

Benefits Topics

In order to assist our members in making decisions concerning available benefits, each edition of the Nest Egg News will feature an explanation of selected benefits topics about which we receive frequent questions. We welcome your suggestions as to which topics you would like to see featured in future editions. We begin with an explanation of the change from the former DROP benefit to Back-DROP. This change offers the member a much better set of facts on which to base a decision concerning the cost and viability of this benefit in their particular situation.

Back-DROP Benefit Provisions

Effective July 1, 2001, Back-DROP replaced the former DROP program. Instead of electing to “enter” DROP and continue working during the DROP participation period, a member now makes the decision to Back-DROP at the time he/she decides to separate from employment and retire. At that time, the member decides whether he/she wants to Back-DROP and, if so, may select a Back-DROP period not to exceed 3 years (36 months). The Back-DROP period will be the most recent calendar period corresponding to the member’s accrued creditable service.

In order to be eligible for Back-DROP, an active contributing member must have accrued more years of service credit than are required for a regular service retirement and which are sufficient to cover the Back-DROP period selected. Additionally, at retirement, the member must have attained an age that is at least equivalent to having had attained age 55 by the **beginning** of the Back-DROP period, unless the member had accrued at least 30 years of creditable service by the **beginning** of the Back-DROP period.

Back-DROP Eligibility Examples:

1. Member retires at age 58 with 15 years creditable service. Member may select a Back-DROP period not to exceed 3 years, which would take the member “back” 3 years (or less) to a time when he would still meet the minimum requirement of 12 years creditable service at age 55 (or older).
2. Member retires at age 57 with 20 years creditable service. Member may select a Back-DROP period not to exceed 2 years, which would take the member “back” 2 years (or less) to a time when he would still meet the minimum age requirement of age 55 with 12 years or more of creditable service.
3. Member retires at age 52 with 33 years creditable service. Member may select a Back-DROP period not to exceed 3 years. Age is not a consideration when member has 30 years or more of creditable service at the **beginning** of the Back-DROP period.
4. Member retires at age 54 with 32 years creditable service. Member may select a Back-DROP period not to exceed 2 years, which is equal to the additional service credit accrued beyond the minimum requirement of 30 years at the **beginning** of the Back-DROP period in order to retire prior to attaining age 55.

Creditable service at retirement, as used for calculation of the maximum benefit, is reduced by the Back-DROP period selected. Additionally, the final average salary, as used for calculating the maximum benefit, will exclude all earnings posted during the Back-DROP period.

The Back-DROP account deposit is equal to the number of months selected as the Back-DROP period times the maximum benefit as calculated based on the member’s creditable service and average salary at the **beginning** of the specified Back-DROP period. Additionally, since July 1, 2004, upon separation of service, employee contributions received by the Pension Fund during the Back-DROP period will be credited to the member’s Back-DROP account for distribution with the other proceeds of the Back-DROP account. Back-DROP funds may be totally or partially withdrawn, rolled over, converted into an annuity, left on deposit, or distributed in any combination thereof.

Back-DROP is a great benefit for those meeting the service requirements and age restrictions of the law, but may not be beneficial in all cases. We recommend weighing the lump-sum benefit available in Back-

*DROP against any lost monthly benefit from forfeited service credit and earnings. An **example** of the application of Back-DROP is as follows:*

Member has 28 years of creditable service as of December 31, 2006, and attained age 58 on December 31, 2006. Member elects to retire effective January 1, 2007, with 36 months Back-DROP. Service credit will be 28 years – 3 years for the Back-DROP period leaving 25 years to be computed for benefits. Back-DROP period would be 1/01/2004 – 12/31/2006, the beginning of which he would have been age 55.

- Assume a \$4,000 maximum benefit (regardless of option selected)
- \$4,000 maximum benefit x 36 months for Back-DROP period = \$144,000
- Employee contributions of \$14,300 collected during the Back-DROP period are returned
- Member’s Back-DROP benefit is \$158,300 – available upon retirement, plus monthly benefit.

Back-DROP is a great benefit for those meeting the service requirements and age restrictions of the law, but may not be beneficial in all cases.

