attributable to the operation of this act shall be paid  
 40 by Westchester county and may be paid over a ten-year period.

41 § 3. This act shall take effect immediately.

FISCAL NOTE.-- This bill would allow Westchester County Correction Officers to elect to participate in a cost neutral Deferred Retirement Option Plan (DROP), deferring receipt of retirement benefits while continuing their current employment. The features of this DROP are:

1. members may elect to participate in the DROP upon the attainment of retirement eligibility.
2. The service retirement benefit shall be fixed at the commencement of DROP participation.
3. The NYS&LERS shall consider DROP participants active members, and annual employer contributions shall continue to be made on behalf of such members.
4. The length of participation in the DROP must be specified at the time of election, and may not be less than 1 year, nor exceed 5 years. However, if the affected member should leave employment before or after

the scheduled DROP termination date, such member shall forfeit all DROP benefits, and shall be treated as though there were no DROP election.

5. If an affected member should die or become disabled during the DROP period, such member would be treated as though there were no DROP election.
6. Upon termination from DROP, such participants shall begin to receive their previously determined pensions with optional modification. They shall also receive a lump sum payment which will be calculated as the present value of the pension which would have been payable at the termination of DROP had DROP not be elected, reduced by the present value of the pension which would have been payable at the commencement of DROP.

If this bill is enacted, there will not be any increases in employer contributions for Westchester County. This is due to the requirement that the lump sum payments be determined on an actuarially equivalent basis.

This estimate, dated January 12, 2006, and intended for use only during the 2006 Legislative Session, is Fiscal Note No. 2006-141, prepared by the Actuary for the New York State and Local Employees' Retirement System.



IN SENATE

April 11, 2005

Introduced by Sen. ROBACH -- read twice and ordered printed, and when printed to be committed to the Committee on Civil Service and Pensions

AN ACT to amend the retirement and social security law, in relation to the establishment of a deferred retirement option plan for certain employees of the department of correctional services and the office of mental health

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1       **Section 1.** The retirement and social security law is amended by adding  
2 a new article 14-C to read as follows:

3       ARTICLE 14-C

4       DEFERRED RETIREMENT OPTION PLANS

5       Section 570. Deferred retirement option plan payable to certain person-  
6 nel.

7       § 570. Deferred retirement option plan payable to certain personnel.

8       a. Deferred retirement option plan. The deferred retirement option  
9 plan, (hereinafter referred to as "DROP"), is a retirement plan under  
10 which an eligible member may elect to participate, deferring receipt of  
11 retirement benefits while continuing employment with the department of  
12 correctional services or the office of mental health. For the purposes  
13 of this section, "eligible members" are any members employed as officers  
14 or employees holding the titles hereinafter set forth in institutions  
15 under the jurisdiction of the department of correctional services or  
16 under the jurisdiction of the office of mental health, namely:  
17 correction officers, prison guards, correction sergeants, correction  
18 lieutenants, correction captains, deputy assistant superintendent or  
19 warden, deputy warden or deputy superintendent, superintendents and  
20 wardens, assistant director and director of correction reception center,  
21 director of correctional program, assistant director of correctional  
22 program, director of community correctional center, community correc-  
23 tional center assistants, correction hospital officers, male or female,

EXPLANATION--Matter in italics (underscored) is new; matter in brackets  
[-] is old law to be omitted.

1 correction hospital senior officers, correction hospital charge officer,  
 2 correction hospital supervising officer, correction hospital security  
 3 supervisor, correction hospital chief officer, correction youth camp  
 4 officer, correction youth camp supervisor, assistant supervisor, correc-  
 5 tional camp superintendent, assistant correctional camp superintendent,  
 6 director of crisis intervention unit, assistant director of crisis  
 7 intervention unit, security hospital treatment assistants, security  
 8 hospital treatment assistants (Spanish speaking), security hospital  
 9 senior treatment assistants, security hospital supervising treatment  
 10 assistants and security hospital treatment chiefs. Upon commencement of  
 11 the DROP period, the eligible member's monthly retirement benefit with-  
 12 out optional modification shall be calculated and fixed as if the date  
 13 of retirement was the effective date of entry into the DROP. Upon  
 14 completion of the DROP period, the eligible member may elect an optional  
 15 form of payment and shall receive such calculated and fixed monthly  
 16 retirement benefit as adjusted for optional modification if the member  
 17 so chooses plus an actuarially determined lump sum benefit as provided  
 18 in subdivision d of this section.

