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OFFICE OF PROGRAM POLICY ANALYSIS
& GOVERNMENT ACCOUNTABILITY

March 2010 **Report No. 10-28**

DROP Could Be Improved by Defining Its Purpose, Standardizing Requirements, and Ensuring That Benefits Are Equitably Funded

at a glance

The Deferred Retirement Option Program (DROP) allows Florida Retirement System (FRS) Pension Plan members to officially retire but continue working for up to five years; the program is optional and available to all FRS Pension Plan participants. During this period, these employees continue to receive their regular salary while their pension payments accumulate in the FRS Trust Fund. State law provides for a 6.5% annual interest rate and a 3% cost of living adjustment; the cost of living adjustment is applied annually to all FRS pensions. Although the FRS incurs additional costs to fund DROP, there is substantial cost shifting between employer groups because the system uses a single contribution rate for all participants. As a result, entities such as school districts that primarily employ workers in FRS's Regular Class subsidize contributions for other entities that have DROP participants in other retirement classes, such as Special Risk.

At least 12 other states offer programs similar to DROP, although these states have varying eligibility and participation requirements. Recent legislation changed FRS reemployment provisions that affect all retirees, including DROP participants. The Legislature could consider additional changes to DROP, such as defining the program's purpose, establishing contribution rates for the varying retirement classes that include DROP, standardizing participation requirements, changing the interest rate guarantee on DROP accounts to a level that matches current economic conditions, or eliminating the program.

Scope

As directed by the Legislature, this report is part of a series that reviews the Florida Retirement System (FRS). This report examines the Deferred Retirement Option Program (DROP) and answers four questions.

1. How has DROP affected FRS employer costs?
2. How do other states implement and fund their deferred retirement option programs?
3. How did recent FRS legislation affect Florida's Deferred Retirement Option Program?
4. What options could the Legislature consider for DROP?

Background

The Deferred Retirement Option Program allows most eligible Pension Plan participants in the Florida Retirement System to officially retire but continue working in their position for up to five years. The pension benefit for DROP participants is calculated upon program entry and is not increased due to additional years of service or pay raises because participants are considered to be retired. DROP participant pension benefits are calculated using the formula on page 2, which applies to all FRS retirees.

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Years of Service × Accrual Rate × Average Final Compensation = Pension Benefit

Average final compensation is the average of an employee's five highest fiscal years of compensation. The accrual rate, which varies by class, is the percentage of the average final compensation that is awarded for each year of service.

While in DROP, participating employees continue to receive their regular salary while their pension payments accumulate in the FRS Trust Fund, earning a statutorily guaranteed 6.5% annual interest rate return; like other Pension Plan retirees, DROP participants also receive an annual 3% cost of living increase. DROP is funded primarily by employer contributions and, to a lesser extent, investment returns from the FRS pension plan. When employees complete DROP, they may receive their account balances in a lump sum payment, roll the funds into another eligible retirement plan authorized by the Internal Revenue Service, or receive a combined partial lump sum payment and direct rollover.

FRS members are eligible to enroll in DROP when they meet 'normal retirement criteria', which include both age and years of service factors. For example, Regular Class members may enroll in DROP if they are age 62 with at least six years of service or have 30 years of service, regardless of their age. Special Risk Class members may join if they are age 55 with six years of service or have 25 years of service regardless of their age.

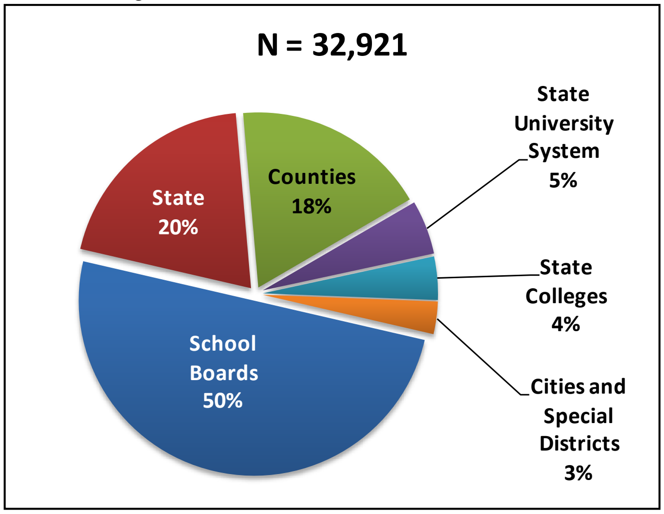
FRS members also may be eligible to defer their enrollment in DROP. Regular Class members who complete 30 years of service but are under age 57 may defer their enrollment in DROP until age 57. Similarly, Special Risk Class members who complete 25 years of special risk service but are under age 52 may defer their DROP enrollment until age 52. Employees have one year following their maximum DROP deferral date to enroll in DROP. For every month a member delays enrolling in DROP beyond this one-year window, program eligibility is reduced by a corresponding month. The only exceptions to these conditions are for instructional personnel teaching kindergarten through twelfth grade; these employees may enroll in DROP at any time after meeting eligibility requirements and may apply to extend their DROP participation for an additional 36 months. The member's employer must approve all extensions.

