MONTGOMERY COUNTY

DEFERRED RETIREMENT OPTION PLANS

GARDEZ BIEN

OFFICE OF LEGISLATIVE OVERSIGHT
REPORT NUMBER 2012-5

June 26, 2012

Leslie Rubin
Kristen Latham
Michael Watson, Intern

This report responds to the Council's request for an overview and analysis of the County Government's Deferred Retirement Option Plans for Montgomery County Fire and Rescue Services and Montgomery County Police Department employees.

A Deferred Retirement Option Plan (DROP) allows an employee in a defined benefit (pension) retirement plan to continue to work and begin collecting a pension benefit at the same time. During DROP participation, usually limited to a set number of years, the pension benefit is deposited into an account on behalf of the employee. An employee who retires from a DROP program will receive the funds accumulated in the DROP account, and begin directly collecting his/her pension benefit.

DROP PLANS IN MONTGOMERY COUNTY

Montgomery County Government established two DROP plans in 2000 – one for firefighters and one for police officers. The original Police DROP plan sunset in 2003 and was reinstated in 2008. When originally implemented, the Office of Human Resources stated that the DROP plans sought to induce long-term employees to delay retirement for a period of time.

Many components of Montgomery County's Fire and Police DROP plans are similar, but the plans have some key differences. The table below summarizes the components of the County Government's two DROP plans.

Montgomery County DROP Plan Components

	Fire DROP	Police DROP
Dates of Program Operation	March 1, 2000 – present	• March 1, 2000 – March 1, 2003 • July 1, 2008 - present
DROP Eligibility	Firefighters in the ERS pension plan eligible for normal retirement	• Police officers in the ERS pension plan • 25 years of service <u>and</u> at least age 46
Length of Participation	Up to 3 years	Up to 3 years
DROP Account Contributions	Monthly pension + Employee contribution	Monthly pension
DROP Account Earnings	8.25% annual interest, compounded quarterly	Employee-directed investment of funds
Pension Calculation	Based on length of service and average final salary at the time an employee enters the plan	
Pension Adjustments in DROP	None	
Pension Adjustments after DROP	• Application of unused sick leave towards credited service time (if applicable) • Adjustment for pension COLAs given to retirees during the DROP participation	
Disability and DROP	• Service-connected: disability benefit <u>or</u> DROP account balance and normal retirement • Non-service-connected: disability retirement benefit <u>and</u> DROP account balance	
Account Distribution Options	Lump-sum payment, direct rollover distribution, or annuity	
Exit From Program	• Exit from plan and retire at any time without penalty • Cannot reenter normal County Government employment after entering DROP plan	

PAST DROP PARTICIPATION IN MONTGOMERY COUNTY

Since 2000, 92 police officers and 132 firefighters have retired from Montgomery County's DROP plans. Approximately 40% of police officers and firefighters retired through the DROP plans when they were available. Additionally:

- DROP retirees had **two to three more years of credited service**, on average, than normal retirees.
- DROP retirees were **three years older**, on average, than normal retirees.
- Firefighters **retired through DROP three times as often** compared to normal retirements.
- Police officers **retired through DROP twice as often** compared to normal retirements.
- DROP and disability retirements accounted for around 80% of all police and fire retirements.

Many variables, both professional and personal, can influence the timing of individual employee retirements. While OLO's analysis notes differences in age and years of service for DROP versus non-DROP retirees, additional statistical and/or actuarial analysis would be required to determine whether a causal connection exists between the timing of retirements and the DROP plans.

Highlights of Police Officer and Firefighter Retirements

Type of Retirement*	# of Retirements	%	Average Age At Retirement	Average Years of Credited Service
Police Officers	**235**	**100%**	**50 years old**	**26 years**
DROP Retirement	92	39%	54 years old	31 years
Disability Retirement	91	39%	45 years old	21 years
Normal Retirement	43	18%	51 years old	29 years
Firefighters	**304**	**100%**	**50 years old**	**26 years**
DROP Retirement	132	44%	53 years old	30 years
Disability Retirement	116	38%	45 years old	21 years
Normal Retirement	43	14%	50 years old	27 years

Note: Police data are from March 2000 to March 2003 and July 2008 to December 2011. Firefighter data are from March 2000 – December 2011. Total retirements also include discontinued service retirements and early retirements.

The Office of Human Resources currently administers the DROP plans; however, administration of all County Government retirement plans, including the DROP plans, will move to the Board of Investment Trustees in FY13.

CURRENT AND FUTURE DROP PARTICIPATION IN MONTGOMERY COUNTY

In September 2011, 96 firefighters and 85 police officers were currently participating in the DROP plans. According to OHR, 6% of police officers and 21% of firefighters will be eligible to retire (and eligible for DROP) by the end of FY12. By the end of FY17, 17% of police officers and 31% of firefighters will be eligible to retire.

MONTGOMERY COUNTY DROP PLAN COSTS

Between January 2000 and September 2011, the County Government contributed $48 million to employee DROP accounts. Interest paid by the County Government on Fire DROP accounts represents $3 million of the total.

County Government Pension and Interest Payments to DROP Accounts

Costs	Police DROP	Fire DROP	Total
Pension Payments to DROP Accounts	$18,956,833	$25,885,226	$44,842,059
8.25% Interest Paid to DROP Accounts	Not Applicable	$2,971,898	$2,971,898
Total	**$18,956,833**	**$28,857,124**	**$47,813,957**

Source: OHR, BIT, Department of Finance

Cost Examples. The most accurate measure of the cost of a DROP plan would be an analysis of how employees' retirement decisions would have differed if a DROP plan did not exist and calculating the cost difference. An analysis of this sort, however, was beyond the scope of available data for this report.

Consequently, OLO developed examples that compare the cost to the County Government of employees who participate in the DROP plans and those who do not. OLO's cost analysis shows that an employee who retires through DROP:

- Would cost the County Government over 200% more while participating in DROP and 18-19% more throughout retirement if the employee would have retired instead of entering DROP; and
- Would cost the County Government 17% more during DROP participation but 3-4% less throughout retirement if the employee would have worked for three more years in active employment instead of entering DROP.

DROP PLANS IN OTHER JURISDICTIONS

OLO looked at DROP plans in eight other jurisdictions:

Anne Arundel County, MD	Howard County, MD	City of Philadelphia, PA
Baltimore County, MD	Maryland State Police	State of Ohio
Baltimore City, MD	Fairfax County, VA	

OLO found that:

- Five of eight plans are limited to public safety employees, three are available to all employees;
- The minimum number of years of service required for participation ranges from 10 to 32 years;
- The maximum length of participation ranges from 3 to 10 years;
- Half of the programs required employees to continue their pension contributions; and
- Seven of the programs pay a fixed rate of interest on DROP accounts, ranging from 3% to 10%.

OLO also found that several jurisdictions (including Baltimore County, State of Alabama, and City of Jackson, Mississippi) have closed their DROP plans to new employees, citing the high cost of the plans.

MONTGOMERY COUNTY DROP DISCUSSION QUESTIONS

OLO recommends that Councilmembers discuss with County Government representatives the following issues to enhance the Council's understanding, oversight, and evaluation of the DROP program.

Question #1: How do the costs and benefits of the DROP programs compare?

There are limits to quantifying the costs and benefits of the DROP programs. Nonetheless, it is possible to hold an informed discussion about the known and comparable costs and perceived benefits of the two DROP plans. The Executive Branch's stated intent in 2000 was for the DROP plans "to operate as incentives to induce employees with many years of experience, and eligible for retirement, to remain active employees and delay retirement for a number of years."

The legislative record, however, does not include a detailed explanation of the long-term benefit to the County Government that comes from retaining employees through DROP. At the same time, an OLO cost analysis shows that a DROP retiree can cost the County Government significantly more during the three years of DROP participation compared to an employee who takes a normal retirement.

Councilmember could ask Executive Branch staff to summarize the current goals of the DROP program and discuss whether the benefit of retaining police officers and firefighters for three additional years through the program merits the costs associated with DROP.

Question #2: Is it equitable to offer DROP plans to a subset of County Government employees?

Providing DROP plans only for two groups of employees raises questions of equity. Recent County Council discussions (in particular during budget deliberations in FY11-FY13) have focused on the "equitable" treatment of employee compensation and benefits across and within agencies.

The current County Government DROP plans are limited to a subset of public safety employees – firefighters and police officers in the County Government's pension plan. In addition to functioning as a retirement benefit, the DROP plans provide MCPD and MCFRS impending retirement data for succession management purposes – a tool not available to any other County Government departments.

Question #3: Are there changes to the design of the DROP plans that would better align plan outcomes to the County's program goals?

Compiling information from more than a decade of experience with the DROP program, this report provides the Council another opportunity to review the design of the DROP plans.

The Council could discuss with Executive Branch staff whether changes to the DROP plans could further Executive Branch goals for the plans and whether any benefits exist to consolidating the two plans. Aspects of the plans to examine could include: (1) minimum age/length of service requirements for participation; (2) length of participation period; (3) mechanism for account growth; and (4) employees contributions.

Assessing whether changes to the design of the plans would increase or decrease plan costs would require the assistance of an actuary.

For a full copy of the this report, please visit www.montgomerycountymd.gov/olo
Available in alternative formats upon request.

Montgomery County Deferred Retirement Option Plans

Office of Legislative Report 2012-5

TABLE OF CONTENTS

Montgomery County Deferred Retirement Option Plans

Office of Legislative Report 2012-5

LIST OF TABLES

LIST OF TABLES (CONTINUED)

LIST OF APPENDICES

CHAPTER I. Authority, Scope, and Organization of the Report

A. Authority

Council Resolution 17-211, *FY 2012 Work Program for Office of Legislative Oversight*, adopted July 19, 2011.

B. Scope, Purpose, and Methodology

In FY00, the Montgomery County Government established two deferred retirement option plans (DROP) for members of the Employees' Retirement System, the County Government's defined benefit (pension) retirement system. In a DROP plan, an eligible employee receives retirement benefits while continuing to work (and receive a salary and benefits) for a set period of time before retiring.

The County Government offers two DROP plans: one for police officers and one for firefighters:[1]

- Police officers participate in the **Discontinued Retirement Service Program** and individually direct the investment of funds in their DROP accounts; and
- Firefighters participate in the **Deferred Retirement Option Plan** and the County Government pays a fixed rate of 8.25% annually on funds in their DROP accounts.

This Office of Legislative Oversight (OLO) report responds to the Council's request for a review of the County Government's DROP plans. The scope of OLO's review included:

- An assessment of the structure of the County Government's DROP plans;
- Research on the legislative history and costs of the plans;
- A summary of feedback on the plans from interviews with governmental and non-governmental representatives; and
- A comparison of plans in other state and local jurisdictions.

C. Organization of Report

Chapter II, DROP Plan Overview and Montgomery County's DROP Plans, summarizes the structure and advantages and disadvantages of DROP plans and provides a detailed description of Montgomery County's Police and Fire DROP plans.

Chapter III, Legislative History of Montgomery County DROP Plans, describes the legislative history of the plans.

Chapter IV, Data on DROP Plan Participation, summarizes demographic and financial data on current and past employees enrolled in the Police and Fire DROP plans.

Chapter V, Cost of Montgomery County DROP Plans, describes several ways to evaluate the cost of the DROP plans.

[1] In County law, the deferred retirement option plan for police officers is called the "Discontinued Retirement Service Program" or DRSP. The plan for firefighters is called the "Deferred Retirement Option Plan" or DROP. For simplicity, this report will use the terms "Police DROP" and "Fire DROP" to refer to the County Government's two different plans.

Chapter VI, DROP Plans in Other Jurisdictions, describes the characteristics of DROP plans in eight other jurisdictions.

Chapters VII and VIII present the Office of Legislative Oversight's **Findings** and **r**ecommended **Discussion Questions**.

Chapter IX presents **Agency Comments on the Final Draft**.

D. Methodology

Office of Legislative Oversight (OLO) staff members Leslie Rubin and Kristen Latham conducted this study. Michael Watson, a Masters in Public Policy candidate at the University of Maryland also contributed to the report. OLO gathered information through document reviews, data analysis, and interviews with County Government staff. OLO also conducted interviews with representatives from two employee unions: the Fraternal Order of Police Lodge 35 (FOP) and the International Association of Firefighters Local 1664 (IAFF).

E. Acknowledgements

OLO received a high level of cooperation from everyone involved in this study. OLO appreciates the information shared and insights provided by all who participated. In particular, OLO would like to acknowledge the time and expertise of the following individuals:

Office of Human Resources	• Belinda Fulco, Acting Benefits Manager • Robert Goff, Benefits Specialist
Board of Investment Trustees	• Linda Herman, Executive Director • John Feketekuty, Investment Analyst
Montgomery County Fire and Rescue Services	• Chief Richard Bowers • Assistant Chief Edward Radcliffe, Human Resources • Division Chief Dave Steckel, Wellness Safety & Training
Montgomery County Police Department	• Chief Thomas Manger • Assistant Chief Russell Hamill • Lt. David Anderson, Chief of Staff, Office of the Chief of Police • Captain Patricia Walker, Personnel Division • Deborah Langford, Personnel Manager
Department of Finance	• Jay Narang, Senior Financial Specialist
Fraternal Order of Police, Montgomery County Lodge #35	• Marc Zifcak, President • Walter Bader, Immediate Past President
International Association of Fire Fighters, Local 1664	• John Sparks, President • Jeff Buddle, Vice President • Erick Genser, Labor & Employee Relations Counseling

OLO would also like to thank the following people for their assistance with the report: Craig Howard, Aron Trombka, Teri Busch, Sue Richards, Robert Drummer, and Wes Girling.

