MEMORANDUM

Date: May 9, 2024

To: Honorable Mayor and Commissioners

Via: Albert P. Childress
City Manager

From: Christina Bervaldi
Director of Finance

Subject: **Proposed Ordinance to Extend the DROP Participation Period for Police Officers and Firefighters Pension Plan**

Introduction

The City Commission has been asked to approve an Ordinance amending Chapter 46, Sections 358 and 359 of the Code of Ordinances for members of the Police Officers' and Firefighters' Retirement Plan to extend the DROP participation period from five years to eight years. While the City is not opposed to this Ordinance, there are still many unknown implications to its passing, which are included in this document.

Background

The Board of Trustees of the Police Officers' and Firefighters Retirement Plan has recommended extending the current Deferred Retirement Option Plan ("DROP") participation period from five years to eight years and to extend the maximum amount of time for a plan participant to be employed by the City of Key West from 30 years to 33 years.

The DROP allows current Police Officers and Firefighters to keep working and simultaneously accumulate pension benefits. In other words, the DROP provides its participants to earn two incomes at the same time, with the individuals' pension income being saved and invested. The DROP program represents a method for providing for the deferred receipt of retirement benefits while continuing employment with the City.

When a Police Officer or Firefighter elects to enter the DROP, their monthly benefits are calculated at that time based on their service years. This monthly benefit is then deposited into an account for the member's benefit and is invested as part of the Plan. The member's investment account shall earn or lose

interest based on the actual earnings of the overall Plan or a fixed rate of return of 6.5% as elected by the member. In addition, once the member elects to enter the DROP, they no longer contribute to the Plan.

Once a DROP participant separates employment with the City, the member receives the proceeds from their DROP account and also begins to receive their monthly pension on the first day of the month following their separation.

Procurement

While the extension of the DROP period has no actuarial impact at this time per the actuarial report provided by the Plan, the City will incur an additional cost in employee salaries and benefits. There are currently 13 Police and Fire employees who are in the DROP, whose combined salaries and benefits equal approximately $3.2M. These salaries, compounded with their respective annual increases, will potentially cost the City an additional $4M. While the City would need to pay salaries for any police officer or firefighter which would be replaced by the current employees, the cost for entry level employees in the safety disciplines would be a fraction of this estimation.

At this time, there are unknown costs to the City that may not be able to be captured in an actuarial report such as:

- What is the effect to the City's required contribution if members elect to enter the DROP and remain for the entire 8-year period? This change could potentially have an increased number of non-contributing members in the Plan at any given time, therefore, the increased contribution needed from the City could increase exponentially.
- The change could potentially slow upward mobility for younger Police and Fire employees.
- The City is currently conducting a salary study. While the current members of the DROP would not be affected, this will also potentially increase the City's required contribution to the Police Officer and Firefighter Pension Plan, therefore compounding the unknown financial impact.