19 **b. Participation in DROP. Any eligible member who is employed by the**  
 20 **department of correctional services or the office of mental health and**  
 21 **qualifies to retire by virtue of having completed twenty-five years of**  
 22 **total creditable service without regard to age may elect to participate**  
 23 **in DROP.**

24 **c. Election in DROP. Such election must be on a form supplied by the**  
 25 **retirement system and may be for any period of time not less than twelve**  
 26 **months or more than sixty months in duration. Any eligible member who**  
 27 **elects to participate in DROP is considered retired although employment**  
 28 **continues, except for retirement system purposes which shall consider**  
 29 **the eligible member's date of retirement the day following the expira-**  
 30 **tion of the DROP period. Upon expiration of the time period selected by**  
 31 **the eligible member, such member's participation in DROP shall termi-**  
 32 **nate.**

33 **d. Benefits payable under DROP. (1) Effective with the date of partic-**  
 34 **ipation in DROP, the eligible member's normal service retirement benefit**  
 35 **shall be calculated and fixed, using creditable service and final aver-**  
 36 **age salary as if the effective date of retirement was the date of entry**  
 37 **into DROP. In addition to this normal service retirement benefit, the**  
 38 **eligible member shall receive an actuarially determined lump sum benefit**  
 39 **which shall be equal to the difference between the actuarial present**  
 40 **value of the pension benefit without optional modification which the**  
 41 **eligible member would have received had he or she not opted to partic-**  
 42 **ipate in DROP and retired on the date the DROP period terminated, and**  
 43 **the actuarial present value of the pension benefit without optional**  
 44 **modification which the eligible member would have received had he or she**  
 45 **retired upon commencement of the DROP. The mortality and interest rates**  
 46 **used in determining actuarial equivalence shall be those in effect for**  
 47 **this purpose on the date the DROP period terminates. The eligible member**  
 48 **shall, however, elect his or her actual method of payment of the lump**  
 49 **sum benefit as provided in subdivision e of this section at the**  
 50 **completion of the DROP period.**

51 **(2) If the eligible member dies prior to completion of the period of**  
 52 **participation in DROP, the eligible member shall be treated as if such**  
 53 **DROP election did not exist. In lieu of the DROP payment, a death bene-**  
 54 **fit shall be payable consistent with the terms of this chapter and all**  
 55 **salary and service reported for such eligible member during the DROP**



1 period shall be considered in calculating the eligible member's death  
2 benefit.

3 (3) If the eligible member is approved for disability benefits  
4 provided by this chapter during the DROP period, the eligible member  
5 shall be treated as if such DROP election did not exist. In lieu of the  
6 DROP payment, a disability retirement benefit shall be payable consist-  
7 ent with the terms of this chapter and all salary and service reported  
8 for such eligible member during the DROP period shall be considered in  
9 calculating the eligible member's disability retirement benefit.

10 (4) If an eligible member otherwise fails to complete his or her peri-  
11 od of service as elected pursuant to subdivision c of this section, the  
12 eligible member shall be treated as if such DROP election did not exist.  
13 In lieu of the DROP payment, the normal service retirement benefit shall  
14 be payable consistent with the terms of this chapter and all salary and  
15 service reported for such eligible member during the DROP period shall  
16 be considered in calculating the eligible member's service retirement  
17 benefit.

18 (5) If an eligible member remains employed after his or her partic-  
19 ipation in DROP is terminated, such member shall forfeit all DROP bene-  
20 fits and continue employment as if such DROP election did not exist.  
21 Such member shall then be eligible to elect DROP consistent with the  
22 terms of this section.

23 (6) If an eligible member is approved for disability benefits after  
24 benefits payable pursuant to DROP have been paid, the eligible member  
25 may elect to receive the disability benefits in lieu of DROP benefits,  
26 but such disability benefits must be actuarially adjusted for any bene-  
27 fits paid under DROP.