CHAPTER II. DROP Plan Overview and Montgomery County's DROP Plans

A Deferred Retirement Option Plan (DROP) is a program that allows a retirement-eligible employee to continue to work and receive a salary and simultaneously receive pension payments that are credited to an account on behalf of the employee. This chapter summarizes what DROP plans are generally, followed by a more detailed description of the DROP plans available in Montgomery County:

- **Section A** defines DROP, including a summary of plan design options and advantages/disadvantages of DROP implementation;
- **Section B** describes the provisions and administration of the County's two DROP plans.

A. Overview of DROP Plans

A Deferred Retirement Option Plan (DROP) is a program where an employee in a pension plan who is eligible for retirement collects a pension benefit while continuing to work (and receive a salary and other benefits), typically for a set period of time. The primary reason for the creation of DROP plans is the retention of skilled employees and institutional knowledge. While the first DROP program was created in East Baton Rouge Parish, Louisiana in 1981, many jurisdictions (including Montgomery County) began DROP programs in the mid-1990s and early 2000s that are primarily limited to public safety employees. This section:

- Describes DROP programs and how they function, including discussing the components of a DROP;
- Reviews commonly-cited advantages and disadvantages of DROP plans for employers and employees; and
- Summarizes a Government Finance Officers Association (GFOA) advisory for jurisdictions considering the implementation of a DROP plan.

DROP Programs – Description and Purpose. Over the past two decades, DROP plans have become increasingly available in state and local governments, primarily created as an effort to retain public safety employees. In traditional DROP plans, participants receive a portion of their pension in a lump sum in exchange for additional years of service (past normal retirement date). If designed correctly, DROPs can be an effective employee retention and succession-planning tool at a relatively low cost.

In normal retirement, an employee in a defined benefit retirement system receives a lifetime monthly benefit check based on years of service upon retirement. An employee who joins a DROP plan continues to work and begins collecting his/her retirement (pension) benefit. Typically, the employee's pension benefit is calculated based on salary and years of service from when the employee entered the DROP plan – increased compensation and/or additional years of service while in DROP are not used to calculate the employee's retirement benefit. During DROP participation, the employee's retirement benefit is deposited into an account on behalf of the employee. When an employee formally retires after participating in the DROP program, that employee will receive the funds accumulated in their DROP account, and begin directly collecting the pension benefit they are eligible to receive.

DROP plans typically provide a mechanism for the funds in a DROP account to grow while the employee is in the program. For example, some plans guarantee a fixed rate of return paid by the employer while other plans allow the employee to direct the investment of the funds – similar to a 401(k) plan.

DROP Design Variables. DROP plans have a common set of plan components, but how jurisdictions structure those components can differ from plan to plan. The table below lists several common DROP plan components and describes the different ways those components can be structured.

Table 2-1. Description of DROP Plan Components

Plan Components	Plan Design Options
Eligibility	DROP plans can limit eligibility to employees eligible for normal retirement or can allow those eligible for early retirement to participate.
Participation Period	DROP plans typically limit the amount of time employees can participate in a plan, often several years. Some plans require a minimum number of participation years.
Account Growth	DROP plans provide a mechanism for funds in DROP accounts to grow through one of two ways – through employee-directed investments or guaranteed rates of return.
Contributions to Account	Employers contribute an employee's monthly pension benefit to a DROP account. Some DROP plans also require employee contributions to continue during the DROP participation period while others require employee contributions to stop.
Retiree COLAs	Some DROP plans increase an employee's pension benefit with cost-of-living adjustments while the employee is in the DROP program while some plans do not.
Account Distribution	Employees often have the option to receive DROP account balances as a lump-sum payment, as a rollover to a tax-deferred retirement account, or as an annuity.
Pension Benefit After DROP	Some DROP plans recalculate an employee's pension benefit after the employee leaves the plan to account for salary enhancements and additional time served while in the program. Other plans do not recalculate the benefit.

Cost of DROP Plans. Most jurisdictions that implement DROP plans intend for them to be actuarially cost neutral. DROP plan design choices (discussed above) made by a jurisdiction can have a significant impact of the ongoing cost of the retirement program.[2] An actuary can help a jurisdiction determine the likely cost of a DROP plan.

Advantages and Disadvantages of DROP Plans. Literature on retirement and DROP plans detail advantages and disadvantages of DROP plans, both for employees and employers. The tables on the next page summarize some commonly-identified advantages and disadvantages.[3]

Table 2-2 provides an overview of DROP advantages and disadvantages for employees, many of which are dependent upon plan design. The primary reason to join DROP for employees is the simultaneous earning of a salary and tax-deferred retirement income along with the lump sum payment at retirement. However, participation in DROP often does not allow the future accrual of service credit, reducing monthly pension payments. Additionally, participation in DROP often requires employees to irreversibly determine a final retirement date.

[2]Bolton, Robert and Thomas B. Lowman . "Design and Actuarial Aspects of Deferred Retirement Option Programs.."Society of Actuaries, 2003.
[3] Adapted from *Commonwealth of Virginia's Joint Legislative Audit and Review Commission Detailed Review of Retirement Plan Trends, Best Practices, and Innovations by Other Public and Private-Sector Employers*, PriceWaterhouseCoopers, p. 29-31 (February 20, 2008). http://jlarc.state.va.us/comp_study/PwC1.pdf

Table 2-2. Commonly-Cited DROP Plan Advantages and Disadvantages for <u>Employees</u>

Advantages for Employees	Disadvantages for Employees
• Employees can simultaneously earn a salary and accumulate retirement income • Employee with "maxed out" pension plans can earn extra benefits • Employees have more flexibility within retirement plans • Employees' DROP accounts and any investment earnings are tax deferred • Employees receive a lump sum when entering retirement • Employees often are relieved of their pension contributions during the DROP period	• Employee may not earn additional service credits or benefit from salary increases during the DROP period • Employee's decision to join DROP often is irrevocable • Employee's DROP account balance may be taxed if not rolled into a tax-deferred retirement account • Employee's monthly pension benefits may be lower after DROP participation • In some plans, an employees may forfeit the DROP account for leaving the plan early • An employee's DROP account distribution could impact his/her tax bracket • Employee's DROP participation may affect Social Security benefits

The next table outlines the advantages and disadvantages for employers who provide a DROP plan for employees. The primary benefit for the establishment of a DROP plan is the retention of skilled employees (along with their institutional knowledge) past their normal retirement. In addition, employers are aware of future employee retirements and can more effectively begin succession management. The principal drawback to employers is the potential added costs of a DROP plan, including higher payroll of senior employees, increased pension costs if investments do not perform as projected, and plan administration costs.

Table 2-3. Commonly-cited DROP Plan Advantages and Disadvantages for <u>Employers</u>

Advantages for Employers	Disadvantages for Employers
• Retention of skilled, trained employees and institutional knowledge • Cost of health benefits can be lower (benefits for one employee, instead of a retiree plus a replacement employee) • If designed correctly, plans can be cost neutral • Known retirement dates can aid succession planning • Total benefits paid out during retirement can be reduced (if benefit calculated based on fewer years of service) • Employer contributions to retirement plans may be reduced • Early retirements may decrease • Reduction of hiring and training costs	• Plan design may result in higher payroll cost of more senior employees • Added administrative time and costs • Employees may not defer retirement (employees may enter DROP earlier) • Plan design may increase retirement costs, particularly higher pension cost if plan experience does not meet plan assumptions

GFAO Advisory on DROP Plans. In 2005, the Government Finance Officers Association (GFOA) issued a warning to jurisdictions considering the implementation of DROP plans. In an Advisory on DROP, the GFOA recommended that governments "exercise extreme caution in considering DROP plans" because "[a] significant concern about the use of DROP plans is that costs have been substantially higher than anticipated in some jurisdictions."[4]

The GFOA recommended that governments that choose to implement DROP plans complete a thorough review of the proposed plan, undertaking the following steps "at minimum."[5]

- Create a transparent and credible review process;
- Establish and share explicit goals from the beginning;
- Design a plan to "support financial and operational goals;"
- Analyze cost components of various plan designs;
- Analyze the current investment portfolio; and
- Communicate results of the review and plan recommendations with stakeholders.

GFOA issues advisories to "identif[y] specific policies and procedures necessary to minimize a government's exposure to potential loss in connections with its financial management activities." GFOA emphasizes that an advisory "is *not* to be interpreted as GFOA sanctioning the underlying activity that gives rise to the exposure."[6]

B. Montgomery County DROP Plan Provisions and Administration

Montgomery County operates two separate DROP[7] plans -- one for firefighters in the Montgomery County Fire and Rescue Services (MCFRS) and one for police officers in the Montgomery County Police Department (MCPD). Three County Government departments and offices work in conjunction with MCFRS and MCPD to operate the Police and Fire DROP plans: the Office of Human Resources, Department of Finance, and Board of Investment Trustees. In addition, two external vendors contract with the County Government to manage or track funds in employee DROP accounts.

This section describes the Police and Fire DROP plans and the division of program roles and responsibilities among the County Government departments and external vendors to administer the plans, and is organized as follows:

- **Subsection 1** summarizes the current provisions of the Police and Fire DROP plans;
- **Subsection 2** describes how the County Government implements the plans;
- **Subsection 3** describes the administration of Police and Fire DROP accounts; and
- **Subsection 4** summarizes feedback from departments and employee unions on the DROP plans.

---

[4] *Advisory - Deferred Retirement Option Plans (DROPs)*, Government Finance Officers Association (2005). http://www.gfoa.org/downloads/corbadrops.pdf
[5] Ibid.
[6] Ibid. (emphasis in original)
[7] In County law, the deferred retirement option plan for police officers is called the "Discontinued Retirement Service Program" or DRSP. The plan for firefighters is called the "Deferred Retirement Option Plan" or DROP. For simplicity, this report will use the terms "Police DROP" and "Fire DROP" to refer to the County Government's two different plans.

1. Description of Current DROP Plans

Both the Fire and Police DROP plans came out of the County Government's 1999 collective bargaining process, described in more detail in Chapter III. The Fire DROP plan has operated continuously since 2000, while the original Police DROP plan sunset in 2003 and was reinstated in 2008. Table 2-4 summarizes key characteristics for the DROP plans, followed by additional detail on certain plan characteristics and similarities/differences.

Table 2-4. Key Characteristics of Current Police and Fire DROP Plans

	Fire DROP	Police DROP
Dates of Program Operation	March 1, 2000 – present	• March 1, 2000 – March 1, 2003 • July 1, 2008 - present
DROP Eligibility	• Firefighters in the ERS pension plan • Eligible for normal retirement[8]	• Police officers in the ERS pension plan • 25 years of service <u>and</u> at least age 46.
Maximum Length of Participation	Up to 3 years	Up to 3 years
Contributions to DROP Account	• Monthly pension payments • Employee ERS contributions	Monthly pension payments
DROP Account Earnings	8.25% guaranteed annual interest, compounded quarterly	Employee directs investment of money in investment funds
Pension Benefit Adjustments During DROP Participation	None (no adjustment for pension COLAs provided to retirees or salary increases provided to active employees)	
Post-DROP Pension Benefit Adjustments	• Application of unused sick leave towards credited service time (if applicable) • Adjustment for pension COLAs given to retirees during the employee's DROP participation	
Disability Retirement and DROP	• If service-connected, receive disability retirement benefits <u>or</u> DROP account balance • If non-service-connected, receive retirement benefit <u>and</u> DROP account balance	
Account Distribution Options	Lump-sum payment, direct rollover distribution, or annuity	

Source: Montgomery County Code

DROP Eligibility. The Police and Fire DROP plans are limited to police officers and firefighters who are members of the County Government pension system – the Employees' Retirement System (ERS). MCPD and MCFRS civilian employees who are members of the County Government's defined contribution or hybrid retirement plans cannot participate in the DROP plans. With respect to employee eligibility for and participation in the County DROP plans:

- Employees can enter a DROP plan when they become eligible for normal retirement (as opposed to early retirement), with the caveat that police officers must be at least 46 years old to participate.
- Employees in both plans can participate for up to three years and must leave County Government service after the three years.
- Employees can leave the program (with notice) and retire any time before three years without penalty, but employees cannot leave the program and reenter regular County Government service.

[8] Firefighters are eligible for normal retirement at age 55 with 15 years of service or at any age with 20 years of service. Police officers are eligible for normal retirement at age 55 with 15 years of service or at any age with 25 years of service.

DROP Accounts. When an employee enters a DROP plan, the County Government establishes an account for the employee with one of two vendors – the International City Management Association Retirement Corporation (ICMA) for firefighters and Fidelity Investments for police officers. An employee's monthly pension benefit is paid into or credited to the DROP account while the employee participates in the program.

DROP plan account management differs for the Fire and Police plans. For a firefighter in DROP, both the monthly pension contribution (made by the County Government) and the bi-weekly pension contribution[9] (made by the firefighter) are credited to an account with ICMA (no money is actually transferred). The County Government guarantees an 8.25% annual fixed rate of return on funds in Fire DROP accounts.

