



Department Source: Finance

To: City Council

From: City Manager & Staff

Council Meeting Date: July 3, 2017

Re: Extension of the Deferred Retirement Option Program

Executive Summary

Approval of this Ordinance will extend the Deferred Retirement Option Program (DROP) for both the Police and Fire Pension Funds for an additional 60 consecutive months beginning August 20, 2017. Provision will sunset August 20, 2022.

Discussion

Sec. 18-91 Chapter 18, Article 22 – Division 4 contains sunset provisions for the DROP program effective August 20, 2017. It is the desire of the Police Retirement Board and the Fire Retirement Board to continue the DROP program for an additional 60 months. This program allows eligible members to continue employment in their respective departments for up to five additional years past retirement eligibility date while accruing pension benefits to be paid at the end of that five year term.

After completion of the DROP period, the employee shall retire and receive the accrued benefits.

This program was established to retain institutional knowledge beyond the twenty years required for retirement eligibility. In addition, it provides the departments with a planning tool to prepare for the retirements. This program is viewed as beneficial for both the employee and the police and fire departments.

The DROP is beneficial to the overall retirement plan because monthly retirement benefits for DROP participants are frozen at the time the employee agrees to enter the DROP. The benefits do increase by any annual cost of living adjustments and earn 2% interest during the DROP period worked. This cost is off-set by the amounts contributed to the plan by the employees during that five year period of DROP participation. During the DROP period, the retirement plans continue to receive the City's contributions, although the benefit liability does not increase.

It should be noted that the employee is not required to retire or enter the DROP program after reaching eligibility. If the employee continues regular employment after reaching eligibility, the benefits will increase according to the defined benefit formula and the salary will continue to be paid to the employee.



Fiscal Impact

Short-Term Impact: During Year 1 & 2, the cost to the City would be the benefits paid at the end of the drop program and the amount of interest at a rate of 2% earned during the drop period, offset by the amount the employee contributes to the plan. This amount varies by employee because it is dependent on the retirement formula. This is substantially the same impact if the employee retired at the first eligibility date and the Department hired a new employee.

Long-Term Impact: Years 3-5 of DROP participation would be the cost to the City which is made up of the benefits paid at the end of the drop program and the amount of interest at a rate of 2% earned during the drop period, off-set by the amount the employee contributes to the plan during that period. This amount varies by employee because it is dependent on the retirement formula. This is substantially the same impact if the employee retired at the first eligibility date and the Department hired a new employee.

Vision & Strategic Plan Impact

Vision Impacts:

Primary Impact: Not Applicable, Secondary Impact: Not Applicable, Tertiary Impact: Not Applicable

Strategic Plan Impacts:

Primary Impact: Public Safety, Secondary Impact: Not Applicable, Tertiary Impact: Not Applicable

Comprehensive Plan Impacts:

Primary Impact: Not Applicable, Secondary Impact: Not applicable, Tertiary Impact: Not Applicable

Legislative History

Date	Action
08-20-2007	Ord. No. 19636, § 1, 8-20-07 Establishes the DROP Program
08-20-2012	Ord. No. 21405, § 1, 8-20-12; Renews the DROP Program for another five years. Reduces the amount of accrued interest during the DROP period from 4% to 2%
09-17-2012	Ord. No. 21455, § 1, Changes the terms of the pension plan for employees hired after October 1, 2012.

Suggested Council Action

Approve the attached Ordinance.