28 e. Method of payment. At the conclusion of the member's participation  
29 in DROP, the retirement system shall pay the deferred service retirement  
30 benefits in one of the following methods as elected by the member:

31 (1) Lump sum. All accrued DROP benefits, plus interest, less withhold-  
32 ing as required by the internal revenue service, shall be paid to the  
33 DROP participant or eligible beneficiary or as otherwise determined by  
34 operation of law;

35 (2) Direct rollover. All accrued DROP benefits, plus interest, shall  
36 be paid from the retirement system to a custodian of an eligible retire-  
37 ment plan or other eligible plan or account as provided pursuant to the  
38 internal revenue code as directed by the member or eligible beneficiary;  
39 or

40 (3) Partial lump sum. A portion of the DROP benefits shall be paid to  
41 the DROP participant or eligible beneficiary, less withholding required  
42 by the internal revenue service and the remaining DROP benefits may be  
43 rolled over as otherwise permitted by the internal revenue code.

44 For the purposes of this subdivision, the term "eligible beneficiary"  
45 is one who qualifies to rollover benefits from a qualified defined bene-  
46 fit plan to another eligible plan or account as provided by the internal  
47 revenue code.

48 The forms of payment provided by this subdivision must comply with the  
49 minimum distribution requirements of the internal revenue code.

50 f. Regulations. The comptroller shall prescribe such regulations as  
51 may be required for the effective administration and implementation of  
52 the provisions of this section.

53 § 2. The past service costs attributable to the operation of this act  
54 shall be paid by the state of New York and may be paid in five annual  
55 installments commencing with the fiscal year ending 2006.

56 § 3. This act shall take effect immediately.



FISCAL NOTE.--Pursuant to Legislative Law, Section 50:

This bill would allow State Correction Officers and Security Hospital Treatment Assistants to elect to participate in a cost neutral Deferred Retirement Option Plan (DROP), deferring receipt of retirement benefits while continuing their current employment. The features of this DROP are:

1. Members may elect to participate in the DROP upon the attainment of retirement eligibility.
2. The service retirement benefit shall be fixed at the commencement of DROP participation.
3. The NYS&LERS shall consider DROP participants active members, and annual employer contributions shall continue to be made on behalf of such members.
4. The length of participation in the DROP must be specified at the time of election, and may not be less than 1 year, nor exceed 5 years. However, if the affected member should leave employment before or after the scheduled DROP termination date, such member shall forfeit all DROP benefits, and shall be treated as though there were no DROP election.
5. If an affected member should die or become disabled during the DROP period, such member would be treated as though there were no DROP election.
6. Upon termination from DROP, such participants shall begin to receive their previously determined pensions with optional modification. They shall also receive a lump sum payment which will be calculated as the present value of the pension which would have been payable at the termination of DROP had DROP not been elected, reduced by the present value of the pension which would have been payable at the commencement of DROP.

If this bill is enacted, there will not be any increases in employer contributions for employers in the New York State and Local Employees' Retirement System. This is due to the requirements that the lump sum payments be determined on an actuarially equivalent basis.

This estimate, dated January 24, 2005 and intended for use only during the 2005 Legislative Session, is Fiscal Note No. 2005-125, prepared by the Actuary for the New York State and Local Employees' Retirement System.



IN SENATE

April 1, 2005

Introduced by Sen. ROBACH -- read twice and ordered printed, and when printed to be committed to the Committee on Civil Service and Pensions

AN ACT to amend the retirement and social security law, in relation to the enhanced pension benefits payable to certain members of the New York state and local police and fire retirement system

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1       **Section 1.** The retirement and social security law is amended by adding  
2 a new section 553-a to read as follows:

3       § 553-a. Enhanced pension benefits for members of optional twenty year  
4 retirement plan. a. A participating employer which has elected, or which  
5 elects to provide the benefits of the optional twenty year retirement  
6 plan for its employees as specified in section five hundred fifty-two or  
7 five hundred fifty-three of this article may elect to make contributions  
8 for the purpose of providing alternative payments pursuant to this  
9 section for members in its employ who are entitled to a pension pursuant  
10 to section five hundred fifty-two of this article. Every member employed  
11 by an employer which participates in the retirement system and which has  
12 elected the provisions of section five hundred fifty-two or five hundred  
13 fifty-three of this article and this section may elect to be covered by  
14 the provisions of this section by filing with the comptroller a duly  
15 executed and acknowledged form prepared by the comptroller for that  
16 purpose.

17       b. Each member, at his or her option after the accrual of more than  
18 twenty years of service and upon retirement, may receive a reduced annu-  
19 ity which would have been paid if retirement had occurred at twenty  
20 years of credited service or five years previously, whichever date is  
21 later. In addition to such reduced annuity, a member will receive a lump  
22 sum calculated assuming that the reduced annuity was paid for the period  
23 from the twenty year service date or five years ago, whichever is later,  
24 to the actual date of retirement. Such calculation will include an

EXPLANATION--Matter in italics (underscored) is new; matter in brackets  
[-] is old law to be omitted.