For the Police DROP, the officer's monthly pension benefit is deposited into a DROP account with Fidelity and the employee no longer makes bi-weekly pension contribution. The officer invests the funds in the DROP account based on investment options offered by the Board of Investment Trustees through Fidelity Investments. There is no guaranteed rate of return on funds in Police DROP accounts.

Pension Benefits. The Fire and Police DROP plans also share certain features related to calculation of the pension benefit both during and after an employee's participation in DROP and related to distribution of DROP account funds. In both plans:

- An employee's pension benefit while in the DROP plan is calculated based on length of service and final salary or average final salary at the time an employee enters the plan.
- An employee's pension benefit does not receive cost-of-living adjustments while the employee is in the DROP plan.
- When an employee exits a DROP plan, the employee's pension benefit is not changed to reflect the time spent in the DROP plan nor any salary increases earned during participation.
- A DROP participant's pension benefit will be recalculated at the end of participation to include additional service credit for unused sick leave, if applicable, and to include any cost-of-living adjustments that retirees received during the participant's time in DROP.
- Employees exiting a DROP plan have three options for receiving the funds in their DROP accounts when they leave the program – receiving a lump-sum payment, a direct rollover to an eligible retirement account, or receiving an annuity.

Disability Retirement. Employees in either DROP plan may apply for disability retirement while they are in the plan. An employee who is eligible for a service-connected disability retirement must choose between receiving the service-connected disability retirement benefit or remaining in the DROP plan and receiving a normal retirement benefit and the DROP account balance. An employee who is eligible for a non-service-connected disability retirement, however, can receive both the disability retirement benefit and the funds in the employee's DROP account.

Chapter IV summarizes data related to the DROP plans, including current and historic employee participation and related information.

[9] The pension contribution rate for firefighters is 6.5% of salary in FY12 and will increase to 7.5% in FY13. Employees also contribute a higher percent of salary for any portion of salary that is great than the Social Security wage base.

2. Administration of DROP Plans

The DROP plans are administered primarily by County Government departments/offices, with some assistance from external vendors.

County Government. The Benefits Team within the County Government's Office of Human Resources (OHR) is responsible for the majority of DROP program administration. Specifically:

- **DROP information sessions** – Conducts three separate monthly group seminars for employees who are considering retirement: one is for individuals considering regular retirement, one for information about the Police DROP plan, and one for information on the Fire DROP plan. In addition, OHR conducts three separate monthly seminars for employees to fill out paperwork related to regular retirement and DROP participation.
- **DROP employee enrollment –** Processes the paperwork to enroll employees in the DROP program.
- **Establishing DROP accounts –** Sets up an individual DROP account with ICMA (for Fire DROP) or Fidelity (for Police DROP) for the employee.
- **Pension calculation –** Calculates an employee's pension benefit for deposit into the DROP account based an employee's length of service, salary, and sick and other related leave.
- **MCFRS and MCPD notification –** Notifies MCFRS or MCPD that an employee has entered a DROP plan. MCFRS and MCPD representatives report that they use this information for succession management purposes.
- **Data collection and reporting –** Generates monthly reports of all DROP participants, including new participants. Benefits Team staff send the monthly reports to other OHR teams, the Department of Finance, MCFRS, and MCPD.

OHR estimates that the workload associated with administering the two County Government DROP plans is approximately 15% of a Benefit Specialist's time over the course of a year, along with occasional assistance from other OHR staff members.

The two other County Government departments that help facilitate the DROP plans are the Department of Finance and the Board of Investment Trustees. Department of Finance staff are responsible for processing payments into the Police DROP accounts each month and processing data for the Fire DROP accounts every other week. In total, Finance estimates that processing these DROP payments and data represent around 2% of a Senior Financial Specialist's time over the course of a year.

The Board of Investment Trustees manages the County Government's contract with Fidelity. Administration of County Government retirement programs, including the DROP program, will be moving from OHR to the Board of Investment Trustees later this year. The Executive Branch cites the following for consolidating retirement plan management and administration into the Board of Investment Trustees: "This consolidation results in the creation of an office with a core mission, depth of knowledge, and sustainability to meet future demands and represent Montgomery County's standard of operational excellence."

3. DROP Accounts

As described above, every participant in DROP has an account that is maintained by an external vendor. The Board of Investment Trustees manages the contract with Fidelity Investments for the Police DROP and OHR manages the contract with ICMA Retirement Corporation for the Fire DROP.

Police DROP Accounts. When an MCPD employee enters the Police DROP plan, OHR staff establish an individual account for the officer with Fidelity Investments. In the Police DROP plan, a participant's monthly pension benefit is transferred into the employee's Fidelity account and the employee directs the investment of these funds. Fidelity sends quarterly reports to all employees in the Police DROP plan. When an employee exits the plan, Fidelity directly disburses the funds in the employee's account at the employee's direction.

The County Government does not pay a fee to Fidelity to maintain Police DROP accounts. Each fund available for investment to a Police DROP member has an associated "investment management fee," a set annual percentage rate that is assessed against the amount of money a member has invested in the fund. Fidelity receives a portion of the investment management fee as its payment. For the 34 investment options offered to Police DROP participants, Fidelity's portion of the management fee equates to between 0% and 0.40% annually of a fund's value.

Fire DROP Accounts. When an MCFRS employee enters the Fire DROP plan, OHR staff establish an individual account for the employee with ICMA Retirement Corporation. ICMA keeps a record of the amount of money credited to an employee's DROP account, but the County Government does not transfer money to the account. ICMA records the amount of the employee's pension benefit (credited monthly), the employee's pension contributions (credited bi-weekly), and 8.25% annual interest (credited quarterly). All DROP money is held in the County's ERS trust fund.

ICMA sends quarterly reports to employees in the Fire DROP plan. When an employee exits the DROP plan, the employee fills out an OHR form directing how to disburse the employee's funds. OHR staff send the form to staff in the Department of Finance, who process the disbursal.

The County Government has an administrative services agreement with ICMA to maintain the County Government's Fire DROP account data. The County Government pays ICMA $90 per Fire DROP member per quarter to maintain the account data. In FY11, the County Government paid ICMA $20,880 for its services.

4. Feedback on DROP Plans

OLO solicited feedback from staff in the County Government departments that administer the DROP plans, from MCFRS and MCPD management representatives, and from leadership representatives from the unions that represent employees in the DROP plans – the IAFF and the FOP.

Representatives from IAFF and FOP leadership praised the DROP plans as a useful tool for County Government succession management purposes and as a good benefit for employees. FOP representatives report that most retired MCPD employees will take another job following retirement from the County Government. They report that the DROP program is a useful tool to keep experienced officers in County Government service longer.

Representatives from MCFRS and MCPD management also praised the program as a tool for succession management. Both departments track employees in the DROP plans to monitor positions that will be vacated, to identify impending shortages in staff trained for specific tasks, and to schedule promotion examinations and recruit classes. MCPD representatives report that before the DROP plan, MCDP often had little or no notice when an officer was retiring. Now, MCPD will promote officers into positions to shadow an employee who will be retiring from the DROP plan.

At the same time, some County Government staff report a perception among County Government employees from departments other than MCPD and MCFRS that the DROP plans allow police officers and firefighters to "double dip."

CHAPTER III. Legislative History of Montgomery County DROP Plans

This chapter describes the legislative history of the County Government's deferred retirement option plans (DROP) for firefighters and police officers. These plans originated in the FY00 collective bargaining process between the County Executive and the Fraternal Order of Police, Montgomery County Lodge #35 (FOP) and the Montgomery County Career Fire Fighters Association, International Association of Firefighters, Local 1664 (IAFF). The chapter is organized as follows:

- **Section A** summarizes the collective bargaining processes that led to the DROP legislation;
- **Section B** describes the Committee and Council discussions surrounding the enactment of legislation to create the DROP plans;
- **Section C** explains the Council Bill that reinstated the Police DROP plan; and
- **Section D** summarizes other legislation that amended the DROP plans over the years.

A. FY99 Collective Bargaining Process

During the FY99 budget process, the Management and Fiscal Policy (MFP) Committee and the Council reviewed collective bargaining agreements with the FOP and the IAFF that included proposals for Fire and Police DROP plans. In April 1999, the Council stated its intent to approve funding for and legislation to implement Police and Fire DROP plans. The two subsections below summarize key points from the collective bargaining processes and considerations raised by Management and Fiscal Policy Committee (MFP) members in their review of the collective bargaining agreements.

1. Fire Collective Bargaining

In April 1999, the IAFF and the County Executive entered into a collective bargaining agreement that included the establishment of a DROP plan for represented firefighters. The Management and Fiscal Policy Committee reviewed the Fire DROP plan proposal as part of its review of the collective bargaining agreement. Some of the issues the MFP Committee discussed related to the proposed DROP plan included:

- Whether the DROP plan would create additional ongoing costs for the County that may be difficult to fund in the future;
- Whether the DROP plan should start as a pilot program or a permanent program; and
- Whether the program should include a guaranteed rate of return on funds in DROP accounts.

The Council passed Resolution 14-116 on April 27, 1999 expressing its intent to enact legislation to establish and fund both the Fire and Police (discussed below) DROP plans with the following caveat to allow for either a pilot or permanent program:

> The Management and Fiscal Policy Committee . . . recommends approval of all provisions [of the collective bargaining agreement] with the understanding that the enacted legislation to establish the Deferred Retirement Option Plan (DROP) may provide that the DROP plan continue in effect only for the 3-year life of the collective bargaining agreement, subject to review when that agreement expires.[10]

2. Police Collective Bargaining

The Police DROP plan resulted from a June 1998 arbitration award. In contrast to the fire DROP plan, the FOP and the County Executive did not mutually agree to establish the program during the collective bargaining process.[11] When the County Executive and the FOP could not come to agreement on certain issues during the collective bargaining process, the two sides submitted their best offers to an arbitrator to choose the more reasonable offer. The County Government's final proposal did not include a DROP plan while the FOP's final proposal gave the County Government the *option* to implement a DROP plan for FOP members.[12] The arbitrator selected the FOP's final offer, which under County law, becomes a part of the collective bargaining agreement between the County Executive and the union.

The Management and Fiscal Policy Committee reviewed the FOP arbitration award in three worksessions in the spring of 1999. Initially, the Chief Administrative Officer (CAO) indicated to the Committee that the County Executive did not intend to implement a Police DROP plan. By the MFP Committee's final worksession, the CAO stated the County Government would implement a Police DROP program and would expand participation to police management (who are not represented for collective bargaining purposes and not covered by the collective bargaining agreement).

Some of the Police DROP issues discussed by the MFP Committee during its worksessions included:[13]

- Whether a DROP plan would make the MCPD more competitive in the marketplace and would help retain experienced police officers;
- Whether the DROP plan would create additional ongoing costs for the County that may be difficult to fund in the future; and
- Whether the Council should consider a cap on eligibility when considering legislation to implement the program.

As stated earlier, the Council passed Resolution 14-116 on April 27, 1999 indicating its intent to enact legislation to establish and fund the Police and Fire DROP plans.

[10] Council Resolution 14-116 at p. 1.
[11] See 4-27-99 memo from Linda McMillian to the Management and Fiscal Policy Committee at ©16.
[12] Ibid. at ©53, 54, 77
[13] 4-27-99 memo from Linda McMillian to the Management and Fiscal Policy Committee at p. 3.

B. Bill 18-99 – Initial DROP Legislation

Bill 18-99 was introduced in June 1999 at the request of the County Executive. Bill 18-99 had a public hearing on July 27, 1999, and was passed by the County Council on November 16, 1999 following two MFP Committee worksessions (Aug. 2 and Oct. 4, 1999) and one full Council worksession (Nov. 2, 1999). This section summarizes the Council deliberations on Bill 18-99, the estimated costs associated with Bill 18-99 at the time of deliberations, and the components of the Bill as enacted.

Deliberations on Bill 18-99. During hearings and deliberations on Bill 18-99, the Council discussed several key aspects of the bill, summarized in the remainder of this section.

- **Need and Purpose of DROP plans.** Councilmembers discussed with Executive Branch staff and union representatives how a DROP plan would impact retirements and retirement-related planning within MCPD and MCFRS. During the public hearing on the bill, OHR staff noted that the DROP plans were "intended to operate as incentives to induce employees with many years of experience, and eligible for retirement, to remain active employees and delay retirement for a number of years."[14] MCPD staff stated that approximately 15% of MCPD officers would qualify for normal retirement within the following year and MCPD believed the DROP plan would "provide[] a mechanism for a phased retirement of this group. It will provide a window of up to two additional years during which [MCPD] can strive to recruit, hire and train replacement[s] for these officers."[15]

- **Employee Eligibility.** Councilmembers discussed whether certain groups of employees (particularly non-represented employees) should be included in a DROP plan. Additionally, the MFP Committee discussed the County Sheriff's request to extend the DROP plan to Deputy Sheriffs.

- **Guaranteed Rate of Return on Fire DROP Accounts.**[16] The most significant cost-related discussion during the Council's consideration of Bill 18-99 surrounded the guaranteed 8.25% annual rate of return proposed for Fire DROP accounts. Council staff raised the issue of whether the County Government should guarantee a set rate of return.[17] At the time, staff from the Board of Investment Trustees estimated that the County Government could anticipate earning approximately 5.25% on its investments in the ERS, and would have to make up the three percentage point difference between that and the guaranteed 8.25% guaranteed return.[18]

- **Implementing separate DROP programs or combining.** Bill 18-99 included separate DROP programs for Fire and Police with some differences in plan provisions, and Councilmembers discussed whether to establish a single, uniform DROP plan instead.

