

## Frequently Asked Questions – DROP

### **What is the Deferred Retirement Option Program (DROP)?**

The DROP is a program under which you may retire while you continue to work. Your monthly retirement benefits remain in the FRS Trust Fund instead of being paid directly to you or deposited in your bank. Your benefits will earn interest for you, tax deferred, for as long as you participate in DROP. In the meantime you continue to work for your FRS employer for a specified and limited period up to the date you pre-selected to stop participation in DROP. When the DROP period ends, you must terminate employment with all FRS employers and provide verification of your termination. When your termination is verified and your payout election form has been received, you will receive payment of the accumulated DROP benefits, and begin receiving your FRS monthly retirement benefit (in the same amount as determined at retirement, plus annual cost-of-living increases).

### **Does enrolling in DROP require my employer to keep me employed for the participation period that I choose?**

No, your employment status is not changed by DROP. You may quit or your employer may terminate you in the same manner as before DROP participation.

### **Can I change my option or purchase additional service credit while participating in DROP?**

No, once your participation in DROP begins your retirement is final and you cannot change your option or add service credit.

### **When is my DROP retirement final?**

Your DROP retirement is final on the last day of the effective month your DROP participation began as long as all your necessary paperwork has been submitted and approved. Once your DROP retirement is final you cannot add service credit, change options, change your type of retirement, elect Investment Plan membership, or cancel your DROP retirement.

### **Will I continue to earn service credit while I am participating in the DROP?**

Deferred Retirement Option Program participants are retired and no service credit will be earned during your DROP participation.

### **How much interest will my DROP account earn?**

Deferred Retirement Option Program accounts earn interest compounded monthly at an effective annual rate of 1.30 percent for DROP participation beginning on or after July 1, 2011. The annual interest rate for DROP participation beginning before July 1, 2011, is 6.50 percent. Interest is earned through the month of DROP employment termination or death. No interest is earned on benefits on deposit for less than one month.

### **Should I join DROP or stay in the FRS?**

One of the most important decisions you will have to make is whether you should join DROP or remain in the FRS. To assist in this decision, the division will provide estimates of the benefits you will receive if you retire and participate in DROP and if you retire without participating in DROP. Upon receipt of these estimates, you should meet with your accountant or financial planner to review your total financial situation, including FRS and/or DROP benefits, personal investments, and Social Security benefits, to determine which choice will be the best decision for your future.

### **Am I covered for Social Security while participating in DROP?**

Yes, provided your retirement plan included Social Security prior to your participation in DROP. If you plan to work and participate in DROP past age 65, ask your human resource officer if you need to enroll in Medicare when you first turn age 65 even though you will not begin receiving Social Security benefits until you terminate employment. If you enroll in Medicare late, you may have to pay higher premiums.

### **What if I become disabled while participating in DROP?**

You will not be eligible to change your type of retirement from a DROP retirement to a disability retirement. If you become disabled while in DROP, terminate your employment and verify your termination, you will begin to receive your monthly retirement benefit the month following your DROP termination. The monthly benefit will be the amount that was determined when you started the DROP, including any cost of living increases, plus your DROP accumulation up to the point of your DROP termination.

## **Eligibility**

### **Who is eligible to participate in DROP?**

All vested members of the FRS Pension Plan, Teachers' Retirement System (TRS), or State and County Officers' and Employees' Retirement System (SCOERS) who have reached normal retirement age or date, provided election to participate is made within the appropriate time periods as described below.

### **When can I begin DROP?**

You can begin DROP when you are vested and have reached your normal retirement date as follows:

#### **If you were initially enrolled in the FRS before July 1, 2011:**

For all FRS membership classes except the Special Risk Class, your normal retirement date is either when you are vested and reach age 62, or after you complete 30 years of service, whichever comes first. If you become vested after age 62, your normal retirement date is the month following the month you complete six years of service. For Special Risk Class members, your normal retirement date is when you have at least six years of Special Risk Class service and are age 55, or 25 years of Special Risk Class service, whichever comes first; or age 52 and a total of 25 years of Special Risk Class service and active duty wartime military service. If you reach six years of Special Risk Class service after age 55, your normal retirement date is the month following the month you completed six years of Special Risk Class service.

#### **If you were initially enrolled in the FRS on or after July 1, 2011:**

For all FRS membership classes except the Special Risk Class, your normal retirement date is either when you are vested and reach age 65, or after you complete 33 years of service, whichever comes first. If you become vested after age 65, your normal retirement date is the month following the month you complete eight years of service. For Special Risk Class members, your normal retirement date is when you have at least eight years of Special Risk Class service and are age 60, or after 30 years of Special Risk Class service, whichever comes first; or age 57 and a total of 30 years of Special Risk Class service that include up to four years of purchased active duty wartime military service. If you reach eight years of Special Risk Class service after age 60, your normal retirement date is the month following the month you completed eight years of Special Risk Class service.

### **Can I enroll in DROP if I am on leave of absence or on Workers' Compensation?**

Yes, you can join DROP on or after reaching your normal retirement date (as long as you apply within the 12-month limitation period or within 12 months of your deferral election period) while on leave of absence or on Workers' Compensation. However, once you return to work you cannot have any additional salary or service credit added to your retirement benefit.

