



## **Deferred Retirement Option Plan (“DROP”)**

### **What is DROP?**

If you are eligible for a service retirement, but not quite ready to leave the workforce, DROP might be for you. DROP is a voluntary program that allows you to continue working for your plan sponsor for up to five years while simultaneously earning a monthly pension benefit. As long as you are still working for your plan sponsor, your monthly pension benefit will accumulate in a separate DROP account and earn interest. Once you actually retire and exit DROP, the money that has accrued in your DROP account will be paid to you, including interest, on top of your monthly pension benefit.

### **Who is Eligible to Participate in DROP?**

You may only enter DROP if you are:

- A City of San Diego (“City”) Member hired before July 1, 2005;
- A San Diego Unified Port District (“Port”) Member hired before October 1, 2005; or
- A San Diego County Regional Airport Authority (“Airport”) Member hired on or before October 2, 2006.

Also, before you can enter DROP, you must be age and service-eligible to service retire. Please refer to your [Retirement Plan Summary](#) corresponding to your employer, membership classification, and hire date to determine your eligibility requirements.

### **How Do I Enter DROP And What Happens When I Do?**

To enter DROP, you must complete a DROP application and agree to leave employment and retire no later than five years (60 months) from the date you enter DROP (although there is an exception for City Firefighters, who may be able to extend their DROP period according to Board Rule 6.50). On your application, you will select one of several retirement benefit options and designate a beneficiary to receive a lifetime continuance benefit upon your death (if applicable). These elections are irrevocable.

Once you enter DROP, you may not change your decision to enter the program, nor your agreement to leave employment and retire within five years. Also, your pension benefit amount is fixed when you enter DROP (not including future cost of living adjustments), which means you will not continue earning service credit or be eligible for any changes to your benefit formula between entering and leaving DROP.

SDCERS will calculate your pension benefit based on your age, service credit, and Final Compensation at the time you enter DROP. From that point forward, until the time you leave DROP, you will continue to work and receive a salary from your employer. However, there will be several changes to your status at SDCERS:

- You will no longer accrue service credit;
- You will no longer make retirement contributions to your member contribution account. Instead, you will contribute 3.05% of your pensionable salary to your DROP account every pay period (see below for details on what is deposited into your DROP account); and
- Any salary increases or decreases you receive while in DROP will not affect your monthly pension benefit.

### **What Is My DROP Participation Account?**

While in DROP and still working, you are considered an “Active DROP Member.” During this time, your DROP account is called your “DROP Participation Account.” You cannot access these funds until you terminate employment.

Remember, your pension benefit is calculated at the time you enter DROP. While you are an Active DROP Member, the following funds are deposited into your DROP Participation Account:

1. Your monthly pension benefit;
2. Your employee contributions, which are deducted from every paycheck you receive while in DROP (equal to 3.05% of your pensionable salary);
3. Your employer (City, Port, or Airport) will also contribute 3.05% of your pensionable salary in matching contributions;
4. Annual cost of living adjustments (“COLA”) to your monthly retirement benefit that occur every July that you are in DROP;
5. The 13th Check (and any other supplemental benefits) will be deposited into your DROP account if you are eligible and if distributed while you are in DROP; and
6. Interest is credited to your DROP account each quarter at a rate determined by the Board. (See the section titled “DROP Interest” for more information.)

## **What Happens When I Exit DROP?**

A Member participating in DROP may leave DROP at any time during their designated DROP participation period by voluntarily leaving employment. SDCERS will terminate a Member's participation in DROP when:

- The Member's designated DROP participation period ends;
- The Member's employment is terminated (either voluntarily or for cause);
- The Member dies; or
- The Member is granted a disability retirement.

Upon exiting DROP, Members may take a lump sum distribution of their entire DROP account, take a partial lump sum and annuitize the remaining balance, or annuitize the entire amount and begin receiving equal monthly payments annuitized over their life expectancy (up to 240 months).

## **How Your DROP Account Is Distributed**

Your DROP benefit is the value of your DROP account at the end of your participation period, including interest. You are required to begin receiving the funds in your DROP account when you exit DROP, at which time you will submit paperwork to SDCERS indicating how you would like your DROP funds to be distributed. The distribution may be made in one of the following ways:

1. As a single lump sum;
2. Paid in 240 equal payments over 20 years (as long as this does not exceed your life expectancy at the time you exit DROP);
3. Paid as an annuity over your life expectancy; or
4. A combination of a partial lump sum and an annuity.

If you choose any distribution option other than a lump sum payment at retirement, you may at any time elect to receive the present day value of any remaining monthly payments in a lump sum, with no additional interest.

## **DROP Interest**

The Board of Administration determines the interest rates for DROP Participation Accounts and DROP Annuity Accounts. You can see the current interest rates by looking at Board Rules 6.10 and 6.40, which can be found under "Resources" in the section titled "Board Charters, Policies, & Rules."

*The information in this publication is intended to provide Members with a current and accurate summary of retirement benefits. However, it is not a legal document or a substitute for the law. The language used in this publication is not intended to create a contract between the City, Port, or Airport and any Member. The governing plan document adopted by the Member's employer governs the operations of SDCERS. Accordingly, if any information in this publication conflicts with the employer's plan document, the law, or the Board Rules, the plan document, law, or Board Rules must prevail.*