DROP is open to all FRS Pension Plan members. As of June 30, 2009, there were 32,921 employees participating in DROP, representing all FRS membership classes.

- **Regular Class** includes employees who do not fall within the other retirement classes, and employees in this class comprise 89% of DROP participants.
- **Special Risk Class** comprises 8% of DROP participants and includes police, firefighters, corrections officers, and others who meet specific eligibility criteria.
- **Special Risk Administrative Class** comprises less than 1% of DROP participants and includes former Special Risk Class members who have been transferred to a non-special risk support position.
- **Senior Management Service Class** comprises 2% of DROP participants, including community college presidents, city and county managers, appointed district school superintendents, and, with certain restrictions, all designated senior managers in state and local governments.
- **Elected Officers Class** comprises less than 1% of the DROP participants, including persons who hold specific city, county, state, and school board elected positions.

FRS employers include state agencies, counties, school districts, the state university system, state colleges, and special districts. As of June 30, 2009, FRS had 964 participating employers. As shown in Exhibit 1, half of these participants were employed by school districts. State employees were the second largest group, followed by county employees.

Exhibit 1
Most DROP Employees Are from Educational Institutions Such as School Boards, Universities, and State Colleges



Source: Division of Retirement.

The Division of Retirement administers DROP and the State Board of Administration invests FRS funds. The Department of Management Services' Division of Retirement administers the program. The division tracks DROP enrollment, receives employer contributions, calculates DROP benefits, and disburses DROP payments when employees complete the program. Division staff also provides information to help employees decide whether to enter the program, including data on what their pension benefits would be with and without DROP participation. The State Board of Administration invests FRS monies, including those from DROP, with the goal of ensuring that investment returns are sufficient to meet pension and DROP obligations.

Questions and Answers ——

How has DROP affected FRS employer costs?

We estimated that in Fiscal Year 2008-09, the FRS paid an additional $71.4 million to fund DROP. This higher cost occurred because DROP participants retire earlier than they normally would have if the program was not available. This voluntary decision increases the length of time that they draw pension benefits and reduces the number of years in which employers can fund their retirement benefits. Employers thus must increase contributions to fund the longer time spent in retirement. As shown in Appendix A, employer contributions for all membership classes and DROP are projected to increase significantly in Fiscal Year 2010-11.

While the FRS incurs an additional expense for DROP, some employers incur disproportionate costs because the program is funded through a uniform contribution rate, which results in substantial cost shifting among retirement classes. Although FRS membership classes have varying benefits and incur varying costs, DROP uses a uniform employer contribution rate for all persons in the program regardless of their FRS membership class. This rate is currently 9.8% of each participant's salary.[1] In contrast, FRS requires employers to contribute differing percentages of salary for the various retirement membership classes for persons who have not entered DROP; these percentages range from 8.69% of salary for members of the FRS Regular Class, to 19.76% for members of the Special Risk Class. These contribution rates are based on the actuarial costs of providing retirement benefits for individuals in the different retirement classes.