1 interest adjustment using the actuarial valuation interest rate. A  
2 member must choose to receive the lump sum as a monthly benefit payable  
3 over a period of twenty-four to sixty months at his or her choice,  
4 commencing thirty days after the date of retirement.

5 c. In the event a member elects to receive the enhanced pension bene-  
6 fits provided by this section in monthly payments over a period of twen-  
7 ty-four to sixty months as provided in subdivision b of this section and  
8 such member dies prior to the completion of such period, the commuted  
9 value of any installments due during the unexpired balance of such peri-  
10 od shall be paid in a lump sum to a duly designated beneficiary, or if  
11 none exists, to the legal representative of such member.

12 § 2. This act shall take effect immediately and shall be applicable to  
13 members who have elected to be covered by the provisions of this act and  
14 who retire or separate in vested status.

FISCAL NOTE.--Pursuant to Legislative Law, Section 50:

This bill will allow counties which provide twenty year retirement plans for their sheriffs, undersheriffs and deputy sheriffs to elect to provide an alternative form of pension distribution for these members. Members who choose the alternate distribution would receive a reduced annual pension, and a lump sum, which must be distributed in equal monthly payments over a period not less than twenty-four (24) months, and not greater than sixty (60) months, as selected by the member.

If this bill is enacted, for counties which elect this benefit and provide the benefits of Section 552, we anticipate that there would be an increase in the annual contributions in excess of 2% of payroll. For counties which elect this benefit and provide the benefits of Section 553, we anticipate that there would be an increase in the annual contributions in excess of 1% of payroll.

In addition to the annual contributions discussed above, there would also be an immediate past service cost to these counties that will depend on the current salary, age, length of service and plan of the affected members. If the anticipated retirement experience of members who are eligible for this benefit changes significantly in the future, there would also be changes in employer contributions.

This estimate, dated February 4, 2005 and intended for use only during the 2005 Legislative Session, is Fiscal Note No. 2005-122, prepared by the Actuary for the New York State and Local Employees' Retirement System.



IN SENATE

April 12, 2005

Introduced by Sen. ROBACH -- read twice and ordered printed, and when printed to be committed to the Committee on Civil Service and Pensions

AN ACT to amend the retirement and social security law, in relation to the enhanced pension benefits payable to certain members of the New York state and local police and fire retirement system

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1       **Section 1.** The retirement and social security law is amended by adding  
2 a new section 384-f to read as follows:

3       § 384-f. Enhanced pension benefits for members of optional twenty year  
4 retirement plan. a. A participating employer which has elected or which  
5 elects, pursuant to section three hundred thirty or three hundred thir-  
6 ty-one of this article, to provide the benefits of the optional twenty  
7 year retirement plan for its employees as specified in section three  
8 hundred eighty-four-d or three hundred eighty-four-e of this title may  
9 elect, pursuant to section three hundred thirty-three of this article,  
10 to make contributions for the purpose of providing alternative payments  
11 pursuant to this section for members in its employ who are entitled to a  
12 pension pursuant to section three hundred eighty-four-d or three hundred  
13 eighty-four-e of this title.

14       b. Each member, at his or her option after the accrual of more than  
15 twenty years of service and upon retirement, may receive a reduced annu-  
16 ity which would have been paid if retirement had occurred at twenty  
17 years of credited service or five years previously, whichever date is  
18 later. In addition to such reduced annuity, a member will receive a lump  
19 sum calculated assuming that the reduced annuity was paid for the period  
20 from the twenty year service date or five years ago, whichever is later,  
21 to the actual date of retirement. Such calculation will include an  
22 interest adjustment using the actuarial valuation interest rate. A  
23 member must choose to receive the lump sum as a monthly benefit payable

EXPLANATION--Matter in italics (underscored) is new; matter in brackets  
[-] is old law to be omitted.

1 over a period of twenty-four to sixty months at his or her choice,  
2 commencing thirty days after the date of retirement.

3 c. In the event a member elects to receive the enhanced pension bene-  
4 fits provided by this section in monthly payments over twenty-four to  
5 sixty months as provided in subdivision b of this section and such  
6 member dies prior to the completion of such period, the commuted value  
7 of any installments due during the unexpired balance of such period  
8 shall be paid in a lump sum to a duly designated beneficiary, or if none  
9 exists, to the legal representative of such member.

