DROP (Deferred Retirement Option Plan)

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Deferred Retirement Option Plan (DROP) is a program available to you if you are eligible for regular retirement. There are advantages and disadvantages to the DROP program so each person should fully investigate all aspects before applying.

Eligibility Requirements for DROP

- Member on or before June 30, 2010
  - 10 years of service at age 60
  - 25 years of service at age 55
  - 30 years of service at any age

- Member on or after July 1, 2010
  - 5 years of service at age 60

- Member on or after July 1, 2015
  - 5 years of service at age 62

As a member of the retirement system, you contribute a portion of your earnings to LSERS. As you contribute to the retirement system, you earn service credit. If you enter the DROP program, you stop making contributions to LSERS and LSERS will deposit your monthly benefit into your DROP account for up to 36 months. This balance will increase every month until your DROP participation ends. After your DROP participation ends, you have the option to retire or continue working. If you retire, LSERS stops paying into your DROP account and begins paying you. If you continue working, your earnings will be reported to LSERS, and if you are not at 100% accrual of benefits, you will contribute to LSERS again. As you contribute to the retirement system, you will earn service credit. When you retire your monthly benefit may be supplemented by your unused leave and the service credit earned after DROP.

If you apply for DROP, LSERS will calculate your service retirement benefit. Information regarding this calculation may be found in the Regular Service Retirement and Benefit Options Fact Sheets. LSERS does not include unused leave in your DROP deposit calculation. This may be added at the time of your retirement, if you are not at 100% accrual of your benefits.

Considering DROP?

DROP is another option for your retirement years. It is not for everyone and your decision should be based on your own individual situation. Here are key points when considering DROP:

- Do you think you might receive a large salary increase in the future?
- Do you plan on working more than three years?
- Are you close to reaching 100% accrual?
- Is the DROP benefit sufficient for you? Can you live on the benefit for the rest of your life? When you enter DROP, your monthly retirement benefit is your DROP deposit. If the benefit is not enough, DROP may not be for you. If you do not enter DROP, you will continue to contribute to LSERS, and your monthly benefit will continue to grow.
- DROP is not for you if you are attempting to supplement your income. Your DROP deposit does not guarantee you an income for your lifetime. Only monthly benefits guarantee an income for your lifetime.

DROP Timeline

- When you apply for DROP, LSERS will provide you with an affidavit. This affidavit includes your estimated monthly benefits for all benefit options available to you. To complete this form, you will select your retirement option, and if appropriate, your spouse will need to complete the spousal consent section. Complete this form in the presence of a notary public, have it notarized, and return to LSERS.
- When your DROP start date passes, you will continue working, and LSERS will begin depositing monthly benefits into your DROP account.
- You may stop DROP before your DROP end date, provided you separate service with your employer.
- On your DROP end date, LSERS will stop making monthly deposits. Your DROP account will become an interest bearing account. LSERS will credit interest to your account based on the applicable interest rate. If LSERS has a negative return on investments, it will not impact your DROP account. Your DROP balance is guaranteed.
- On your DROP end date, you may choose to retire or continue working.
- If you choose to retire or retire within 30 days of your DROP end date, LSERS will begin paying your retirement benefits. Your unused leave may be converted to retirement credit and LSERS will add a supplement to your benefit, if you are not at 100% benefit accrual.
- If you choose to continue working for at least 30 days, you will start contributing to LSERS again, unless you have reached 100% of accrual. You will earn service credit which will be added to your benefit when you retire.
    - If you work less than 3 years after DROP, LSERS will calculate a supplemental benefit using your service credit after DROP, your pre-DROP final average compensation (FAC), and your unused leave.
    - If you work 3 years or more after DROP, LSERS will calculate a supplemental benefit using your service credit after DROP, your highest FAC, and your unused leave. LSERS will calculate and compare your pre-DROP FAC and your after-DROP FAC. The higher FAC will be used in calculating this supplemental benefit.
- You are eligible to request withdrawals from your DROP account once you have separated service and are retired.

Entering DROP

You must begin DROP participation within 60 days after you first become eligible to take advantage of the three full years. You may still elect to participate in DROP after the 60-day period, but you cannot participate for the three full years.

- Your DROP benefit will be calculated just like a regular service benefit. The DROP benefit will **not** include your unused sick or annual leave. Your leave will be added to your benefit when you actually stop working and retire, subject to the 100% of average compensation limitation.
- You will select your benefit option when you enter DROP, just as you would under the regular service retirement plan. You may **not** change your option or your named beneficiary designated for Options 2 - 4A once you have made your selection on the final affidavit and submitted it to LSERS.
- Your beneficiary may receive funds based on your monthly benefit option and on any funds you have remaining in your DROP account at the time of your death. You may name a beneficiary to receive a lump sum or monthly lifetime benefit after your death and another beneficiary to receive your remaining DROP balance.
- A DROP account will be established in your name for your monthly deposits. You may not withdraw any money from this account until you retire.

During DROP

- You will **not** be eligible to receive a cost-of-living adjustment (COLA), if LSERS Board of Trustees grants this increase while you are participating in DROP.
- Your ***employer*** treats you as an ***active employee*** because you continue to work, but with the following exceptions:
  - Retirement contributions are **not** withheld from your paycheck.
  - You **do** continue to earn annual and sick leave.
  - You will **not** be allowed to contribute to Social Security.
  - You will **not** receive any credit in the retirement system for the time you participate in DROP.

After DROP

- ***You may end your employment and become a regular retiree:***
  - You will be eligible to receive your retirement benefits and begin withdrawing money from your DROP account.
  - You may be eligible to receive a COLA.
- ***You may continue working:***
  - You must re-enroll in LSERS after you are no longer participating in DROP if you decide to continue your employment for 30 calendar days or more.
  - You begin making contributions to the retirement system. You may accrue an additional amount that will be added to your retirement benefit after you have stopped working, if you work at least 30 days after DROP.

Interest on DROP Account

Your DROP account does not earn interest while you are participating in DROP. The account begins to earn interest after you no longer make deposits. The percent interest earned is based on when you were first eligible for DROP. Your DROP account is guaranteed and protected from negative investment returns. The balance in your DROP account will only decrease as funds are paid to you.

If you are eligible for DROP **on or after January 1, 2004**, your DROP money is invested in the liquid asset money market account (LAMMA) earning interest based on the LAMMA.

If you were eligible for DROP **prior to January 1, 2004**, the rate of interest your account will earn is equal to the realized rate of return on the system's assets less 0.5%. The realized rate of return is calculated and established by the system's actuary after the end of each fiscal year. Refer to DROP and IBRP Interest Rate publication for prior year interest rates for both types of interest earnings accounts.