We estimated that as a result of this cost shifting, Regular Class employers paid an additional $20.3 million in Fiscal Year 2008-09 to fund DROP participants (see Appendix B for a discussion of the contribution costs for each FRS class). In contrast, employers from other membership classes (e.g., Special Risk Class) saved $23.2 million when their employees entered DROP, as the normal cost rate for these employees would be lower (from between 1.02% and 11.07%, depending on membership class) than the uniform DROP rate.[2] Establishing contribution rates for DROP participants based on their retirement class would avoid these cost shifts,

[1] The Legislature applies a portion of the FRS Trust Fund actuarial surplus, when available, to reduce all employer contribution rates. In Fiscal Year 2009-10, the DROP contribution rate was reduced from 11.14% to 9.8%.

[2] Between Fiscal Years 2000-01 and 2008-09, employers of Regular Class members paid an additional $262.3 million for DROP employees while Special Risk Class employers saved $133.8 million. This period represents the most complete DROP data available; data for the program's first two years were maintained in an information system that is not currently accessible.

which predominantly affects school boards, universities, and state colleges as almost all of their workers are in the Regular Class (99%, 99%, and 97%, respectively).[3]

As the purpose of DROP is not specified in statute, it is unclear if the Legislature intended for Regular Class employers to subsidize the DROP costs for all other membership classes.

How do other states implement and fund their deferred retirement option programs?

At least 12 other states have established deferred retirement option programs, many of which are similar to Florida's program. As shown in Appendix C, these states have criteria for entering the program (age and years of service) and place limits on how long workers can participate (the most frequent period is 60 months). Like Florida, four states — Alabama, Arkansas, Louisiana, and South Carolina — offer DROP to all pension plan members. In addition, six states — Alabama, Arkansas, Arizona, Maryland, Michigan, and Oklahoma — provide a guaranteed interest rate on DROP funds, ranging from 2% in Oklahoma to 8.5% in Arizona. Florida's guaranteed rate of 6.5% falls within this range. Moreover, like Florida, four states increase DROP benefits through cost of living adjustments. Oklahoma's legislature annually sets the cost of living adjustment, while cost of living adjustments in Maryland, Missouri, and South Carolina are linked to the changes in the Consumer Price Index.

However, other states' deferred retirement option programs also have provisions that vary significantly from Florida's program. For example, Arizona, Indiana, Maryland, Nebraska, Ohio, and Oklahoma have a separate DROP system for special risk employees (e.g., state police and firefighters). In addition, six states — Alabama, Indiana, Louisiana, Ohio, Oklahoma, and South Carolina — allow employees who meet eligibility requirements to enroll in DROP whenever they choose. Three states allow eligible employees who have already surpassed DROP age and years of service requirements to enroll retroactively; these 'Back DROP' or 'Reverse DROP' plans are offered by Arizona, Missouri, and Oklahoma.

Other states also vary in how interest is earned on DROP accounts. For example, Nebraska's members place their accounts in 1 of 13 investment options offered through the state's Deferred Compensation Plan; a member's account earns the rate of return of the selected investment option. In Ohio, non-highway patrol public employees can participate in a program similar to DROP that allows the employees to take a partial lump sum payment that cannot be less than 6 times or more than 36 times the monthly amount that would be payable to the members under their selected payment plan.

How did recent FRS legislation affect Florida's Deferred Retirement Option Program?

The 2009 Legislature made numerous changes to the Florida Retirement System, three of which affected DROP participants; the changes go into effect on July 1, 2010.[4] First, the Legislature amended provisions that governed when individuals could return to FRS employment after retirement. Previously, those who retired or exited DROP had to wait one calendar month before they could be re-hired by an FRS employer. In the future, such individuals must wait six calendar months before being re-employed. Employees and employers who violate reemployment provisions are liable to the FRS for any benefits paid.

Second, the 2009 legislation prohibited individuals who retire or exit DROP from earning credits toward a second FRS benefit if an FRS employer subsequently reemploys them. As a result, employers who hire such persons are no longer required to make retirement contributions for these workers unless the FRS pension plan experiences an unfunded actuarial liability.[5]

[3] Milliman, Inc. *Study to Revise Florida Retirement System (FRS) Funding Valuation to Incorporate Deferred Retirement Option Program (DROP) Participation in Each Membership Class,* January 15, 2009.

[4] Chapter 2009-209, *Laws of Florida*.

[5] An unfunded actuarial liability occurs when plan assets are insufficient to meet the pension payments to current and future pensioners within the Florida Retirement System. Florida law requires that unfunded actuarial liabilities be amortized over a 30-year period.