10 d. A demand in collective negotiations for the enhanced pension bene-  
11 fits plan provided by this section shall not be subject to the  
12 provisions of paragraph (b) or (c) of subdivision four of section two  
13 hundred nine of the civil service law.

14 § 2. This act shall take effect immediately and shall be applicable to  
15 members who have elected to be covered by the provisions of this act and  
16 who retire or separate in vested status.

FISCAL NOTE.--Pursuant to Legislative Law, Section 50:

This bill would allow participating employers in the New York State and Local Police and Fire Retirement System who have elected twenty year retirement plans for their members to elect an alternative form of distribution for these members. Members who choose the alternate distribution would receive a reduced annual pension, and a lump sum, which must be distributed in equal monthly payments over a period not less than twenty-four (24) months, and not greater than sixty (60) months, as selected by the member.

If this bill is enacted, electing employers who have elected Section 384-e benefits would see increases in their annual billings in excess of 1% of payroll. Electing employers who have Section 384-d benefits would see increase in their annual contributions in excess of 2% of payroll.

In addition to the annual contributions discussed above, electing employers will have an immediate past service cost which would depend on the current salary, age, length of service and plan of the affected members. If the anticipated retirement experience of members who are eligible for this benefit changes significantly in the future, there would be changes in employer contributions.

This estimate, dated February 4, 2005 and intended for use only during the 2005 Legislative Session, is Fiscal Note No. 2005-121, prepared by the Actuary for the New York State and Local Police and Fire Retirement System.



IN SENATE

April 18, 2005

Introduced by Sen. ROBACH -- read twice and ordered printed, and when printed to be committed to the Committee on Civil Service and Pensions

AN ACT to amend the retirement and social security law, in relation to enhanced pension benefits payable to members of the state police

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1       **Section 1.** The retirement and social security law is amended by adding  
2 a new section 381-c to read as follows:

3       § 381-c. Enhanced pension benefits for members of the state police  
4 covered by the provisions of the section three hundred eighty-one-b  
5 twenty year retirement plan. a. Each member of the state police, at his  
6 or her option after the accrual of more than twenty years of service and  
7 upon retirement, may receive a reduced annuity which would have been  
8 paid if retirement had occurred at twenty years of credited service or  
9 eight years previously, whichever date is later. In addition to such  
10 reduced annuity, a member shall receive a lump sum calculated assuming  
11 that the reduced annuity was paid for the period from the twenty year  
12 service date or eight years ago, whichever is later, to the actual date  
13 of retirement. Such calculation shall include an interest adjustment  
14 using the actuarial valuation interest rate.

15       b. A member may choose to receive the lump sum as a monthly benefit  
16 payable over a period of twenty-four to sixty months, with interest, at  
17 his or her choice, commencing thirty days after the date of retirement.  
18 In the alternative, the member may choose to have the lump sum rolled  
19 over to a tax deferred account permitted by the Internal Revenue Code at  
20 the time of retirement.

21       c. In the event a member elects to receive the enhanced pension bene-  
22 fits provided by this section in monthly payments as provided by subdi-  
23 vision b of this section and such member dies prior to the completion of  
24 the monthly payments, the commuted value of any installments due during  
25 the unexpired balance of such payment period shall be paid in a lump sum  
26 to a duly designated beneficiary, or if none exists to the legal repre-  
27 sentative of such member.

28       § 2. This act shall take effect immediately.

EXPLANATION--Matter in italics (underscored) is new; matter in brackets  
[-] is old law to be omitted.

April 18, 2005

Hon Joseph E Robach  
New York State Senate  
LOB Room 902  
Albany NY 12247

Dear Senator Robach:

Re: Fiscal Note #2005-337

This is in response to your request for a fiscal note for legislative bill draft #10942-01-5 (Research #337).

The fiscal note, required by Section 50 of the Legislative Law, which may not be altered and which must be appended to the bill in its entirety, is:

“This bill would allow members of the State Police who continue to work after being eligible to retire, to elect an alternative form of pension payment. If the member so chooses, a reduced annual annuity would be payable and an amortized lump sum amount payable over a period of twenty-four (24) to sixty (60) months, as selected by the member, would be available at retirement.