### **How long can I participate in DROP?**

You may participate for a maximum of 60 months if you begin DROP participation when you first reach your normal retirement date or your maximum deferral date. If you initially elect to participate in DROP for less than the maximum 60 months allowable, you may extend your DROP participation up to the 60-month maximum if approved by your employer.

### **Can I defer starting DROP?**

You must elect DROP participation within 12 months after you first reach your normal retirement date unless you are eligible to defer as follows:

- If you were initially enrolled in the FRS before July 1, 2011, and complete 30 years of service before age 57, you may defer DROP and elect to begin participation at any time between completing 30 years and reaching age 57. Special Risk members who complete 25 years of Special Risk service before age 52 may defer to age 52.
- If you were initially enrolled in the FRS on or after July 1, 2011, and complete 33 years of service before age 57, you may defer DROP and elect to begin participation at any time between completing 33 years and reaching age 57. Special Risk members who complete 30 years of Special Risk service before age 52 may defer to age 52.
- Elected officers who reach normal retirement while holding an elected office may defer DROP until their next succeeding term of office and may participate for the lesser of five years or the length of that term.
- Members in instructional positions defined by section 1012.01(2), Florida Statutes, may begin DROP at any time after reaching normal retirement.

If you begin DROP participation after the later of your normal retirement date or your maximum deferral date but within the 12-month election period, you will lose a month of DROP participation for each month you delay joining DROP.

## **Extension**

### **How can specified K-12 Instructional Personnel extend DROP participation for up to an additional 36 months?**

If you work for a district school board, the Florida School for the Deaf and the Blind, or a developmental research school, and you are employed in an instructional position as defined in section 1012.01(2)(a)-(d), Florida Statutes, you may be permitted to extend your DROP participation. This extension may be up to an additional 36 months with authorization from your employer and approval by the division, provided you are employed in an eligible position at the time you complete your initial 60-month eligibility period and remain in an eligible position during your extended DROP participation.

To extend your DROP participation, you must obtain authorization from the appropriate authority at your employer and the division must receive your completed Form DP-EXT prior to the end of your initial period of DROP participation. Your employer may grant extensions for any period of time up to 36 months (i.e., year-by-year or for the entire 36 month period at one time). Deferred Retirement Option Program extensions are granted at the discretion of each school district's superintendent. Deferred Retirement Option Program extensions for the Florida School for the Deaf and the Blind and developmental research schools are granted at the discretion of the school's director.

Effective July 1, 2018, K-12 instructional personnel who are authorized to extend DROP participation beyond the 60-month period must have a termination date that is the last month of the school year. If on July 1, 2018, the member's DROP participation has already been extended for the maximum 36 months and the extension period concludes before the end of the school year, the member's DROP participation may be extended through the last month of the school year. The employer is required to notify the Division of Retirement when these eligible personnel have their termination date changed to comply with this provision.

### **Can specified K-12 Administrative Personnel extend DROP participation beyond their initial 60 calendar month period?**

Effective July 1, 2018, K-12 administrative personnel as defined in section 1012.01(3), Florida Statutes, who have a DROP termination date on or after July 1, 2018, may be authorized to extend their DROP participation beyond the initial 60 calendar month period if their termination date is before the end of the school year. Such administrative personnel may have their DROP participation extended until the last month of the school year. The employer is required to notify the Division of Retirement when these eligible personnel have their termination date changed to comply with this provision.

## **Reemployment**

### **What happens if I go back to work after I conclude my DROP participation?**

Deferred Retirement Option Program participants are considered to be retired even though they continue to work for a specified period of time. Once you terminate from DROP, you are fully retired and subject to termination requirements and reemployment restrictions with FRS participating employers.

After you retire under the FRS, you can work for any private employer, for any public employer not participating in the FRS, or for any employer in another state, without affecting your FRS benefits.

There are, however, certain termination requirements and reemployment limitations that affect your retirement benefit if you are employed with FRS-participating employers during the first 12 calendar months after your effective retirement date without DROP participation or after your DROP termination date.

The termination requirements and reemployment limitations with FRS-participating employers are:

If you return to work during the first six calendar months of your retirement or after your DROP termination date, you are not retired. Your retirement application is voided and all retirement benefits, including any funds accumulated during your DROP participation, must be repaid, by you, to the FRS Trust Fund. This restriction applies even if the particular position you hold is not covered by the FRS. This restriction also applies to employment with the same employer if your agency withdrew from the FRS effective Jan. 1, 1996, for newly hired employees. You cannot become a newly hired employee until after you meet the definition of termination by remaining unemployed for six calendar months.

You may not receive both a salary and a retirement benefit in the same month during the seventh through twelfth calendar months of your retirement or after your DROP termination date. This restriction applies even if the particular position you hold is not covered by the FRS. You must inform us if you work for an FRS employer during the reemployment limitation period.