Third, the legislation modified the period for elected officials' DROP accounts to earn interest. Currently, elected officials already in DROP can continue earning interest on their accounts beyond their DROP completion date and until they finish their current or re-elected term of office. In July, elected officials who begin DROP will no longer earn interest on the account after the DROP period has been completed.

What options could the Legislature consider for DROP?

If the Legislature wishes to make additional changes to Florida's Deferred Retirement Option Program, it could consider five options.

1. Statutorily define DROP's purpose.
2. Establish employer contribution rates, which include DROP, for each membership class.
3. Standardize DROP requirements.
4. Change the interest rate for DROP accounts to a rate based on current economic conditions.
5. Eliminate DROP.

Establish legislative intent for DROP. Currently, the purpose of DROP is not stated in law, and opinions vary regarding its overall goal. One perspective holds that DROP is intended to be an early retirement incentive to reduce payroll costs by encouraging older, and presumably higher paid employees to leave the workforce. In contrast, another perspective holds that DROP is intended to be a tool for retaining highly experienced employees in the workforce and avoiding training and turnover costs. Clarifying the legislative intent for DROP would provide a basis for evaluating the program's success and the need for further changes.

Standardize DROP participation requirements. Currently, most FRS Pension Plan members can participate in DROP for a maximum of five years, while school district K-12 instructional personnel, with employer approval, can participate in the program for an additional three years. In addition, school instructional personnel may defer DROP enrollment to any age after meeting normal retirement criteria. The Legislature authorized these enhanced benefits for school personnel in an effort to retain qualified teachers when the state was experiencing a statewide teacher shortage. However, while there are shortages in selected areas of the state and within certain teaching disciplines, there is no longer a statewide shortage. The Legislature could standardize these requirements by reducing the length of time that teachers may remain within DROP to five years.

In addition, the Legislature could consider allowing all eligible members to defer DROP entry to a time of their choosing after they meet normal retirement criteria. If members were allowed to defer DROP entry to any date after meeting normal retirement requirements, FRS costs could be reduced because pension payments for participating employees would begin at a later age, the payments would be paid over a shorter lifetime, and there would be more time to fund pension benefits.

Once the Legislature determines the primary purposes of DROP, it may wish to standardize program requirements in accordance with these goals. The advantages of standardizing DROP enrollment windows and participation periods (e.g., allow all eligible members to defer DROP enrollment and limit the participation period to no more than five years) are that such changes would make the program's participation equitable among all FRS workers and may reduce employer costs. An actuarial study would be required to estimate the savings associated with this proposal.

Establish employer contribution rates that include DROP for each membership class. Florida law provides that employee benefits should be funded in a manner that is fair, orderly, and equitable.[6] As such, the Legislature may wish to revisit how DROP is funded and establish a system that ties contribution rates to the types of workers employed by FRS employers. The Legislature could do so by establishing contribution rates that include DROP for each membership class, (i.e., the mechanism currently used for FRS regular retirement contributions). This option would reduce DROP costs for entities that primarily employ Regular Class employees (e.g., school boards, universities, and state colleges), but would increase costs for entities that primarily employ special risk employees (e.g., county sheriffs, city police, and state law

[6] Section 112.61, *F.S.*

enforcement agencies). Thus, the major effect of this option is that it would eliminate the cost shift, with employers whose costs are currently being subsidized required to pay the full cost for their employees who participate in the program.

Link the interest rate guaranteed for DROP accounts to a rate based on current economic conditions. As noted previously, DROP provides a 6.5% guaranteed annual rate of return. As an alternative, the Legislature could tie the guaranteed rate to a benchmark such as the Consumer Price Index, the one-year Treasury Bill yield, or the prime interest rate charged by major banks. Linking the rate to such a benchmark would likely reduce program costs.

Eliminate DROP. In 2009, the FRS paid approximately $71.4 million more to fund DROP than it would have paid if the program did not exist. To reduce employer costs, the Legislature could eliminate the program by closing it to new participants effective July 1, 2010. If the program were discontinued, FRS employers would have to pay the costs associated with current participants until these members exit the program. This would take up to five years for most employers and up to eight years for those who employ K-12 instructional personnel. However, once all current DROP participants exit the program, governments that participate in FRS would realize annual savings. The amount of these savings would depend on several factors, including future pay increases and whether employees who would have entered DROP remain in the workforce or retire.