[14] 7-27-99 Testimony of James Torgesen, OHR, to the County Council, at ©46 of 8-2-99 Memo from Michael Cogan, Legislative Attorney, to the Management and Fiscal Policy Committee.
[15] 7-27-99 Testimony of Joe Price, MCPD, to the County Council, at ©51 of 8-2-99 Memo from Michael Cogan, Legislative Attorney, to the Management and Fiscal Policy Committee.
[16] The original version of Bill 18-99 did not specify the return for the Police DROP plan, although Executive Branch staff assumed that Police DROP accounts would receive market-based returns based on employees' direction of their investments. 10-4-99 Memo from Michael Cogan, Legislative Attorney, to the Management and Fiscal Policy Committee, at p. 4. The final bill clarified this.
[17] Ibid. at p. 2.
[18] Ibid.

- **Maintaining DROP account after an employee leaves County Government service.** A provision in the proposed bill regarding payments from DROP accounts to retirees raised the question of whether the County Government would have to maintain DROP accounts indefinitely for employees who had retired and left the program.[19] During Committee and Council deliberations, this language was changed "to clarify [in the Bill] that a DROP account must be liquidated" when an employee leaves a DROP plan.[20]

- **Length of required participation in DROP plan.** Finally, the original version of Bill 18-99 required firefighters to stay in the plan for 12, 24, or 36 months. Council staff noted that the County Government could not legally force individuals to work, but could impose a penalty for employees who left the program at different points in time.[21] During Committee and Council deliberations, this language was changed to allow firefighters to stay in the plan up to 36 months or to leave the plan earlier with 60 days notice.

Estimated Fiscal Impact of Bill 18-99. The Office of Management and Budget estimated costs for the DROP plans in two separate fiscal impact statements – in May 1999 and October 1999. The table below summarizes the five year cost estimates in the October 1999 fiscal impact statement, separated by employee group. The fiscal impact statement does not provide detail on how the estimated costs were determined or information on program costs past FY06. Chapter V provides a more extensive analysis by OLO of costs associated with the DROP plans.

Table 3-1. Fiscal Impact Statement Cost Summary for DROP Plans, FY01-FY06

	FY01	FY02	FY03	FY04	FY05	FY06	Total FY01-FY06
IAFF	$284,000	$291,100	$298,378	$305,539	$312,871	$320,380	$1,812,268
Fire Management	$969,000	$969,000	$969,000	$0	$0	$0	$2,907,000
FOP	$1,027,500	$1,130,260	$137,000				$2,294,760
Police Management	$342,500	$376,750	$0	$0	$0	$0	$719,250
Total	**$2,623,000**	**$2,767,110**	**$1,404,378**	**$305,539**	**$312,871**	**$320,380**	**$7,733,278**

Source: OMB 10-26-99 Fiscal Impact Statement

Final Enacted Bill. In November 1999, the Council enacted Bill 18-99 to establish DROP plans for police officers and firefighters beginning March 1, 2000. The DROP plans enacted in Bill 18-99 were structured differently for police officer and firefighters; provisions of each plan are summarized in Table 3-2. Noteworthy differences included:

- The Police DROP plan sunset on March 1, 2003 while the Fire DROP plan had no end date.
- Police officers could participate in their DROP plan for two years and firefighters could participate for three years.
- Police officers directed the investment of the money in their DROP accounts to earn market-based returns while the County Government guaranteed an 8.25% annual return on Fire DROP accounts.

[19] 10-4-99 Memo from Michael Cogan, Legislative Attorney, to the Management and Fiscal Policy Committee, at p. 2.
[20] 11-2-99 Memo from Michael Cogan, Legislative Attorney, to the County Council, at p. 5.
[21] 10-4-99 Memo from Michael Cogan, Legislative Attorney, to the Management and Fiscal Policy Committee, at p. 5.

Table 3-2. Summary of DROP Plan Provisions in Final Bill 18-99

Provision	Fire	Police
Eligibility	25 years of credited service	20 years of credited service, 41 years old (when eligible for early retirement)
Time Period	Indefinite	March 1, 2000 – March 1, 2003
Maximum Length of Participation	3 years	2 years
Use of Sick Leave	Amount chosen by employee added to employee's credited service when calculating pension	Amount over 80 hours added to employee's credited service when calculating pension
Contributions to Account	Monthly pension benefit Bi-weekly employee pension contribution	Monthly pension benefit
Account Rate of Return	8.25% annual interest, compounded quarterly	Market rate of return on employee-directed investments
DROP and Disability Retirement	**Service-Connected Disability** (SCD): Employee must choose between SCD retirement benefit ***or*** DROP plan and regular retirement benefit. **Non-Service-Connected Disability (NSCD)**: Employee receives both NSCD benefit and DROP plan account.	**Service Connected Disability (SCD)**: Employee receives the balance in the DROP account reduced by the value of credited service if the employee had not participated in DROP. **Non-Service-Connected Disability (NSCD)**: Not specified.
Pension Amount after Leaving County Government Service	Equal to pension amount when employee entered DROP program, adjusted for COLAs received by retirees during employee's time in DROP program	

Source: Bill 18-99

C. Expedited Bill 7-08 – Reinstating the Police DROP Plan

Expedited Bill 7-08 made several changes to the retirement system for police officers. Among other changes, the Bill reinstated the DROP plan for police officers, which had sunset in 2003. The County Executive and the FOP negotiated the changes in the Bill through the collective bargaining process.

During the review of the FY09 budget, the MFP Committee and the Council reviewed the collective bargaining agreement between the Executive and the FOP to approve or disapprove the provisions of the agreement that had fiscal implications and/or required a change in law. In May 2008, the Council adopted Resolution 16-557 indicating its intent to implement the provisions in the collective bargaining agreement, including reestablishing the Police DROP plan.[22]

The MFP Committee and the Council took up review of Expedited Bill 7-08 in the summer of 2009. The Office of Management and Budget estimated the Police DROP plan would cost $502,000 in FY10, but did not provide cost estimates for future years.[23]

[22] June 9, 2008 Memo from Robert Drummer, Legislative Attorney, to the MFP Committee, at p. 2.
[23] The OMB estimate did not include the methodology for the FY10 cost calculation.

The reinstated Police DROP plan (the current plan) differs from the original plan in several ways:

- To be eligible to participate in the reinstated plan, police officers must have 25 years of credited service and be 46 years old. In the original plan, officers could participate after 20 years of service and when they were 41 years old.
- Officers can participate in the DROP plan for up to three years. The original plan allowed officers to participate for two years.
- The reinstated Police DROP plan does not have a sunset date.

The Council enacted the legislation on June 24, 2008 and it took effect on July 1, 2008.

D. Other Bills Amending the DROP Programs

Several other bills have made changes that have impacted the DROP plans and/or the plan provisions, summarized below.

Bill 35-01 – Technical Amendments. Bill 35-01, enacted on November 20, 2001, made technical amendments to several chapters and sections of the Montgomery County Code, including the correction of a statutory reference in the section of the law governing the Police DROP program.

Expedited Bill 26-06 – Miscellaneous Retirement Amendments. Bill 26-06, enacted on June 27, 2006, made several amendments to the Montgomery County Code regarding employee retirement, including a clarification of disability retirement provision in the Fire DROP plan. Specifically, the change clarified that a member of the Fire DROP plan who receives a non-service-connected disability (NSCD) retirement would receive a NSCD benefit, not the normal retirement benefit.[24] An NSCD benefit does not integrate with Social Security when a retiree reaches Social Security retirement age where a normal retirement benefit does.

Expedited Bill 5-07 – Instituting 20-Year Retirement for Firefighters. Expedited Bill 5-07, enacted on April 17, 2007, reduced the number of years required for firefighters to reach normal retirement – lowering it from 25 years to 20 years of normal service. This change stemmed from collective bargaining between the County Executive and the IAFF. With respect to the Fire DROP program, Bill 5-07 changed the law to reflect that a firefighter could enter the Fire DROP plan after having "met the requirements for a normal retirement," which was now 20 years. Previously, the law stated that the firefighter could enter the program with 25 years of credited service.

Bill 37-08 – Changes to the Disability Retirement System. Bill 37-08, enacted on May 12, 2009, made several amendments to the County's disability retirement system. Bill 37-08 required that Police DROP participants who are eligible for service-connected disability must choose one of the following:

- The retirement benefit under DROP and the DROP account; or
- The service-connected disability retirement benefit that the employee would have received if the employee had continued to work and never participated in the DROP.

[24] 5-19-06 Letter from County Executive Douglas Duncan to Council President George Leventhal, at p. 1.

CHAPTER IV. Data on DROP Plan Participation

This chapter summarizes data on employees who are currently enrolled in or have retired from the Police and Fire DROP plans. It also looks at data for Police and Fire employees who will be eligible to participate in the DROP plan at the end of FY12 and in the next five years. The chapter is organized as follows:

- **Section A** summarizes enrollment, demographic characteristics, and financial data for active DROP participants;
- **Section B** compares data on the number DROP versus other types of retirements, and summarizes demographic characteristics of retired DROP participants; and
- **Section C** provides information on future retirement and DROP eligibility of police and fire employees.
- **Section D** summarizes data on DROP account balances for active and retired participants.

The employee data in this chapter was provided by the Office of Human Resources and all of OLO's calculations are based on this data. Data for a few employees was incomplete and OLO excluded these employees from the data sets and noted these exclusions where relevant in the chapter.

A. Active DROP Participants

This section describes the characteristics of active Montgomery County employees currently participating in the Fire and Police DROP programs. As of September 2011, 85 MCPD employees were participating in the Police DROP plan and 96 MCFRS employees were participating in the Fire DROP plan. The data show that active DROP participants in both Police and Fire have similar demographic characteristics including average credited service, and average annual base salary. However, on average, police DROP participants enter the program three years older than their fire counterparts.

Table 4-1. Number and Characteristics of Current Police and Fire DROP Participants (as of September 2011)

	Police DROP	Fire DROP
Number of Union Participants	71	83
Number of Non-Union Participants	14	13
Total Current Participants	**85**	**96**
Average Age when Hired	24 years old	24 years old
Average Age Entering DROP	53 years old	50 years old
Average Years of Credited Service	30 years	28 years
Average Monthly Pension*	$5,961	$5,180
Average Annual Base Salary*	$99,190	$98,719

*At DROP entry
Source: OHR and OLO

B. Retired DROP Participants

This section summarizes data on MCPD and MCFRS retirees who participated in and retired from the DROP program. It also compares data for these DROP retirees to data for all police and fire retirees.

1. Retired Police DROP Participants

The first part of this subsection summarizes data for Police DROP retirees. The second half compares data for Police DROP retirees to other police retirees. As described in Chapter II the original Police DROP plan sunset in 2003 and was not reinstated until 2008. In order to examine the Police DROP data for retirees in their full context, the second part of this section compares Police DROP retiree to data for all police officers who retired only when the Police DROP plan was active.

Police DROP Retirees. As noted in Chapter II, the Police DROP plan closed in 2003 before being reopened in 2008. In total, 235 MCPD police officers retired during the time periods in which the DROP plan was active. Of these, 92 (39%) were DROP retirements, as detailed in the table below.

Table 4-2. Total Police Retirements by Type
(Jan. 2000-June 2003 and July 2008-Dec. 2011)

Type of Retirement	Number	% of Total
DROP Retirement	**92**	**39%**
Disability Retirement	91	39%
Normal Retirement (without DROP)	43	18%
Early or Discontinued Service Retirement (DSR)	9	4%
Total	**235**	**100%**

Source: OHR and OLO

During the period of the initial Police DROP plan (2000 to 2003) when officers could participate in DROP for up to two years, police officers spent an average of 22 months in the DROP plan. Since 2008 when the maximum time for participation was extended to three years, employees who have retired through DROP have spent an average of 29 months in the Police DROP plan.

Comparison of Police DROP and Non-DROP Retirees. This part compares the characteristics of DROP retirees and non-DROP retirees for the time period during which the DROP plan was available to Police retirees. Table 4-3 provides data on average age, years of credited service, monthly pension, and final salary by each type of retirement.

- **On average, a Police DROP participant retires two years later than someone who chooses normal retirement.** The average years of credited service is 31 for DROP participants compared to 29 for normal retirements that do not use DROP.
- **Police DROP participants retired, on average, when they were 54 years old**. On average, they were three years older than normal police retirees (51 years old) and four years older than all police retirees (50 years old).
- **The average monthly pension benefit of Police DROP retirees is 3% lower than the average benefit for all normal retirees**. It is 3% higher than the average retirement benefit for all retirees.

Many variables, both professional and personal, can influence the timing of individual employee retirements. While OLO's analysis notes differences in age and years of service for DROP versus non-DROP retirees, additional statistical and/or actuarial analysis would be required to determine whether a causal connection exists between the timing of retirements and the DROP plans.

