Los Angeles Fire and Police Pensions

Deferred Retirement Option Plan - DROP

October 2016
Deferred Retirement Option Plan - DROP

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“It’s the new Public Safety Employee – he wants to know what the retirement plan is.”
DROP History

• 1999 - Aftermath of Rampart Scandal
  – Low Morale, Retention/Recruitment issues

• 2001 - Mayor Riordan endorsed Charter Amendment 2
  – To Improve Recruitment
  – To Increase Morale
  – To Lengthen the Careers of Public Safety Personnel

• LAFPP’s DROP Program - Began May 1, 2002
  – Must be cost neutral (determined by the Plan’s actuary)
  – City must complete actuarial study of DROP every 5 years
DROP Program

Major Provisions

- Eligible to enter DROP if the following is met:
  - At least 25 YOS (members of certain Tiers must also be at least age 50), **and**
  - On active duty status on the day you enter.
- DROP Period - maximum of 5 years.
- Agreement to enter DROP and terminate employment at the end of the 5-year period becomes irrevocable on DROP entry date.
How DROP Works

• Service Retirement benefit is calculated and “frozen” at the time member enters DROP.

• An amount equal to 100% of the member’s Service Pension is deposited in the DROP account each month.

• Interest is credited to the DROP account at 5% annually.

• COLA adjustments are applied, not to exceed 3%, with a COLA Bank for certain Tiers.

• For all other purposes, the member is considered “Active” and continues to receive active pay & benefits.
How DROP Works

• Regular pension contributions are made until member reaches 30 or 33 YOS. The number of YOS varies by Tier (plan).

• Pension contributions by members are NOT deposited into the DROP account

• At the end of the DROP period, member begins to receive a monthly pension based on the “frozen” Service Retirement benefit at the time of entry, plus any COLAs that have been credited.

• At the end of the DROP period, members must elect to receive the proceeds from their DROP account as: (1) a lump sum, (2) a rollover to another tax qualified account, or (3) a combination of both.
How DROP Works

• **Disability Retirement:** If granted a Disability Pension after entering DROP, DROP account is forfeited and member receives the Disability Pension.

• The Member waives the right to apply for, or be granted a Disability Pension if there was a distribution of the DROP account.

• **Death of a DROP Member:** If member passes away before exiting DROP: (1) the proceeds of DROP account are paid to the designated DROP beneficiary and (2) the Qualified Survivor receives a Post-Retirement Death continuance.
What makes a “good” DROP Program?

- Cost Neutrality - Mandatory member contributions paid until maximum years of service (30 or 33 YOS)
- Mandatory exit (after 5 years)
- DROP account interest rate lower than Plan’s assumed earnings rate (5% versus 7.5%)
- No retroactive entries
- Interest does not accrue after member exits
- A negative correlation - the number of disability pensions has decreased while the number of DROP participants increased
- Succession planning easier for Police and Fire Departments (employee turnover more predictable)
- Is the DROP Program working as intended?
STATISTICS

DROP vs. Other Pension Types

FY 2015-16

<table>
<thead>
<tr>
<th>Type</th>
<th>Count</th>
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</thead>
<tbody>
<tr>
<td>DROP ENTRIES</td>
<td>321</td>
</tr>
<tr>
<td>SERVICE PENSIONS</td>
<td>59</td>
</tr>
<tr>
<td>DISABILITY PENSIONS</td>
<td>19</td>
</tr>
</tbody>
</table>
Average Age
FY 2015-16

DROP ENTRY
DROP EXIT
SERVICE RETIREMENT

* Only one service retirement in 2015-16
Statistics

Drop vs. Service Retirement

Average Years of Service

FY 2015-16

Drop Entry

- Police: 27
- Fire: 29

Service Retirement

- Police: 23
- Fire: 25
STATISTICS

DROP Membership

Summary of Participation by Dept.

FY 2015-16

- Avg. Monthly Participation: POLICE 890, FIRE 492
- Total Entries: POLICE 235, FIRE 86
- Total Exits: POLICE 193, FIRE 194
DROP Review

Administrative Code – Chapter 21, § 4.2100(c)

The City has the right to suspend DROP and modify the program for future entrants as necessary to maintain cost neutrality and/or meet the City’s DROP goals of retaining and lengthening the careers of members.
DROP Review

- City shall complete an actuarial study of DROP, at least every five (5) years, to evaluate whether the program is cost neutral and continues to meet the City’s DROP goals.

- If the City determines changes are needed, the City shall meet and confer with the labor organizations.

- Once the City and labor organizations reach agreement, DROP shall be amended forthwith, unless no changes are required.

- If the City and labor organizations do not agree upon changes within 180 days, then the DROP program is closed to new entrants until further notice.

Any amendments to DROP will only affect those who enter DROP after the effective date of the changes.
DROP Review

• May 2007 – First Modifications
  – Police & Fire Chiefs no longer eligible to participate
  – Program extended for another 5 years
• November 2008 – Add’l Modifications
  – Member must be on active duty status at the time of entry
  – Removal of a definitive ending date – “Sunset Clause”
• Actuarial review studies completed in January 2008 & February 2014
Drawbacks

• Public perception
  – Do not understand how program works
  – Viewed as “double-dipping”

• Transparent California
  – Lumps all monies together (including health)
    • $100k+ pensions
    • Million $+ balances
Drawbacks

• Negative Media/Press – Videos by KCET
  – https://www.kcet.org/shows/socal-connected/show-me-the-money-double-dipping-0
Questions?
Disclaimer

This presentation is intended to summarize legal texts in a clear and concise manner to help you understand LAFPP benefits. If there is a difference between the legal texts and this presentation, the legal texts will prevail.