“If this bill is enacted, it is estimated that there would be an annual increase in the contributions of the State of New York in excess of 1% of payroll.

“In addition to the annual contributions discussed above, there would be an immediate past service cost to the State of New York which would depend on the current salary, age and length of service of the affected members. It is estimated that this past service cost would vary considerably and could exceed 200% of a member’s final average salary.

“This estimate, dated April 18, 2005, and intended for use only during the 2005 Legislative Session, is Fiscal Note No. 2005-337, prepared by the Actuary for the New York State and Local Police and Fire Retirement System.”

If you have questions about this estimate, please call us at (518) 474-4537.

Sincerely,

Teri E. Landin  
Retirement System Actuary  
ef I:/2005-337.doc



IN SENATE

May 25, 2005

Introduced by COMMITTEE ON RULES -- read twice and ordered printed, and when printed to be committed to the Committee on Civil Service and Pensions

AN ACT to amend the retirement and social security law, in relation to permitting certain members of the New York state and local employees' retirement system and certain members of the New York state and local police and fire retirement system to receive a partial lump sum distribution upon retirement

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1       **Section 1.** The retirement and social security law is amended by adding  
2 a new article 21 to read as follows:

3       ARTICLE 21

4       LUMP SUM OPTIONAL RETIREMENT

5       Section 1100. Lump sum retirement.

6       § 1100. Lump sum retirement. 1. Certain members of the New York state  
7 and local employees' retirement system and certain members of the New  
8 York state and local police and fire retirement system may elect an  
9 optional form of retirement pursuant to the terms of this section that  
10 provides for a partial lump sum comprising a portion of the member's  
11 service retirement allowance.

12       2. A member must be eligible to file for a service retirement benefit  
13 for at least one year prior to electing this option on the date of  
14 retirement. A member may elect to receive a smaller retirement allowance  
15 payable to him or her for life and receive one of the following lump sum  
16 payments at the date of retirement, provided the member otherwise quali-  
17 fies for the lump sum payment.

18       a. Any member who files for retirement after being eligible to retire  
19 for one year may elect to receive a five percent lump sum payment of the  
20 actuarial equivalent of his or her retirement allowance at the time of  
21 retirement.

EXPLANATION--Matter in italics (underscored) is new; matter in brackets  
[-] is old law to be omitted.

1 b. Any member who files for retirement after being eligible to retire  
2 for two years may elect to receive a ten percent lump sum payment of the  
3 actuarial equivalent of his or her retirement allowance at the time of  
4 retirement.

5 c. Any member who files for retirement after being eligible to retire  
6 for three years may elect to receive a fifteen percent lump sum payment  
7 of the actuarial equivalent of his or her retirement allowance at the  
8 time of retirement.

9 d. Any member who files for retirement after being eligible to retire  
10 for four years may elect to receive a twenty percent lump sum payment of  
11 the actuarial equivalent of his or her retirement allowance at the time  
12 of retirement.

13 e. Any member who files for retirement after being eligible to retire  
14 for five years may elect to receive a twenty-five percent lump sum  
15 payment of the actuarial equivalent of his or her retirement allowance  
16 at the time of retirement.

17 3. The actual lump sum payments shall be determined by the actuary  
18 using mortality tables and interest rates using the current actuarial  
19 valuation.

20 4. Any lump sum paid pursuant to this article is subject to withhold-  
21 ing as required by the internal revenue service and such lump sum may be  
22 rolled over as otherwise permitted by the internal revenue code.

23 5. The comptroller shall promulgate rules and regulations to implement  
24 the provisions of this article.

25 § 2. This act shall take effect on April 1, 2007 and no member shall  
26 be eligible to receive a lump sum payment prior to April 1, 2007.

FISCAL NOTE.--Pursuant to Legislative Law, Section 50:

This bill would allow members of the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS) who file for a service retirement to elect an optional form of retirement which would provide for a lump sum payment of 5 percent of the actuarial equivalent of their retirement benefit for each year of service rendered beyond the first date of their eligibility for service retirement. These provisions will be effective on April 1, 2007.

If this bill is enacted, there will not be any increases in employer contributions for employers in ERS and PFRS. This is due to the require-ment that the lump sum payments be determined on an actuarially equivalent basis.

This estimate, dated April 18, 2005, and intended for use only during the 2005 Legislative Session, is Fiscal Note No. 2005-350, prepared by the Actuary for the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System.