Table 4-3. Comparison of Retired Police Employee Data in Years When DROP Was Available*

Type of Retirement	# of Retirements	Average Age		Average Years of Credited Service	Average Financial Data+	
		At Hire	At Retirement		Monthly Pension	Final Salary
DROP	**92**	**24 years old**	**54 years old**	**31 years**	**$4,365**	**$86,295**
Disability	91	24 years old	45 years old	21 years	$4,457	$78,833
Normal	43	24 years old	51 years old	29 years	$4,506	$84,519
Other*	9	25 years old	46 years old	22 years	$3,428	$89,430
All Types	**235**	**24 years old**	**50 years old**	**26 years**	**$4,391**	**$83,077**

* Other types of retirements include early retirements and discontinued service retirements.
Data is for retirements that occurred from 1-1-2000 to 6-30-2003 and from 7-1-08 to 12-31-11.
+The financial date for "DROP" and "All Types" were calculated with data from 83 DROP employees because employees with incomplete data were excluded.
Source: OHR and OLO

Police DROP Retirements by Year. Most of the officers (66 or 72%) who have retired from DROP did so during its first iteration in FY00 or FY01. Twenty-six employees have retired from the DROP plan since it was reinstated in 2008.[25]

[25] The number of employees who have retired since the Police DROP plan was reinstated is low because the plan was reinstated less than four years ago and officers can participate for up to three years. Only the officers who entered the program soon after it was reinstated have reached the participation limit and retired.

Table 4-4. Number of Retired Police DROP Employees, by Year of Program Entry

	FY00	FY01	FY02-FY07	FY08	FY09	FY10	Total
Employees Entering DROP Plan	3	63	DROP program not available	23	1	2	92
% of Total	3%	68%		25%	1%	2%	100%

Percents may not total to 100% due to rounding.
Source: OHR and OLO

2. Retired Fire DROP Participants

Since January 1, 2000, 304 MCFRS employees have retired from County Government service. DROP retirements made up 43 percent of total retirements.

Table 4-5. Total Fire Retirements by Type
(January 2000 – December 2011)

Type of Retirement	Number	% of Total
DROP Retirement	**132**	**43%**
Disability Retirement	116	38%
Normal Retirement (without DROP)	43	14%
Early or Discontinued Service Retirement (DSR)	13	4%
Total	**304**	**100%**

* Percents may not total to 100% due to rounding.
Source: OHR and OLO

Firefighters who have retired through the Fire DROP plan have spent, on average, 32 months in the plan.

Comparison of Fire DROP and Non-DROP Retirees. This part compares the characteristics of DROP retirees and non-DROP retirees since the Fire DROP program was initiated. Table 4-6 provides data on average age, years of credited service, monthly pension, and final salary by each type of retirement.

- **Like Police DROP participants, Fire DROP participants have the highest average years of service of all firefighter retirements at 30 years**. The average years of service for all normal retirees is 27 years and the average for all retirees is 26 years.
- **Fire DROP participants retired, on average, when they were 53 years old**. They were, on average, three years older than fire normal retirees (50 years old) and three years older than all fire retirees (50 years old).
- **The average monthly pension benefit of Fire DROP retirees is 3% higher than the average benefit for all normal retirees**. It is 7% higher than the average retirement benefit for all retirees.

Many variables, both professional and personal, can influence the timing of individual employee retirements. While OLO's analysis notes differences in age and years of service for DROP versus non-DROP retirees, additional statistical and/or actuarial analysis would be required to determine whether a causal connection exists between the timing of retirements and the DROP plans.

Table 4-6. Comparison of Retired Fire Employee Data, FY00-FY11

Type of Retirement	# of Retirements	Average Age		Average Years of Credited Service[26]	Average Financial Data	
		At Hire	At Retirement		Monthly Pension	Final Salary
DROP	**132**	**22 years old**	**53 years old**	**30 years**	**$4,344**	**$86,248**
Disability	116	25 years old	45 years old	21 years	$3,614	$71,816
Normal	43	24 years old	50 years old	27 years	$4,214	$86,208
Other*	13	24 years old	50 years old	28 years	$4,652	$84,367
All Types+	**304**	**23 years old**	**50 years old**	**26 years**	**$4,060**	**$80,655**

* Other types of retirements include early retirements and discontinued service retirements.
Source: OHR

Fire DROP Retirements by Year. Table 4-7 summarizes data for employees who have retired through the Fire DROP program, based on the year they entered DROP. Thirty-six percent (48) of the 132 MCFRS employees who have retired through the DROP plan entered the plan in its first year, FY00. Excluding the first year as an outlier, an average of 11 employees joined the plan each year between FY01 and FY08.

Table 4-7. Number of Retired Fire DROP Employees, by Year of Program Entry

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	Total*
Employees Entering DROP Plan	48	11	7	7	9	17	9	9	10	132
% of Total	36%	8%	5%	5%	7%	13%	7%	7%	8%	100%

* Percents may not total to 100% due to rounding.
Source: OHR and OLO

C. Future Retirement Eligibility

As of August 2011, there were 1,144 active police officers and 1,064 active firefighters in Montgomery County. Looking ahead to future DROP participation, Table 4-8 summarizes data on police officers and firefighters who will be eligible to retire by the end of the current fiscal year (including those currently eligible to retire) and those who will become eligible during each year through FY17. The data show:

- By the end of FY12, 6% (69) of police officers and 21% (220) of firefighters will be eligible for retirement and eligible to enter the DROP plans;
- Over the course of the next five years through FY17, 17% (200) of active police officers and 31% (334) of active firefights will become eligible for retirement and DROP participation.

[26] Note: This report cannot draw any conclusions about the reasons for the timing of employee retirements and readers should not infer from these data a causal connection between the DROP plans and length of employee service. Additional information would require analysis by an actuary.

Table 4-8. Number of Police and Fire Employees Eligible for Retirement and DROP Participation through FY17 (as of August 2011)

	Current Active	Eligible to Retire During…*						FY12-FY17 Total
		Before FY13	FY13	FY14	FY15	FY16	FY17	
Police Officers	1,144	69	28	28	27	34	14	200
Firefighters	1,064	220	20	35	37	18	4	334

* Retirement eligibility based on age and credited service only. Calculations do not factor in sick leave and other means of accruing service towards retirement eligibility.
Source: OHR and OLO

D. DROP Account Data

On average, retired Police DROP participants left County Government service with a DROP account balance of $109,000. Retired Fire DROP participants left with an average balance of $166,000. The table below summarizes these data.

While the average DROP account balances for retired firefighters is over 30 percent greater than for retired police officers, note that over two thirds of Police DROP participants retired between 2000 and 2003, when their DROP participation was limited to two years.

Table 4-9. Average DROP Account Balances

	Average DROP Account Balance
Police	
Active	$105,053
Retired	$108,993
All	**$107,101**
Fire	
Active	$74,190
Retired	$165,915
All	**$127,124**

Source: OHR, BIT

CHAPTER V. Fiscal Impact of Montgomery County's DROP Plans

In general, it is difficult to calculate the cost of a DROP plan because the individual retirement decisions of each employee drive the cost. The most accurate measure of the cost would result from an analysis of how employees' retirement decisions would have differed if the DROP plans did not exist and calculating the cost difference. An analysis of this sort, however, is beyond the scope of available data.

This chapter describes the overall costs of DROP contributions since the programs were enacted in 2000, and provides examples to quantify the potential fiscal impact of DROP participation for individual employees. It is organized as follows:

- **Section A** summarizes County Government contributions to employee DROP accounts and the cost of interest paid on Fire DROP accounts; and
- **Section B** compares the projected short- and long-term fiscal impact to the County Government of employees who participate in DROP with those who do not.

A. Cost of County Government Contributions to DROP Accounts, 2000-2011

Table 5-1 shows the County Government's pension and interest payments to DROP accounts from January 2000 to September 2011. In sum, the County Government:

- Contributed $44.8 million in pension payments to DROP accounts; approximately $19.0 million to 177 Police DROP accounts and $25.9 million to 228 Fire DROP accounts. These contributions were made to DROP accounts at the same time the employee received an annual salary.

- Paid approximately $3.0 million in interest to the 228 Fire DROP accounts based on the 8.25% guaranteed annual rate of return for funds in these accounts.

Table 5-1. County Government Pension and Interest Payments to DROP Accounts (January 2000-September 2011)

Costs	Police DROP	Fire DROP	Total
Pension Payments to DROP Accounts	$18,956,833	$25,885,226	$44,842,059
8.25% Interest Paid to DROP Accounts	Not Applicable	$2,971,898	$2,971,898
Total	**$18,956,833**	**$28,857,124**	**$47,813,957**

Source: OHR, BIT, Department of Finance

Net Cost of Interest Paid on Funds in Fire DROP Accounts. Because funds credited to Fire DROP accounts remain in the ERS trust fund while an employee is in DROP and the County Government receives an investment return (or loss) on these funds, the County Government's cost for the 8.25% interest on Fire DROP accounts is partially offset by ERS earnings. Between FY00 and FY11, the County Government earned, on average, 6.6% annually on funds in the ERS. **As a result, OLO estimates that approximately $2.4 million of the interest paid to Fire DROP accounts was funded through investment earnings and the remaining $600K was the net cost to the County.**

B. Estimates of DROP Fiscal Impact to County Government

The Office of Legislative Oversight developed two examples to compare the fiscal impact to the County Government of employees who participate in the DROP plans and those who do not. In each example, one employee (Employee A) participates in a DROP plan for three years and one employee does not (Employee B or Employee C). Because the Fire and Police DROP plans are different, OLO calculated the cost in each example for a Master Firefighter and a Police Officer III.[27]

The examples quantify the 34-year retirement costs, broken down into **short-term personnel costs** (defined as years one through three) and the **long-term personnel costs** (defined as years four through thirty-four).[28]

- **In Example 1**: One employee enters DROP at the beginning of Year 1 (Employee A) and an identical employee retires at the beginning of Year 1 (Employee B). The DROP employee retires at the end of Year 3.
- **In Example 2**: One employee enters DROP in Year 1 (Employee A), an identical employee remains in normal service (Employee B), and both employees retire at the end of Year 3.

The methodology for and assumptions used in OLO's cost calculations in each example are explained in more detail in Appendix D.

Example 1 – DROP vs. Retirement

This example contrasts the costs for two employees with identical salaries[29] and years of service who change their employment status at the same time (July 1, 2012): Employee A enters DROP with 27 years of service and retires three years later (on July 1, 2015); and Employee B retires under normal retirement with 27 years of service. To maintain a constant level of service, Example 1 assumes that MCFRS or MCPD immediately fills the position of Employee B and incorporates replacement costs.

The different cost components associated with each employee that were used in the analysis are summarized below, divided into short-term and long-term costs. The analysis includes replacement costs for years 1-3 because the analysis incorporated the cost of maintaining the same level of staffing while Employee A was in DROP. Both employees have the same cost components (and the same cost) for the long-term (year 4 and beyond) because they both will be retired and receive the same pension amount (based on the same number of service years).

[27] OLO also calculated the cost under each example for a Fire and Rescue Captain and a Police Sergeant, available in Appendix E.
[28] OLO assumed a retiree life expectancy of 84 years, the current average life expectancy assumption for ERS members.
[29] OLO used a Master Firefighter at a salary of $84,562 and a Police Officer III at a salary of $86,774.

	Employee A (joins DROP and retires on 7/1/15)	Employee B (normal retirement on 7/1/12 and position is refilled)
Short-Term Cost Components: Years 1-3	• Annual Salary • Benefits* • Pension for 27 Years of Service (Placed in DROP account)	Retiree • Pension for 27 Years of Service Replacement(s) • Annual Salary • Benefits* • Pension Contribution
Long-Term Cost Components: Years 4-34	• Pension for 27 Years of Service • Retiree Health Benefits	• Pension for 27 Years of Service • Retiree Health Benefits

*Includes the employer cost for Social Security, Medicare, medical benefits, and prescription drug benefits.

Table 5-2 shows the short-term, long-term, and total cost results under Example 1. **Overall, the data indicate that an employee who enters DROP when they would have otherwise retired via normal retirement costs the County more, particularly in the short-term.** Specifically:

- In the short-term (years 1-3), the County's total personnel costs are $328K (or 211%) higher for the Master Firefighter and $357K (or 256%) higher for the Police Officer III that enter DROP compared to the same employee retiring and the resulting position vacancies being filled.
- The long-term costs (years 4-34) are the same for each position type since the employee who joins DROP does not receive additional service credit for their three years in DROP.
- Overall, the County Government's total costs are 18% higher for the Master Firefighter and 19% higher for the Police Officer III who enter DROP instead of retiring.

Table 5-2. Comparison of County Government Costs for Employees in Example 1

	Employee A (Joins DROP)	Employee B (Retires + Replaced)	Cost Difference of DROP	
			$	**%**
Master Firefighter				
Short Term Cost (Years 1-3)	$483,587	$155,282	+$328,305	+211%
Long Term Cost (Years 4-34)	$1,674,685	$1,674,685	$0	0%
Total Costs	**$2,158,272**	**$1,829,966**	**+$328,305**	**+18%**
Police Officer III				
Short Term Cost (Years 1-3)	$496,780	$139,490	+$357,290	+256%
Long Term Cost (Years 4-34)	$1,730,125	$1,730,125	$0	0%
Total Costs	**$2,226,905**	**$1,869,616**	**+$357,290**	**+19%**

* Totals may not add due to rounding.

Example 2 – DROP vs. Active Employment

This example contrasts the cost for two employees with identical salaries[30] who retire at the same time (July 1, 2015): Employee A enters DROP with 27 years of service (on July 1, 2012) and retires three years later; and Employee B retires under normal retirement with 30 years of service. The different costs associated with each employee that were used in the analysis are summarized below.

