



# SAN LUIS OBISPO COUNTY PENSION TRUST

## DEFERRED RETIREMENT OPTION PROGRAM (“DROP”)

### WHAT IS IT?

A Deferred Retirement Option Program (“DROP”) is an optional, voluntary program that allows you to have your retirement benefits deposited in a special investment account and cease making contributions to the Pension Trust, all while you continue to work in your current position. In other words, it is a voluntary method of receiving a distribution of your retirement benefits; it is not an additional retirement benefit.

**The DROP program may not be beneficial to all members.** Each member must determine how the DROP program option will affect the member’s retirement benefits prior to making an election to enter the DROP program.

You can participate in the DROP program only one time, for a maximum of five years. Your retirement benefits are determined as of the date you enter the DROP program and accumulate in your DROP account while you continue to work. When you enter DROP, you also cease making contributions to the Pension Trust, which may increase your net paycheck while you are in the DROP program.

### ELIGIBILITY

1. You must be eligible for a service retirement under the Pension Trust.
2. The requirements to enter the DROP are:  
Age 50, with a minimum of 5 years of service.

### PARTICIPATION PERIOD

The maximum participation period is five years. Because the participation period cannot be extended you must retire at its conclusion; however, you can end your participation in DROP and terminate employment with the County and begin your retirement at any time prior to the end of the five-year period.

### GENERAL PROVISIONS

It is the intent of DROP not to jeopardize in any way the tax-qualified status of the Trust under the Internal Revenue Code. Full rights are reserved to modify the provisions of the San Luis Obispo County Employee’s Retirement Plan relating to the DROP program to the extent necessary or appropriate to ensure that DROP complies with applicable federal laws, regulations, and administrative rulings. No amendment shall be enacted which has the effect of decreasing the amount credited to a member’s DROP account.

### DISABILITY

If you become disabled while participating in DROP, you will be eligible to apply for disability retirement and be subject to the same disability eligibility requirements as if you were not in DROP. The amount of the disability allowance shall be the same as the amount being credited monthly to your DROP account. If you have established reciprocity with a prior agency, your benefit from that agency may be affected.

## DROP ACCOUNT

A DROP account is set up for each participant with a third party administrator, currently Great West Retirement Services (the County's Deferred Compensation Provider); the amount of your retirement benefit is credited to your DROP account each month. The DROP account is a self directed account. You will have numerous options available in which to invest your DROP account funds including mutual funds. There is no guaranteed rate of interest paid on your DROP account.

DROP account funds cannot be withdrawn until retirement from County service. There are no provisions for emergency or hardship withdrawals under the DROP program.

Based upon the Boards' legal counsel's interpretation of current tax rules, it appears that the DROP account is not subject to federal income tax until the money is withdrawn.

Upon termination of DROP participation and retirement from the County, you can receive the amounts credited to your DROP account, including any investment earnings or interest. In addition to your DROP account, you also will begin to receive your monthly retirement allowance in the amount being credited to your DROP account. You may select the method of withdrawing the money from your DROP account from the following options:

Lump-sum distribution; or

A rollover of the amount to an Individual Retirement Account (IRA); or

Monthly installment payments (a pay-out period not greater than the single, or if married, joint life expectancies of the member and the member's spouse); or

Some combination of the above; or

Such other form of distribution as is adopted by the Board and in accord with applicable provisions of the Internal Revenue Code.

At the time of your retirement, and should you elect the monthly installment payment option, deposits will no longer be made to your DROP account, and the balance remaining at the end of each month shall be credited with any investment returns you have earned. Your remaining DROP balance will not receive any increases for cost-of-living adjustments once you retire.

Quarterly statements will be provided for each DROP account.

You must name a beneficiary for your DROP account.

### YOUR STATUS DURING THE DROP PERIOD

- The Pension Trust considers you to be retired for purposes of benefit calculations;
- No service credit is earned during your DROP participation period;
- No contributions will be paid for Social Security based on your DROP account, only on your regular employment with the County as a DROP participant.

### YOUR STATUS WITH YOUR EMPLOYER DURING THE DROP PERIOD

All terms and conditions of your employment are unaffected by participating in the DROP program; however, you must retire no later than the date indicated in your DROP

Application after you begin DROP participation. Remember, the maximum DROP participation period is five years.

### **BENEFIT CALCULATION AT THE START OF DROP**

The retirement option you select at the start of DROP cannot be changed later. When you enter DROP, the method and/or options you select to calculate your retirement benefit are used to calculate your DROP benefit while in DROP. Your monthly DROP deposit is eligible for cost-of-living increases at the same time and in the same manner as such increases are granted to retired members.

In accordance with provisions of the Retirement Plan governing the Pension Trust providing for the election of a modified retirement allowance, all Member's must select one (1) of the following options at the time of retirement.

- **Unmodified** - Retirement allowance per month payable throughout life with no payment to beneficiary upon death, except if the beneficiary is a duly qualified widow, a child under age 18 or a dependent parent, he or she will receive an automatic monthly continuance until death.
- **Option 1** - Retirement allowance per month payable throughout life with the provision that your accumulated contributions (less the sum of the actual monthly annuity payments) shall be paid to your listed beneficiary upon your death. In addition, if the beneficiary is a qualified widow, a child under age 18 or a dependent parent, he or she will receive an automatic monthly continuance until his/her death.
- **Option 2** - Retirement allowance per month payable throughout life with the provision that upon the member's death, an allowance per month shall be continued during the lifetime of the designated beneficiary.
- **Option 3** - Retirement allowance per month payable throughout life with the provision that upon the member's death, an allowance per month shall be continued during the lifetime of the designated beneficiary.

### **BENEFIT CALCULATION AT THE END OF DROP**

The Retirement option you select at the start of the DROP election cannot be changed.

Once you retire you will begin receiving the benefit calculated at the start of DROP plus the cost-of-living increases that have accrued during the time you were in DROP. Upon termination of DROP participation and retirement from San Luis Obispo County, you will receive the amounts credited to your DROP account, including interest.

### **IMPORTANT!!**

**When your Application for DROP is approved by the Board of Trustees, the Pension Trust office will notify the County payroll department of your change to a DROP participant. One year prior to the conclusion of your DROP Participation period the Pension Trust will send you a notice reminding you that your DROP participation period will be concluded on the date specified in your DROP application. NOTE: Copies of this reminder will be sent to your department, the Personnel Department and the Auditor-Controller's Office. This reminder will be sent again 6 months prior to the conclusion of your DROP participation and again 3 months prior to the conclusion of your DROP participation period.**