

DEFERRED RETIREMENT OPTION PROGRAM (DROP) DIVORCE – DROP BASICS

This article introduces the practitioner to the DROP and provides some basic DROP facts. The next article discusses negotiating DROP, with emphasis on how to craft language awarding a Former Spouse a portion of the DROP. What follows are DROP BASICS.

At the time of divorce it is unlikely that the Employee Spouse is DROP eligible or an actual DROP participant. Regardless, the DROP should be an element of negotiation in marriage dissolution actions involving a Florida Retirement System employee.

Eligible DROP Employees:

All active Florida Retirement System members in a regularly established position. This would include:

Regular Class ¹

Special Risk Class ²

Ineligible Employees. See footnote below. ³

Time of Entry into DROP.

¹ This includes Teachers.

² Participants include: persons employed in certain categories of law enforcement, firefighting, criminal detention, and emergency medical care positions.

³

An employee who retired from a state administered retirement system, and after retirement become reemployed in an FRS-covered position with or without renewed membership.

An employee who is a member of the FRS Pension Plan who did not begin DROP participation during the election period and is not eligible to defer DROP participation.

An employee who is a member or retiree of the FRS Investment Plan.

An employee who is a member or retiree of the State University System Optional Retirement Program.

An employee who is member or retiree of the State Community College System Optional Retirement Program.

An employee who is a member or retiree of the Senior Management Service Optional Annuity Program.

An employee who is a senior manager employed by or retired from a non-state employer and chose to withdraw from participation in the FRS.

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An employee who is an elected official and chose to withdraw from participation in the FRS
FRS employees may begin DROP participation in the month she or he reaches her or his normal retirement date.

Participation Option A.

Based upon the employee's age

Participation Option B.

Based on the month after the month the employee reaches her or his normal retirement date based upon the employee's years of service.

Vesting Requirement.

To Participate in the DROP, the employee must be vested.
FRS has two Vesting Schedules:

- **Six Year Vesting:** Enrolled before July 1, 2011
- **Eight Year Vesting:** Enrolled after July 1, 2011

Summary of Basic Plan Features.

To Enter DROP, an employee must be retirement eligible
Employee Applies for Retirement, but does not stop working ⁴
You Earn Your Salary while in the DROP ⁵
No Further Retirement Credits Accumulate
Pension Payments Accumulate, with tax deferred interest ⁶
Duration of DROP Participation is 60 months ⁷
At the End of 60 Months the employee retires and Begins to Receive
Monthly Pension Benefits
Additionally, the retiree will Receive the Lump Sum Accumulated Worth of
her or his DROP Account (for the 60 month period). Alternatively, it Can Be
Rolled Over into an Individual Retirement Account ⁸

⁴ The employee will be actively employed during the period of DROP participation.

⁵ Your pension payments are deposited into the DROP

⁶ If your DROP begins on or after July 1, 2011, your DROP accumulation earns compounded monthly interest at an effective annual rate of 1.30 percent. The effective reduction in the interest accumulation rate is 80%.

⁷ Can be longer for K-12 instructional personnel. They may extend the DROP for an additional 36 months.

⁸ The retiree can elect a partial Lump Sum and Roll the balance into an IRA. Lump Sum Distributions are subject to mandatory 20% withholding for Federal Income Tax.

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Is DROP Cancellable?

Once the DROP application is finalized and the participant has completed one month of DROP participation, DROP participation may not be cancelled by the participant.

DROP Beneficiaries.

A Former Spouse does not qualify for “Joint Annuitant” status.⁹

However, the Former Spouse, from a well-crafted QDRO will receive as a “Death Benefit”, an amount equal to her “proportionate” share of the DROP accumulations.¹⁰ Do not take this beneficiary status as a given, maladroit negotiation and or drafting can result in loss of this valuable entitlement by a Former Spouse.

What is the DROP Worth?

To give the practitioner an idea of what amounts can be available to a DROP participant after 60 months of Participation, the following Chart is Presented.

DROP ACCUMULATION VALUES. SHOWN AT NEW INTEREST RATE: 1.3% DROP ACCUMULATION VALUES. SHOWN AT OLD INTEREST RATE: 6.5%

Pension Annual	Pension Monthly	Full Value after 60 Mo. @1.3%	Full Value after 60 Mo. @6.5%	Dollar Loss at New Rate
\$35,000.00	\$2,916.67	\$180,711.67	\$206,132.41	\$25,420.73
\$40,000.00	\$3,333.33	\$206,527.63	\$235,579.89	\$29,052.26
\$45,000.00	\$3,750.00	\$232,343.58	\$265,027.38	\$32,683.80
\$50,000.00	\$4,166.67	\$258,159.54	\$294,474.86	\$36,315.33
\$55,000.00	\$4,583.33	\$283,975.49	\$323,922.35	\$39,946.86
\$60,000.00	\$5,000.00	\$309,791.44	\$353,369.84	\$43,578.39
\$65,000.00	\$5,416.67	\$335,607.40	\$382,817.32	\$47,209.93
\$70,000.00	\$5,833.33	\$361,423.35	\$412,264.81	\$50,841.46
\$75,000.00	\$6,250.00	\$387,239.30	\$441,712.30	\$54,472.99
\$80,000.00	\$6,666.67	\$413,055.26	\$471,159.78	\$58,104.53
\$85,000.00	\$7,083.33	\$438,871.21	\$500,607.27	\$61,736.06
\$90,000.00	\$7,500.00	\$464,687.16	\$530,054.76	\$65,367.59
\$95,000.00	\$7,916.67	\$490,503.12	\$559,502.24	\$68,999.13
\$100,000.00	\$8,333.33	\$516,319.07	\$588,949.73	\$72,630.66

⁹ See our articles on FRS and Survivor Benefits.

¹⁰ See DROP Article 2, for a detailed discussion of “ratio”.

Alert:

For most DROP participants earning at the higher interest rate (6.5%), the completion of the 60 months earning period will occur not later than July 1, 2016. Thereafter for the great majority of DROP participants the lower interest rate will be in effect at the time DROP Participation begins.