	Employee A (joins DROP and retires on 7/1/15)	**Employee B (normal retirement on 7/1/15)**
Short-Term Cost Components: Years 1-3	• Annual Salary • Benefits* • Pension for 27 Years of Service (Placed in DROP Account)	• Annual Salary • Benefits* • Pension Contribution
Long-Term Cost Components: Years 4-34	• Pension for 27 Years of Service • Retiree Health Benefits	• Pension for 30 Years of Service • Retiree Health Benefits

*Includes the employer cost for social security, Medicare, medical benefits, and prescription benefits.

Table 5-3 shows the cost results under Example 2. **Overall, the data indicate that an employee who enters DROP when they would have stayed in active employment for an additional three years either way costs the County more in the short-term but less in total costs over 30 years.** Specifically:

- In the short-term (years 1-3), the County's total personnel costs are about **$70K (or 17%) higher** for both the Master Firefighter and the Police Officer III that enter DROP compared to the an employee who retires at the same time without participating in DROP.
- In long-term costs (years 4-34), the County's total personnel costs are about **$130K (or 7%) lower** for the Master Firefighter and **$161K (or 9%) lower** for the Police Officer III that enter DROP compared to an employee who retires at the same time without participating in DROP. The long-term cost difference is due to the non-DROP employee having three more years of credited service.
- Overall, the County Government's total costs are **3% lower** for the Master Firefighter and **4% lower** for the Police Officer III that enter DROP compared to the other employee.

Table 5-3. Comparison of County Government Cost for Employees in Example 2

	Employee A (Joins DROP)	**Employee B (No DROP)**	**Cost Difference of DROP**	
			$	**%**
Master Firefighter				
Short Term Cost (Years 1-3)	$483,587	$413,993	+$69,592	+17%
Long Term Cost (Years 4-34)	$1,674,685	$1,805,147	($130,464)	-7%
Total Costs	**$2,158,272**	**$2,219,140**	**($60,870)**	**-3%**
Police Officer III				
Short Term Cost (Years 1-3)	$496,780	$426,419	+$70,361	+17%
Long Term Cost (Years 4-34)	$1,730,125	$1,890,907	($160,782)	-9%
Total Costs	**$2,226,905**	**$2,317,326**	**($90,422)**	**-4%**

* Totals may not add due to rounding.

[30] OLO used a Master Firefighter at a salary of $84,562 and a Police Officer III at a salary of $86,774.

Chapter VI. DROP Plans in Other Jurisdictions

Many other state and local jurisdictions and/or agencies provide DROP retirement plans for employees. This chapter provides comparative information on the structure and administration of DROP plans in eight jurisdictions, listed below:

- Anne Arundel County, MD;
- Baltimore County, MD;
- Baltimore City, MD;
- Howard County, MD;
- Maryland State Police;
- Fairfax County, VA;
- City of Philadelphia, PA; and
- State of Ohio.

OLO selected the programs for this comparative review by identifying area jurisdictions with DROP plans and examining non-area jurisdictions with DROP plans that had unique characteristics and/or had been highly publicized in recent years. While this comparative chapter primarily focuses on the structure of DROP plans, it also includes information on program participation rates, cost, and evaluation where available.

OLO also notes that in recent years, several jurisdictions have closed their DROP plans to new employees, citing the high cost of the plans. Two examples include the State of Alabama, which closed the State's DROP plan to new enrollees after March 2011, and City of Jackson, Michigan, which ended its DROP program for police officers in March 2012.

Summary of Comparative Review. While detailed description of the eight jurisdictions' DROP programs begin on the next page, some key similarities and differences between the programs are detailed below.

- **Availability**. Five of the eight plans are available only to public safety employees, while three jurisdictions (Baltimore County, Fairfax County and Philadelphia) make their DROP plan available to general government employees in addition to public safety employees.
- **Credited Service and Average Final Salary**. No plans allow participants to accrue service credit during participation and average final salary is based on salary in years prior to DROP enrollment.
- **Eligibility**. The minimum years of service required for participation ranges from 10 to 32 years.
- **Employee Participation and Termination**. Length of participation ranges from three to ten years. Ohio is the only jurisdiction that requires a *minimum* number of years of participation – three years.
- **Retirement Contributions**. Four of the eight DROP programs require employees to continue pension contributions during DROP participation.
- **Account Management and Growth**. Seven of the plans pay a fixed rate of interest on funds in the DROP account, although the specific rates vary. Howard County does not pay interest on accounts.
- **Account Payoff and Distribution Options**. Each jurisdiction allows DROP members three account distribution options: a lump-sum payment, a rollover to a tax-deferred retirement account, or an annuity.
- **Pension Benefit after Participation**. Every jurisdiction adds cost-of-living-adjustments (COLAs) to the pension benefit during participation.
- **Death Benefits**. In each jurisdiction, a survivor can receive the balance of a member's DROP account in addition to a survivor benefit.
- **Program Exit**. The plans vary on whether participants may opt out of DROP early.

A. Anne Arundel County, Maryland

Anne Arundel County established a DROP plan for firefighters in 2001 with a goal of retaining experienced public safety employees beyond normal retirement age. The County expanded the plan to police officers in 2002. Employees with at least 20 years of service can participate in the program. The table below highlights the elements of Anne Arundel County's program.

Table 6-1. Anne Arundel County DROP Program

Anne Arundel County (MD) DROP Program	
DROP Eligibility	Firefighters and police officers with at least 20 years of service
Maximum Length of Participation	5 years (3 years plus the option of two one-year extensions)
Contributions to DROP Account	Monthly pension payment only
DROP Account Earnings	4.25% fixed annual interest
Account Distribution Options	Lump-sum payment, direct rollover distribution, or annuity

In 2009, the County lowered the fixed interest rate from 8.0% to 4.25% on DROP accounts for employees who entered DROP after June 30, 2009. In order to receive the DROP benefits, employees are expected to participate for all three years (with the exception of death or disability). If a participant leaves DROP before the three years, all benefits will go back as if the employee never joined DROP. Upon retirement an employee can accept employment with the County; however, the employee's retirement benefit is reduced and he/she cannot participate in DROP again.

A study of the Anne Arundel County's DROP plan completed in 2003 shortly after the program was established found that 51 percent of eligible firefighters entered the program in its first 16 months and eight percent of eligible police employees entered in the first three months.[31] As of 2010, there were 58 active police officers and 103 active firefighters in the DROP program.[32]

[31] Robert Bolton and Thomas Lowman, *Design and Actuarial Aspects of Deferred Retirement Option Programs*, for the Society of Actuaries (Mar. 6, 2003).
[32] Anne Arundel County Retirement and Pension System Comprehensive Annual Financial Report, 2010.

B. Baltimore County, Maryland: Program Closed July 2007

The Baltimore County Council enacted a DROP plan for police officers and firefighters in 2004 with the intent of reducing the amount of salary used to calculate employee pensions. Due to cost concerns, the County closed the program in 2007 to employees hired on or after July 1st of that year.[33] At the same time it closed the public safety DROP plan, the Council established a DROP plan for general employees hired before July 1, 2007 to "save on retiree health care costs by keeping employees on the payroll until they are closer to eligibility for Medicare coverage."[34]

The table below summarizes highlights of the plans.

Table 6-2. Baltimore County DROP Program

Baltimore County (MD) DROP Program	
DROP Eligibility	Firefighters and police officers with at least 27 or 32 years of service respectively and general employees who are age 55 and meet Rule of 85
Maximum Length of Participation	5 years for public safety; 10 years for general employees
Contributions to DROP Account	3% annually
DROP Account Earnings	5% fixed annual interest
Account Distribution Options	Lump-sum payment, direct rollover distribution, or annuity

Baltimore County's DROP plan for police officers and firefighters was a "Back DROP" plan. In a "back DROP," an employee retirees and the County backdates the retirement date and pays out a DROP lump sum with interest calculated from the backdated retirement date. The County also calculates pension benefits based on the earlier "backdate."

To participate in DROP, general government employees must be at least 55 years old and satisfy the Rule of 85, where years of service plus age equal 85 or more. General government employees may participate in DROP for five to ten years. The amount of time a police officer or firefighter can count toward DROP participation varied based on years of service, as show in the table.

Table 6-3. Baltimore County Public Safety DROP Eligibility and Period

	Eligibility	DROP Period
Police	27 or more years of qualifying service	• 3 years after 27 or more years of service • 3, 3 ½ , or 4 years after 28 or more years of service • 3, 3 ½, 4, 4 ½, or 5 years after 29 or more years
Fire	32 or more years of qualifying service	• 3 years after 32 or more years of service • 3, 3 ½ , or 4 years after 33 or more years of service • 3, 3 ½, 4, 4 ½, or 5 years after 34 or more years of service

[33] http://washingtonexaminer.com/local/2007/01/baltimore-county-proposes-retirement-changes-public-workers/66239?category=16

[34] "Some Baltimore County police retire with $500,000 payouts." Alison Knezevich, The Baltimore Sun. December 1, 2011.

C. Baltimore City, Maryland

In 1996, Baltimore City enacted a DROP for public safety employees after lobbying by the City's public safety employees' union citing the need to keep experienced personnel on the job longer.[35]

Table 6-4. Baltimore City DROP Program

Baltimore City (MD) DROP Program	
DROP Eligibility	Firefighters and police officers with at least 20 or 25 years of service, based on date of entry
Maximum Length of Participation	3 years
Contributions to DROP Account	Monthly pension payment only
DROP Account Earnings	8.25%, 5.5% or 3% compounded annually, based on date of program entry
Account Distribution Options	Lump-sum payment, direct rollover distribution, or annuity

Participants in the plan do not accrue service credit during participation; retirement benefits calculated at the start of a member's participation are "frozen" because DROP participants do not have to leave City service after their DROP participation ends. If a participant remains employed by the Police or Fire departments following participation, their service credits are reinstated 18 months after completing the DROP.

In 2009, the City Council revised the program and created DROP2 in order to contain costs. The new plan primarily reduced the interest rate on accounts and created a tiered system.

Table 6-5. Summary of Baltimore City's DROP and DROP2 Program Eligibility and Account Interest

	Employee Group	Required Years of Service	Interest Rate (compounded annually)
DROP	Hired before July 1, 2003	20 years	8.25%
	Hired between 7-1-03 and 1-1-10	20 years, 10+ years contributing to the pension plan	5.5%
DROP2	> 15 years of service as of 6-30-10	20 years, all years contributing to the pension plan	5.5%
	<15 years of service as of 6-30-10	25 years, all years contributing to the pension plan	3.0%
	Hired after 7-1-10	25 years, all years contributing to the pension plan	3.0%

According to the Baltimore City Fire and Police Employee Retirement System Comprehensive Annual Financial Report, approximately 90 percent of eligible employees have participated in the DROP plan since its inception.[36] In 2009, Baltimore City paid over $10 million to DROP participants.

In May 2010, the Greater Baltimore Committee's "Task Force on Sustainable Funding of Baltimore City's Fire and Police Pension System" recommended terminating the DROP2 plan for employees with fewer than 15 years of service.[37]

[35] http://www.gbc.org/reports/051710-GBCPensionReport.pdf
[36] Baltimore City Fire & Police Employees Retirement System CAFR ending June 30, 2009, p. 74, 89-90.
[37] The Greater Baltimore Committee is a regional, membership organization of more than 500 businesses, nonprofit organizations, and educational and civic institutions. http://www.gbc.org/reports/051710-GBCPensionReport.pdf

D. Howard County, Maryland

Howard County established a DROP plan for police officers in 2004. In the Howard County DROP program, the County calculates the retirement benefit and credits the monthly benefit to a DROP account, but no "actual" account is created. The table below highlights the elements of Howard County's program.

Table 6-6. Howard County DROP Program

Howard County (MD) DROP Program	
DROP Eligibility	Police officers with at least 25 years of service
Maximum Length of Participation	3 or 4 years
Contributions to DROP Account	Monthly pension payment only
DROP Account Earnings	No Account Earnings
Account Distribution Options	Lump-sum payment, direct rollover distribution, or annuity

Police officers who have at least 25 years of service may elect to participate in DROP. The plan was amended in 2008 to allow participants to elect to participate when they have exactly 25, 26, or 27 years of service. If they do not enroll at these times, they are ineligible for the program. Participants continue to pay into their retirement up until they reach 30 years of service.

When a participant enters DROP, he/she elects to stay in DROP for three years (with penalty) or four years (without penalty). If participants choose the three year participation period, their DROP account is prorated based on years of service as follows: (1) employee with 25 years of service receive 89% of the DROP account; and (2) employees with more than 25 years of service receive 87% of the DROP account. The remainder of the DROP not paid is not paid to the participant in any manner and remains in the Plan to keep the DROP cost neutral.

The participant's election to DROP is irrevocable on the 15th day following the date of election. A participant may remain employed by the County after DROP participation (for a period of not less than six months, but no more than one year) with approval from the County Executive.

E. Maryland State Police

In 1998, the Maryland General Assembly enhanced State employees' retirement benefits and established a DROP plan for employees in the State police retirement system. In the State police DROP program, retirement benefits are deposited in an account within the State Retirement and Pension System. The table below summarizes elements of the DROP plan.