The decision on whether to eliminate DROP depends in part on the Legislature's intent regarding the program's purpose. If the Legislature determines that the fundamental purpose of DROP is to produce payroll savings by encouraging older employees to commit to a date at which they will leave government employment, then eliminating the program could result in such persons continuing to work, as they would no longer be able to collect up to five years of pension benefits as a lump sum and use these monies to help fund their retirement. Participating governments would incur lower pension costs while these individuals continued to work, as contribution rates on average are currently lower for workers who are not in DROP. However, if the Legislature determines that DROP is intended to encourage older, highly qualified, experienced employees to remain in the workforce, eliminating the program could affect this outcome.

Agency Response

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the Secretary of the Department of Management Services for review and response. The Secretary's written response is included in Appendix D.

Appendix A

Employer Contribution Costs Will Increase in Fiscal Year 2010-11

The Division of Retirement's contracted actuary recently conducted a valuation of the FRS pension fund and determined that employer contribution rates will significantly increase beginning July 1, 2010. The rate increase is due to the elimination of a funding surplus that was used to reduce current employer contributions and the creation of an unfunded actuarial liability due to poorer than expected investment performance that will increase future employer contributions. Table A-1 below shows the rate reductions due to using the surplus in Fiscal Year 2009-10 and the rate increases resulting from the actuarial liability in Fiscal Year 2010-11. Columns B and D display the actuary's estimate of the uniform employer contribution rates required to fund DROP and the Pension and Investment Plans. Column C reflects the current legislatively approved uniform employer contribution rates, reduced by using surplus funds. Column D details the uniform employer contribution rates recommended by the actuary for implementation. These rates are referred to as recommended rates because the actuary cannot enact laws for the State of Florida. Only the Legislature can amend state law to specify the contribution rates to be paid.

Table A-1
Contribution Costs Vary Among Membership Classes and Will Increase in the Next Fiscal Year

(A)	(B)	(C)	(D)	(E)
Membership Class	FY 2009-10 Blended Normal Cost Rates	FY 2009-10 Blended Rates As Enacted	FY 2010-11 Blended Normal Cost Rates	Recommended FY 2010-11 Blended Total Contribution Rates[1]
Regular	9.57%	8.69%	9.76%	11.34%
Special Risk	21.99%	19.76%	22.15%	28.12%
Special Risk Administrative	12.04%	11.39%	11.24%	27.21%
Senior Management Services	12.93%	11.96%	11.70%	20.97%
Elected Officials				
Judicial	20.57%	18.40%	19.39%	30.39%
Legislature/Attorneys/Cabinet	14.83%	13.32%	14.38%	31.43%
Counties	17.27%	15.37%	16.62%	36.37%
DROP – All Classes	11.14%	9.8%	14.23%	19.20%

[1] Includes normal costs and unfunded actuarial liabilities. Normal costs are based on economic and demographic assumptions and represent the portion of the actuarial present value of pension benefits allocated to a specific year. Unfunded actuarial liabilities represent the amount of pension liabilities not covered by contributions made at the normal cost rate or plan assets.

Source: Department of Management Services' Division of Retirement.

Appendix B

DROP Is Funded Through a Uniform Rate That Shifts Program Costs

DROP is funded through a uniform employer contribution rate for all participants. In Fiscal Year 2008-09, entities that employed staff in the FRS's Regular Class contributed 8.69% of these employees' salary for workers who were not in DROP and 9.80% of salary for employees who participate in DROP. Entities with staff assigned to all other retirement classes also contributed 9.80% of salary for DROP participants; however, these entities' contribution rates for employees not in DROP were significantly higher, ranging from 11.39% for staff in the Special Risk Administrative Support Class members to 19.96% for Special Risk Class members. As a result, entities that had Regular Class workers in DROP subsidized the cost of program benefits for all other membership classes.