Your retirement benefits are forfeited for the months you are employed by an FRS employer during the reemployment limitation period. You and your employing agency are jointly and severally liable for repaying any retirement benefits you receive while working during this period.

Effective March 9, 2018, there is one exception to the restrictions on reemployment limitations after retirement. If you are a retired law enforcement officer, you may be reemployed as a school resource officer by an employer that participates in the FRS during the seventh through twelfth calendar months after your retirement date or after your DROP termination date and receive both your salary and retirement benefits.

There are no limits on working for an FRS employer after you have been retired for 12 calendar months.

If you are reemployed with a participating employer, you will be required to sign a statement that your reemployment does not violate these provisions.

**Note: Employment with an FRS employer includes any full-time, part-time, temporary, other personal services (OPS), contractual services or noncontractual services with your previous employer or any other FRS employer.**

## Survivor Benefits

### **Who is entitled to my DROP benefits if I should die while participating in DROP?**

Your FRS designated beneficiary is eligible to receive all accumulated DROP benefits and, depending on the benefit option you selected, monthly FRS benefits. Survivors are not eligible for FRS in-line-of-duty death benefits. If your named joint annuitant dies during your DROP participation, you will be eligible to name a beneficiary to receive the accumulated DROP benefits.

## Termination/Payouts

### **What happens if I do not terminate employment as specified on my Form DP-ELE?**

If you fail to terminate by the date specified on your Form DP-ELE, you will lose your accumulated DROP accrual, your retirement will be canceled, and your FRS membership will be reestablished retroactive to the date you began DROP. Your employer must pay any additional contributions required to reestablish your FRS service credit.

### **What forms must I complete to verify my DROP termination and to select my DROP payout method?**

You must complete Form DP-TERM, Deferred Retirement Option Program Termination Notification to certify that you have terminated your FRS employment. Form DP-PAYT, Deferred Retirement Option Program Selected Payout Method is provided for you to choose your DROP payout option. Even though you may submit Forms DP-TERM and DP-PAYT to the division before your terminate employment, the DROP funds cannot be paid (rolled over or lump sum) until the month following your DROP termination. If you do not select a distribution method within 60 days of your termination date, you may be issued a lump-sum payment with 20 percent withheld for federal income taxes.

### **How do I receive my DROP account money?**

Your accumulated DROP benefits may be paid to you after your DROP employment termination is verified and you select your DROP payout method. Deferred Retirement Option Program accounts are paid to you in one of three ways; a direct rollover to an eligible retirement plan, a lump sum payment, or a combined partial lump sum payment and rollover.

### **If I decide to roll over my DROP account, what are my rollover options?**

The law states that rollovers from the FRS Pension Plan must be paid directly to the custodian of an eligible retirement plan as defined in section 402(c)(8)(B) of the Internal Revenue Code (IRC). An eligible retirement plan includes the following plans:

- An Individual Retirement Account as described in section 408(a), IRC, which includes a non-designated ROTH IRA.
- An Individual Retirement Annuity as described in section 408(b), IRC (an annuity set up by an insurance company).
- A Qualified Trust -- a stock bonus, pension or profit sharing plan of an employer (both defined contribution and defined benefit plans) with provisions to accept rollovers that is established in accordance with section 401(a), 401(k), or 403(b) of the IRC, for the sole and exclusive benefit of employees or their beneficiaries. For purposes of a rollover, state law allows DROP assets to be rolled into the FRS Investment Plan, which is a qualified trust plan.
- An Annuity Plan as described in section 403(a), IRC.
- An Annuity Plan as described in section 403(b), IRC.
- Deferred Compensation Plans of State and Local Governments as described in section 457(b), IRC.
- A Deferred Compensation plan as described in section 401(k), IRC.

### **How will my DROP benefits be taxed?**

At the end of DROP, if you elect to have your DROP accumulation rolled over to an eligible retirement plan, there will be no taxes due on the amount rolled over until you begin to withdraw funds from the eligible retirement plan. If you elect to receive a total or partial lump-sum payment of your DROP accumulation, the lump-sum amount will be taxed as ordinary income the year you receive it. The division is required to withhold 20 percent federal taxes on this distribution. When you file your income tax forms for that calendar year you may also owe additional taxes (depending on your tax bracket). For example, a lump-sum distribution of \$100,000 would require the division to automatically withhold 20 percent (\$20,000). Income tax forms for that year would reflect the lump-sum amount you received plus the credit for the 20 percent tax already withheld. A member in the 28 percent tax bracket would owe an additional 8 percent tax (\$8,000), in effect reducing the lump-sum benefit from \$100,000 to \$72,000. In addition, other taxes may be due if you are under age 55 (age 50 for public safety officers) at the time you terminate your DROP participation.

### **What is the Internal Revenue Service's Simplified Method?**

The Internal Revenue Service's (IRS) Simplified Method calculates the monthly amount of your benefit that is not taxable because it is a recovery of your after-tax employee contributions. The Simplified Method calculation distributes the after-tax contribution recovery monthly over a period of years. If you have any after-tax employee contributions included in the benefits accumulated during your DROP participation, a separate check will be issued to you at the time your DROP payout is issued.