

**From:** Jennifer.Borregard@grsconsulting.com <Jennifer.Borregard@grsconsulting.com>  
**Sent:** Wednesday, May 8, 2024 2:38 PM  
**To:** Patti McLauchlin <pmclauchlin@cityofkeywest-fl.gov>  
**Cc:** Shelly.Jones@grsconsulting.com  
**Subject:** [EXTERNAL] RE: DROP Extension

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Good afternoon Patti,

We do have some clients that have extended their DROP participation beyond 5 years and some who are currently exploring the issue.

Extending the DROP is generally considered cost neutral to the plan under the State funding requirements. However, extending the DROP may alter the actual future retirement experience of the Plan and therefore future DROP / retirement experience should continue to be monitored during experience studies.

Some potential advantages / disadvantages are discussed below.

#### **Possible Advantages of Extending DROP**

Some potential advantages to employees include:

- A means of providing for a larger lump sum distribution of a portion of an employee's interest in a retirement plan.

Some potential advantages to the City include:

- A means of offering an additional benefit choice at little or no material cost.
- Valuable long service employees may be induced to delay retirement for a longer period of time.
- May be better able to plan for the replacement of long service employees for a longer period of time.

#### **Possible Disadvantages of Extending DROP**

Some potential disadvantages to employees include:

- Pay and service increases during the potentially longer DROP period are not reflected in the monthly benefit at retirement.
- Plan benefit increases during the potentially longer DROP period may not be passed on to DROP participants.
- By taking a larger lump sum, the employee's future pension payments will represent a lower percent of final average salary, producing a lower income replacement ratio.
- DROP participants are not covered under pre-retirement survivor and disability benefits for a potentially longer period of time.

Some potential disadvantages to the City include:

- It is difficult to design a popular truly cost-neutral DROP extension (there will be a small gain or loss for each member who chooses the DROP longer).

If you should have any questions concerning the above, please do not hesitate to contact us.

Best regards,



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-----Original Message-----

From: Patti McLaughlin <[pmclauchlin@cityofkeywest-fl.gov](mailto:pmclauchlin@cityofkeywest-fl.gov)>  
Sent: Tuesday, May 7, 2024 12:29 PM  
To: Borregard, Jennifer (FLP3) <[Jennifer.Borregard@grsconsulting.com](mailto:Jennifer.Borregard@grsconsulting.com)>  
Subject: DROP Extension

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Jennifer

Do you have any plans that have extended the DROP from 5 years to 8 years?

Is there a cost?

Patti mcl

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