Table 6-7. Maryland State Police DROP Program

Maryland State Police DROP Program	
DROP Eligibility	Police officers with 22-29 years of service and under age 60*
Maximum Length of Participation	4 years, or on reaching age 60*
Contributions to DROP Account	Monthly pension payment only
DROP Account Earnings	4% or 6%, based on date of program entry
Account Distribution Options	Lump-sum payment, direct rollover distribution, or annuity

*See Table 6-8 below

In 2011, the General Assembly amended the DROP plan, changing eligibility requirements, length of participation, and the fixed interest rate on DROP accounts. The differences are summarized in the table below.

Table 6-8. Comparison of Elements of Maryland State Police DROP Program

Date of Hire	Eligibility	Program Length	Interest Rate
Before July 1, 2011	>21 and <29 years of service and under age 60	Lesser of (1) 4 years; (2) the difference between 28 years and the member's eligible service; (3) the difference between age 60 and the member's age as of the date of the member's election to participate in the DROP; or (4) a term selected by the member	6% compounded monthly
After July 1, 2011	>25 and <30 years of service and under age 60	Four years or on reaching age 60	4% compounded annually

F. Fairfax County, Virginia

In 2003, Fairfax County implemented a DROP program for police and other uniformed officers[38] to encourage employees to work past normal retirement and to facilitate succession management. In 2005, Fairfax County expanded the DROP program to all other County Government employees. A sunset provision on the plan was removed in October of 2010. The table below summarizes elements of Fairfax County's DROP plans.

Table 6-9. Fairfax County DROP Program

Fairfax County (VA) DROP Program	
DROP Eligibility	Varies by employee group; see summary below
Maximum Length of Participation	3 years
Contributions to DROP Account	Monthly pension payment only
DROP Account Earnings	5% fixed annual interest, compounded monthly
Account Distribution Options	Lump-sum payment, direct rollover distribution, or annuity

The primary difference between Fairfax County's DROP plans is the eligibility requirements:

- **General Government**: Age 60 with five years of service, or the Rule of 80 (age plus years of service must equal 80);
- **Police Officers**: 25 years of service or age 55 with five years of service; and
- **Uniformed Officers**: 25 years of service or age 55 with six years of service.

Participants are expected to work the full term of the DROP period; however, upon resignation (or termination) participants receive the funds in their DROP account. Participants cannot return to regular service after entering the DROP plan.

Fairfax County conducted two reviews of its DROP program. In 2008, the Department of Human Resources found that "[o]verall, managers provided positive feedback on their experience with the DROP program and indicated strong support for continuing the program." The second, conducted by an actuary in July 2010, concluded that "…statistics would imply that a major impact of the DROP has been for members to substitute DROP for retirement."[39]

As of January 2012, 705 county employees had entered DROP and the County's DROP accounts accrue about $200,000 to $215,000 a month.[40] In February 2012, the County's DROP program was the subject of a Washington Post article that reported on employees participating in DROP and subsequently returning to work, along with critics of the program who believe the program is too generous.

[38] Includes Fire and Rescue and Sheriff's Departments, Public Safety Communicators, Animal Wardens, Helicopter Pilots and some former Park Police Officers.
[39] http://www.fairfaxcounty.gov/retirement/pdfs/drop_fact_sheet.pdf
[40] http://www.washingtonpost.com/local/dc-politics/for-some-fairfax-public-employees-retirement-means-collecting-a-nest-egg--and-returning-to-work/2012/01/25/gIQApShDvQ_story_2.html

G. City of Philadelphia, Pennsylvania

In 1999, the City of Philadelphia established a DROP program to encourage longer service by employees and to use as a succession management tool. All government workers are eligible for the DROP program at their normal retirement age if they have at least ten years of service. The table below summarizes components of Philadelphia's DROP program.

Table 6-10. City of Philadelphia DROP Program

City of Philadelphia (PA) DROP Program	
DROP Eligibility	All City employees eligible for normal retirement with ten years of service
Maximum Length of Participation	4 years
Contributions to DROP Account	Monthly pension payment only
DROP Account Earnings	≥4.5% and ≤10%, compounded monthly
Account Distribution Options	Lump-sum payment, direct rollover distribution, or annuity

In 2011, the Mayor of Philadelphia and the City Council examined the cost of the Philadelphia DROP program. The Mayor proposed eliminating the program after a commissioned study found that the DROP program has cost the City $258 million in additional pension costs over the last decade. In addition, the program came under significant public scrutiny when it was reported that a City Council member participated in the program, retired from a sixth term, collected $478,057 and was sworn in the next day to serve a seventh term.[41]

Subsequently, the City Council raised the eligibility age for non-uniformed employees and changed the interest rate on payments into DROP accounts. The Mayor vetoed the Council changes and the Council overrode the Mayor's veto. In November 2011, Philadelphia unions filed grievances against the City, arguing that changes to the DROP program must be negotiated. The cases are still pending.

[41] http://articles.businessinsider.com/2011-12-29/news/30567842_1_web-page-drop-member-seventh-term#ixzz1pfHDJ7Lz

H. State of Ohio

The State of Ohio established a DROP program in 2003 for employees in the Ohio Police and Fire Pension Fund (OP&F).[42] The OP&F is a State-run retirement fund for police and firefighters in local jurisdictions across Ohio. Employees are eligible to participate in DROP at normal retirement.

Local jurisdictions do not know when an employee enters the DROP plan because the plan is administered at the state level. Retirees who participated in the DROP plan can return to positions covered by the retirement system, but they cannot reenroll in DROP. The table below includes plan highlights.

Table 6-11. State of Ohio DROP Program

State of Ohio DROP Program	
DROP Eligibility	Firefighters and police officers with at least 25 years of service and age 48
Maximum Length of Participation	8 years; minimum of 3 years
Contributions to DROP Account	Monthly pension, 10% annual contribution by employee
DROP Account Earnings	5% fixed annual interest
Account Distribution Options	Lump-sum payment, direct rollover distribution, or annuity

Generally, employees who leave the DROP plan before three years forfeit all DROP accruals. Following DROP, participants can receive their DROP account balance as a lump-sum, as an annuity, or can roll the balance over to another retirement account.

DROP participants continue to contribute 10% of their salary toward retirement while in DROP to fund DROP and other retirement benefits. The contributions are credited as follows:

- In years one and two, 50% of the contribution is credited to DROP;
- In year three, 75% of the contribution is credited to DROP; and
- In years four through eight (if applicable), 100% of the contribution is credited to DROP.

[42] The Ohio General Assembly created the Ohio Police and Fire Pension Fund (OP&F) in 1965 to replace 454 separate local police and firemen's relief and pension funds. The OP&F covers more than 28,000 active police officers and firefighters, 18,000 retired members, and nearly 8,000 beneficiaries and survivors.

Chapter VII. Findings

This chapter presents the Office of Legislative Oversight's (OLO) findings on the County Government's Deferred Retirement Option Plans (DROP) for public safety personnel. OLO's scope of study included a review of DROP plan participation, an analysis of DROP plan costs, and a compilation of feedback on the DROP from County Government staff who facilitate the plans and from union leaders who represent police officers and firefighters. OLO's findings are presented in four topics:

- The structure of DROP plans in general;
- The structure of Montgomery County's DROP plans;
- Data on DROP program participation and costs in Montgomery County; and
- Comparative information on DROP plans in other jurisdictions.

Chapter VIII contains OLO's recommended issues for Council discussion.

THE STRUCTURE OF DROP PLANS IN GENERAL

Finding #1: In general, a Deferred Retirement Option Plan (DROP) is a program where an employee is able to begin collecting a pension benefit while continuing to work as an active employee (and receive a salary) for a set period of time.

While the structures of DROP plans across the country vary, common characteristics are summarized below.[43]

- **Eligibility**. Employees in a defined benefit pension plan that are eligible for "normal" retirement and/or meet other qualifying factors (such as minimum age and years of service) can enter a DROP plan.
- **Employee Participation**. Often, DROP plans limit participation to certain groups of employees, such as public safety employees.
- **Plan Structure**. An employee agrees to remain working as an active employee for a set period of time while in the DROP plan, often a minimum number of years, and continues to receive a salary and other benefits (e.g., group insurance coverage).
- **DROP Plan Benefit**. The employee also begins collecting a pension benefit, but not directly. While in the DROP plan, an employer deposits the pension benefit on the employee's behalf into an individual account with a mechanism for the funds to grow (e.g., a fixed rate of return or through employee-directed investments).
- **Employee Retirement**. The employee retires after meeting any participation requirements of the DROP plan, begins directly collecting the pension benefit, and receives the funds that accumulated in their DROP account while in the program. Employees often can receive DROP account balances as a lump-sum payment, as a rollover to a tax-deferred retirement account, or as an annuity.

[43] See Finding #11 summarizing the structure of DROP plans in other jurisdictions.

Finding #2: There are commonly-cited advantages and disadvantages to adopting and participating in DROP programs. Feedback from Montgomery County Government and union representatives echoes several of the advantages and disadvantages.

Literature on DROP plans describe advantages and disadvantages of DROP plans – both for employees and employers.[44] For employees, a DROP plan provides the benefits of simultaneously earning a salary and a tax-deferred retirement benefit that results in a lump-sum payment at retirement. For employers, while a DROP plan can facilitate succession management, DROP plans often increase employer retirement costs.

The table below summarizes some of the commonly-identified advantages and disadvantages.

Table 7-1. Commonly-Identified DROP Plan Advantages and Disadvantages

Advantages	Disadvantages
Employers	
• Retain skilled, trained employees with institutional knowledge • Known retirement dates can aid succession planning • Contributions to retirement plans may be reduced • Plans may reduce hiring and training costs	• Employees may not defer retirement, but instead enter DROP earlier and retire when originally planned • Plan design may increase retirement costs and/or result in higher payroll cost of more senior employees • Plan will add staff administrative time and costs
Employees	
• Simultaneously earn a salary and accumulate tax-deferred retirement income • Plan will provide a lump sum when entering retirement • Plan may reduce or eliminate an employee's pension contribution during the DROP period	• Employee may not earn additional service credits or benefit from salary increases during the DROP period • Decision to join DROP often is irrevocable • Employees may forfeit DROP fund for exiting early • Pension benefits may be frozen when entering DROP

Source: Commonwealth of Virginia's Joint Legislative Audit and Review Commission Detailed Review of Retirement Plan Trends, Best Practices, and Innovations by Other Public and Private-Sector Employers, PriceWaterhouseCoopers, p. 29-31 (February 20, 2008). http://jlarc.state.va.us/comp_study/PwC1.pdf

Representatives from the International Association of Fire Fighters and the Fraternal Order of Police interviewed by Office of Legislative Oversight staff view the DROP plans as a good benefit for employees and as a useful tool to keep experienced employees in County Government service longer. MCFRS and MCPD management representatives cite as a benefit to the departments their ability to use DROP plan data to track and plan for employee retirements. At the same time, some County Government staff report a perception among County Government employees from departments other than MCPD and MCFRS that the DROP plans allow police officers and firefighters to "double dip."

[44] See Commonwealth of Virginia's Joint Legislative Audit and Review Commission Detailed Review of Retirement Plan Trends, Best Practices, and Innovations by Other Public and Private-Sector Employers, PriceWaterhouseCoopers (February 20, 2008). http://jlarc.state.va.us/comp_study/PwC1.pdf; *Advisory on Deferred Retirement Option Plans*, Government Finance Officers Association (2005); Alva, Samson, et al., *The Impact of a Drop Program on the Age of Retirement and Employer Pension Costs*, Center for Retirement Research at Boston College (Sept. 2010).

MONTGOMERY COUNTY'S DROP PROGRAMS

Finding #3: Montgomery County Government offers two DROP plans: one for firefighters and one for police officers.

On November 16, 1999, the County Council enacted Bill 18-99 to establish a DROP plan for firefighters and a DROP plan for police officers. The structure of the DROP plans outlined in Bill 18-99 resulted from the collective bargaining process in early 1999, during which:

- The International Association of Fire Fighters (IAFF) entered into a collective bargaining agreement with the County Executive that included the establishment of a DROP plan for represented firefighters; and
- The Fraternal Order of Police (FOP) won a collective bargaining arbitration award that authorized creation of a DROP plan for represented police officers.

The Fire DROP plan has operated continuously since 2000. The original Police DROP plan sunset in 2003, but was reinstated by the Council in 2008 via Expedited Bill 7-08 pursuant to a collective bargaining agreement between the County Executive and the Fraternal Order of Police.

Finding #4: While similar in many ways, the Fire and Police DROP plans differ with respect to eligibility, employee pension contributions, and DROP investment earnings.

The table below summarizes key characteristics of the Fire and Police DROP plans, and shows that the two programs have many similarities. It also shows some differences, including:

- **Eligibility** – Firefighters can enter DROP when they are eligible for normal retirement – after 20 years of service at any age or after 15 years of service at age 55. Police officers can enter DROP after 25 years of service and must be at least 46 years old.
- **Employee Pension Contributions** – Employees in the Fire DROP continue to make bi-weekly pension contributions (credited to their DROP account), while employees in the Police DROP do not.
- **DROP Account Growth** – The County Government pays a fixed 8.25% annual rate of return on funds in Fire DROP accounts, while Police DROP participants self-direct the investment of funds in their DROP accounts without any guaranteed rate of return.