Table B-1 below demonstrates these costs shifts. It identifies the FRS costs (including employer contributions and surplus funds) that were paid for each membership class in Fiscal Year 2008-09. Column B in Table B-1 shows the normal DROP cost incurred for each retirement class under the uniform rate. Column C shows the cost that would have been incurred if the workers in each retirement class had not entered DROP but had stayed employed in their existing class. The values in this column are estimates of the amount that would have been paid if FRS did not use a uniform rate for DROP. Column D shows the difference between these two amounts for each retirement class. Because of the cost shifting, Regular Class costs were $20.3 million more in Fiscal Year 2008-09, while Special Risk Class costs were $19.9 million less than they would have been in the absence of the uniform DROP rate.

Table B-1
Cost Shifting Results in Regular Class Employers Subsidizing the Costs of Other Membership Classes

(A) Employment Membership Class	(B) FY 2008-09 FRS Costs of Employees Enrolled in DROP (in millions)	(C) FRS Costs If Employees had not Entered DROP (in millions)	(D) Difference in FRS Costs for DROP Participants (in millions)[1]
Regular	$163.8	$143.5	$20.3
Special Risk	$19.7	$39.6	-$19.9
Special Risk Administrative	$0.43	$0.47	-$.04
Senior Management Service.	$5.8	$7.1	-$1.3
Elected Officers	$2.7	$4.7	-$2.0

[1] Excludes actuarial costs for DROP participation, which were estimated in the Division of Retirement's contracted actuary's January 2010 special actuarial study. The study calculated that these costs would range from 0.47% of salary for employees in the Regular Class to 1.67% of salary for legislators in the Elected Officers Class. The column does not sum to zero due to because there was a difference in the anticipated level of participation and the actual level of participation for each membership class.

Source: Division of Retirement documents.

Appendix C

States Vary in Deferred Retirement Option Program Eligibility and Implementation Requirements

At least 12 other states have established deferred retirement option programs for their public employees that are similar to Florida's DROP. As shown below, these states have criteria for entering the program (age and years of service), and place limits on how long workers can participate. Some states restrict program enrollment, while others allow employees to enroll retroactively. Several states tie account cost of living increases and interest earnings to legislative rule and current economic indices to control their cost obligations.

Table C-1
States Vary in Deferred Retirement Option Program Eligibility and Implementation Requirements

State	Eligibility	DROP Duration	Annual Interest and Cost of Living Increases
Florida	Open to all membership classes that meet age and years of service eligibility. While participating in the program, the member's retirement benefit is deposited into the FRS Trust Fund, earning tax-deferred interest. At the conclusion of DROP, the member must terminate from all FRS employers. All DROP members currently can rejoin the FRS as a renewed class member after a one-month break in service. However, effective July 1, 2010, DROP members will have to wait six months.	60 months 96 months for instructional personnel teaching kindergarten through 12th grade.	6.5% interest 3% cost of living
Alabama	Open to all membership classes with 25 years of service and age 55 (age 52 for state police members).	36 – 60 months	4% interest 0% cost of living
Arkansas	Members of the Public Employee Retirement System may enroll in DROP after 28 years of service, regardless of age. Employers contribute 63% of the employee's salary into the DROP account. Additionally, they contribute ½ of 1% for each month of service over 28 years up to a maximum of 75% for 30 or more years of service.	84 months	6% interest 3% cost of living after the first year
Arizona	Members of the Public Safety Personnel Retirement System with 20 or more years of service, regardless of age, may participate in a DROP or Reverse DROP. Reverse DROP allows members to retroactively retire once they have more than 20 years of service. For example, members could work 25 years, and then decide to have their pensions based on 20 years of service and have their last five years credited to the Reverse DROP plan. Pension benefits are recalculated and reduced based on the date members chose to enter Reverse DROP.	60 months	8.5% interest for DROP 3.5% interest for Reverse DROP
Indiana	Police officers and firefighters who are 52 years old and have at least 20 years of service may enroll in DROP. Those with less than 32 years of service must contribute 6% of their salary to their DROP accounts.	12-36 months	0% interest 0% cost of living
Louisiana	All members who are eligible for retirement. Eligibility varies depending on membership class and years of service.	36 months	0% interest 0% cost of living
Maryland	Open to state police and local law enforcement officers. State police participation cannot extend beyond age 60 or 28 years of service. Local law enforcement must have a minimum of 25 years of service and the DROP period cannot extend the officer's total years of service beyond 30 years.	Up to 48 months for state police and 60 months for law enforcement officers	6% Interest Cost of living is tied to the Consumer Price Index
Michigan	Open to members of state police who have at least 25 years of service. A percentage of member's salary is deposited in a DROP account based on how long the employee participates in the program. Percentages are as follows: less than one year–30%; one year but less than two years–50%; two years but less than three years-60%; three years but less than four years-70%;four years but than five years–80%;five years but less than six years–90%; six years–100%.	72 months	3% Interest 0% cost of living

