



CHATTAHOOGA FIRE & POLICE PENSION FUND



DROP
APRIL 2013

- The Deferred Retirement Option Provision (DROP) was created jointly in 1999 by Mayor Kinsey, City administrators and the Pension Board as part of an effort to reduce the number of Firefighters and Police Officers working longer than 30 years.
- Since implementing the DROP benefit in 2000, the City has seen:
 - The number of active disability cases drop by 25%.
 - A significant reduction in Police Officers and Firefighters working more than 30 years.
 - The number of Police Officers and Firefighters retiring in the first year of eligibility drop by 40%.
 - Fire/Police personnel are generally retiring between 25 and 30 years; the primary objective of the DROP.
- The DROP benefit makes a positive difference for Police Officers and Firefighters as they transition to retirement.
 - Police Officers and Firefighters **do not enjoy the career longevity** afforded other City employees and employees in the private sector.
 - Considerable research demonstrates Firefighters and Police Officers tend to **have shorter life expectancies than the rest of us.**
 - For these reasons, the DROP and other benefits of the Pension Fund are **vitaly important to current members** and **essential to the recruitment and retention efforts of the City.**
- The DROP is an optional form of an earned benefit that provides Police Officers and Firefighters with the ability to receive a portion of the accrued retirement benefit earned during the DROP period up front, in exchange for working longer than required.
 - The DROP benefit is the member's money and part of their accrued pension benefit!
 - To qualify, the member must **continue to work for the City and contribute to the Pension Plan** for up to three years (the DROP Period) past the member's typical retirement at 25 years of service.
 - At retirement, the member has the option to receive the **retirement benefit accrued during the DROP Period** as a lump sum payment and receive a pension benefit typically based on 25 years of service.
 - If the member **declines the option to take the DROP** benefit, the **pension benefit is based on the total years of service** rather than the typical 25 years of service.
- Today, the average salary for a Firefighter or Police Officer is \$44,786. Under the current pension plan adopted in 2008, the average Police Officer and Firefighter, at retirement, has two options:
 - Retire with a **28-year pension benefit of \$32,650 annually.**
 - Retire with a **25-year pension benefit of \$30,790 annually** and exercise the DROP benefit to **receive the accrued pension benefit for the three extra years of service** in a lump sum payment of \$92,376.
- The DROP is not a bonus or golden parachute.
 - A **BONUS** is additional compensation given to an employee **above** his/her normal salary.
 - A **GOLDEN PARACHUTE** is a lucrative benefit given to top executives when they leave their job.
- To address the impact of the DROP benefit to the Pension Fund, the Pension Fund Board worked proactively the past two years, and adjusted its investment strategy to include allocations to certain investments. The original DROP has a finite number of participants and as these officers retire, along with the investment strategy change made this January, **the impact of the DROP will move steadily towards cost neutrality** to the Fund.