State	Eligibility	DROP Duration	Annual Interest and Cost of Living Increases
Missouri	Members must work at least two years beyond their normal retirement eligibility date, which varies by when they were hired. They may then retroactively enroll in a DROP for up to five years after they were initially eligible. Upon entering DROP, pension benefits are recalculated and reduced based on the date members choose to enter the plan and, at termination; they receive a lump sum payment that equals 90% of the pension earned during the DROP period.	60 months	Pension benefits are deposited in a DROP account that earns interest at a rate that, depending on a members hire date, is generally 80% of the change in the Consumer Price index.
Nebraska	Restricted to state patrol officers between ages 50 and 60 who have at least 25 years of service. Members must terminate service after five years of DROP or age 60.	60 months	The member's DROP account is placed in one of 13 investment options offered by the program. The DROP account earns the rate of return achieved by the selected investment option.
Ohio	Open to Ohio Highway Patrol Retirement System members until they turn age 60 1) they are at least 48 years old with 25 years of service, or 2) they are at least 52 years old with 20 years of service. Employees must contribute 10% of their salary to a DROP account. Those entering DROP before age 52 must serve at least three years in DROP while those age 52 or older must serve two years. Employees who discontinue DROP participation before serving the minimum number of years must forfeit any accrued interest.	96 months	Interest rate set annually by the State Retirement Board. 3% cost of living applied after age 53
Ohio This program serves as an alternative to DROP	The Public Employee Retirement System has a program similar to DROP that allows members eligible to retire to take a lump sum payment that cannot be less than 6 times or more than 36 times the monthly amount that would be payable to the members under their selected payment plan, and that cannot be less than 50% of their monthly pension benefit. Members may take advantage of this program after they have reached one of three milestones: 1) at any age after 30 years of service, 2) at age 55 with 25 years of service, or 3) at age 60 with five years of service. Employees retiring with fewer than 30 years of service or under age 65 receive reduced retirement benefits.		N/A
Oklahoma	Members of the Oklahoma Law Enforcement Retirement System may participate in Back DROP and DROP. Back DROP allows members to retroactively enter DROP. Their pension benefits are then reduced and based on the years of service they had as of their Back DROP entry date. Back DROP and DROP are open to members with more than 20 years of service regardless of age. After completing either program, employees must terminate employment.	60 months	DROP or Back-DROP earns 2% interest below the rate of return earned by the retirement system's pension fund but no less than the actuarial assumed interest rate certified by the division's contracted actuary. Cost of living is determined annually by the legislature.
South Carolina	Open to all members who have 28 years of service or who are age 65. Members contribute 6.5% their salaries to the program.	60 months	0% Interest Cost of living adjustments tied to the Consumer Price Index

Source: OPPAGA review of state's retirement handbooks and documents, fall 2009.

Appendix D

DEPARTMENT OF MANAGEMENT Services

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Governor Charlie Crist Secretary Linda H. South

March 5, 2010

Mr. Gary R. VanLandingham, Director
Office of Program Policy Analysis and
Government Accountability
111 West Madison St., Room 312
Tallahassee, FL 32399-1450

Dear Mr. VanLandingham:

We have reviewed your preliminary and tentative report, ***DROP Could Be Improved by Defining Its Purpose, Standardizing Requirements, and Ensuring That Benefits Are Equitably Funded.***

The department will implement or assist other entities in implementing any options the Legislature should choose to designate.

We appreciate your staff's efforts and cordial working relationship over the past few months. If you need additional information, please contact Steve Rumph, Inspector General, at 488-5285.

Sincerely,

LH South

Linda H. South
Secretary

cc: James Finch, Chief of Staff
David Faulkenberry, Deputy Secretary
Sarabeth Snuggs, Director of Retirement
Elizabeth Irvin, Legislative Affairs Director
Linda McDonald, Communications Director

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The Florida Legislature

Office of Program Policy Analysis and Government Accountability

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