Table 7-2. Key Characteristics of Current Police and Fire DROP Plans

	Fire DROP	Police DROP
Dates of Program Operation	March 1, 2000 – present	• March 1, 2000 – March 1, 2003 • July 1, 2008 - present
DROP Eligibility	Firefighters in the ERS pension plan eligible for normal retirement[45]	• Police officers in the ERS pension plan • 25 years of service <u>and</u> at least age 46
Maximum Length of Participation	Up to 3 years	Up to 3 years
Contributions to DROP Account	• Monthly pension payments • Employee ERS contributions	Monthly pension payments
DROP Account Earnings	8.25% guaranteed annual interest, compounded quarterly	Employee directs investment of money in investment funds
Pension Calculation	Calculated based on length of service and final salary or average final salary at the time an employee enters the plan	
Pension Benefit Adjustments During DROP Participation	None (no adjustment for pension COLAs provided to retirees or salary increases received by DROP participant)	
Post-DROP Pension Benefit Adjustments	• Application of unused sick leave towards credited service time (if applicable) • Adjustment for pension COLAs given to retirees during the DROP participation	
Disability Retirement and DROP	• If service-connected, receive disability retirement benefits <u>or</u> DROP account balance and normal retirement benefit • If non-service-connected, receive disability retirement benefits <u>and</u> DROP account balance	
Account Distribution Options	Lump-sum payment, direct rollover distribution, or annuity	
Exit From Program	• Exit from plan at any time without penalty • Cannot complete the plan and reenter County Government employment	

[45] Firefighters are eligible for normal retirement at age 55 with 15 years of service or at any age with 20 years of service. Police officers are eligible for normal retirement at age 55 with 15 years of service or at any age with 25 years of service.

Finding #5: The County Executive's Recommended FY13 Operating Budget proposes moving responsibility for all retirement plan administration – including the DROP plans – from the Office of Human Resources to the Board of Investment Trustees beginning in FY13.

Currently, the Office of Human Resources' Benefits Team is the primary administrator for both DROP plans. The administrative tasks include:

- Conducting DROP information sessions;
- Enrolling employees in DROP;
- Calculating employee pension benefits;
- Establishing individual DROP account with vendors;
- Managing the County Government's contract with the vendor that tracks Fire DROP account data;
- Notifying MCFRS, MCPD, and other departments of employee participation; and
- Maintaining DROP data.

The County Executive's FY13 Recommended Operating Budget proposes a reorganization of all retirement plan management and program administration into the Board of Investment Trustees; this transfer will include the DROP plan responsibilities detailed above. The Executive Branch cites the following for consolidating retirement plan management and administration into the Board of Investment Trustees: "This consolidation results in the creation of an office with a core mission, depth of knowledge, and sustainability to meet future demands and represent Montgomery County's standard of operational excellence."

PARTICIPATION AND COST DATA

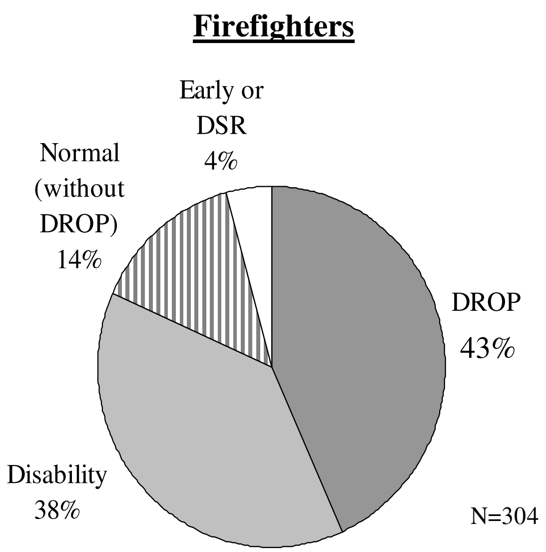
Finding #6: When DROP plans were available, DROP retirements represented 43% of firefighter retirements and 39% of police officer retirements.

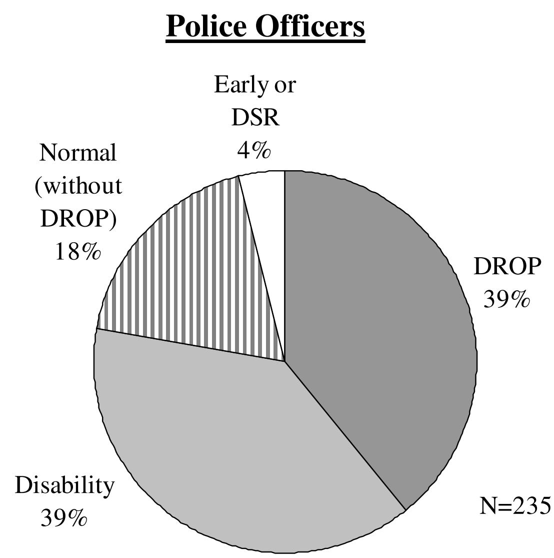
The two pie charts below depict the portions of police officer and firefighter retirements from March 2000 through December 2011 divided into four "types:" DROP retirement; normal (non-DROP) retirement; disability retirement; and early or discontinued service retirement. Overall, the data show:

- Of 304 firefighter retirements, 132 (43%) retired through DROP compared to 116 (38%) through disability retirement and 43 (14%) through normal retirement. When comparing DROP versus normal retirements only, firefighters were more than three times as likely to retire through DROP.

- Of 235 police officer retirements, 92 (39%) retired through DROP compared to 91 (39%) through disability retirement and 43 (18%) through normal retirement. When comparing DROP versus normal retirements only, police officers were more than twice as likely to retire through DROP.

Number of Retirements by Type When DROP Available





*Note: Police data are from March 2000 to March 2003 and July 2008 to December 2011. Firefighter data are from March 2000 – December 2011. DSR is Discontinued Services Retirement.
Source: OHR

Finding #7: On average, Police and Fire DROP participants retire at an older age and have more years of credited service when compared to non-DROP police and firefighter retirees.

The table below compares average age and years of credited service upon retirement for DROP participants versus other retirement types. The data show:

- On average, firefighters who retire through DROP are three years older and have three more years of credited service at retirement than firefighters who retire through normal (non-disability) retirement without participating in the DROP program.

- On average, police officers who retire through DROP are three years older and have two more years of credited service than officers who retire through normal (non-disability) retirement without participating in the DROP program.

Many variables, both professional and personal, can influence the timing of individual employee retirements. While OLO's analysis notes differences in age and years of service for DROP versus non-DROP retirees, additional statistical and/or actuarial analysis would be required to determine whether a causal connection exists between the timing of retirements and the DROP plans.

Table 7-3. Comparison of Average Age and Years of Credited Service by Retirement Type (when DROP plans available only)

Type of Retirement	# of Retirements	Average Age At Retirement	Average Years of Credited Service
Police Officers			
DROP Retirement	92	54 years old	31 years
Disability Retirement	91	45 years old	21 years
Normal Retirement	43	51 years old	29 years
Firefighters			
DROP Retirement	132	53 years old	30 years
Disability Retirement	116	45 years old	21 years
Normal Retirement	43	50 years old	27 years

*Note: Police data are from March 2000 to March 2003 and July 2008 to Dec. 2011. Fire data are from March 2000 to Dec. 2011.
Source: OHR and OLO

Finding #8: As of September 2011, 96 firefighters and 85 police officers were participating in the DROP plans. Over the next five years, 17 percent of active police officers and 31 percent of active firefighters will become eligible to participate in a DROP plan.

The 96 firefighters and 85 police officers currently participating in the DROP plans will all retire from County service no later than three years from when they entered the program. The table below summarizes data on the County Government's active police officers and firefighters who will be come eligible for retirement and DROP plan participation over the next five years.

The data show that by the end of FY12, retirement- and DROP-eligible employees will include:

- 6% of police officers; and
- 21% of firefighters.

Through FY17, retirement- and DROP-eligible employees will include:

- 17% of police officers; and
- 31% of firefighters.

Table 7-4. Summary of Employee DROP Plan Eligibility through FY17

	# of Active Employees in Pension Plan (August 2011)	Percent of Employees Eligible for Retirement	
		By end of FY12	By end of FY17
Police Officers	1,144	6%	17%
Firefighters	1,064	21%	31%

Source: OHR

Finding #9: Between January 2000 and September 2011, the County Government contributed $48 million in pension benefits to DROP accounts. The fixed 8.25% interest paid on Fire DROP accounts represented $3 million of the total.

Between January 2000 and September 2011, the County Government contributed $48 million in pension benefits to DROP accounts: $19.0 million to 177 Police DROP accounts and $25.9 million to 228 Fire DROP accounts. Consistent with the structure of the DROP plan, the County made these DROP account contributions at the same time the employee received an annual salary.

Table 7-5. County Government Pension and Interest Payments to DROP Accounts (January 2000-September 2011)

Costs	Police DROP	Fire DROP	Total
Pension Payments to DROP Accounts	$18,956,833	$25,885,226	$44,842,059
8.25% Interest Paid to DROP Accounts	Not Applicable*	$2,971,898	$2,971,898
Total	**$18,956,833**	**$28,857,124**	**$47,813,957**

* Police DROP participants self-direct investment of money in investment funds

Funds credited to Fire DROP accounts remain in the ERS trust fund while an employee is in DROP and the County Government receives an investment return (or loss) on these funds. Between FY01 and FY11, the ERS earned, on average, 6.6% annually. OLO estimates that of the $3.0 million in interest contributed to Fire DROP accounts, approximately $2.4 million could be attributed to the annual interest earned on funds in the ERS.

Finding #10: It is difficult to calculate the marginal cost to the County of operating the DROP plans. The individual retirement decisions made by each participant determine the cost and it is impossible to know for sure how individuals' decisions would differ without the DROP plan.

Recognizing the difficulties inherent in calculating the DROP plan costs, OLO developed two examples that compare the fiscal impact to the County Government of employees who participate in the DROP plans and those who do not. In sum, OLO's cost analysis (described in more detailed on the next page) shows that a DROP retirement:

- Costs the County Government more (both during DROP participation and throughout retirement) if the employee <u>would have retired</u> instead of entering DROP (Example 1);
- Costs the County Government more during DROP participation but less throughout retirement if the employee <u>would have worked for three more years</u> in active employment instead of entering DROP (Example 2).

Example 1 – DROP vs. Retirement

In this example, one employee enters DROP at the beginning of Year 1 and retires at the end of Year 3, while an identical employee retires at the beginning of Year 1. Example 1 includes costs associated with replacing the retired employee to maintain a constant level of service.

The data indicate that an employee who enters DROP when they would have otherwise retired under normal retirement would cost the County over 200% more in the short-term and 17-18% more in total costs throughout retirement.

Example 1	Cost Difference of DROP	
	$	**%**
Master Firefighter		
Short Term Cost (Years 1-3)	+$328,305	+211%
Long Term Cost (Years 4-34)	$0	0%
Total Costs	**+$328,305**	**+18%**
Police Officer III		
Short Term Cost (Years 1-3)	+$357,290	+256%
Long Term Cost (Years 4-34)	$0	0%
Total Costs	**+$357,290**	**+19%**

Example 2 – DROP vs. Active Employment

In this example, one employee enters DROP in Year 1, an identical employee remains in normal service, and both employees retire at the end of Year 3.

The data indicate that an employee who enters DROP rather than staying in active employment for an additional three years would cost the County 17% more in the short-term but 3-4% less in total costs throughout retirement.

Example 2	Cost Difference of DROP	
	$	**%**
Master Firefighter		
Short Term Cost (Years 1-3)	+$69,592	+17%
Long Term Cost (Years 4-34)	($130,464)	-7%
Total Costs	**($60,870)**	**-3%**
Police Officer III		
Short Term Cost (Years 1-3)	+$70,361	+17%
Long Term Cost (Years 4-34)	($173,851)	-9%
Total Costs	**($103,490)**	**-4%**

COMPARATIVE INFORMATION ON DROP PLANS IN OTHER JURISDICTIONS

Finding #11: Other state and local governments also offer DROP plans, primarily for public safety employees. Selected case studies show that DROP plans vary across jurisdictions. In recent years, several jurisdictions have closed their DROP plans, citing high costs.

To provide a perspective on DROP plans, OLO gathered information on DROP plans in eight jurisdictions:

- Anne Arundel County Maryland;
- Baltimore County, Maryland;
- Baltimore City, Maryland;
- Howard County, Maryland;
- Maryland State Police;
- Fairfax County, Virginia;
- Philadelphia, Pennsylvania; and
- The State of Ohio.

Notable similarities and differences of the DROP plans in the other jurisdictions, as compared to the County Government's DROP plans, include:

- **Availability**. As in Montgomery County, five out of eight plans are available only to public safety employees. Baltimore County, Fairfax County, and Philadelphia allow general government employees to join a DROP plan.
- **Eligibility**. The minimum years of service an employee must have to be eligible for participation in DROP plans ranges from 10 years (Philadelphia) to 32 years (Baltimore County). Montgomery County requires 25 years of service (and age 46) for police officers and requires firefighters to be eligible for normal retirement (15 years of service at age 55, or 20 years at any age).
- **Employee Participation and Termination**. Maximum length of participation ranges from three to ten years. Montgomery County police officers and firefighters can participate for up to three years. The State of Ohio is the only jurisdiction examined that requires a *minimum* number of years of participation – three years.
- **Retirement Contributions**. Four of the eight DROP programs require employees to continue pension contributions during DROP participations – Baltimore County, Baltimore City, Howard County, and the State of Ohio. In the County Government, firefighters continue their pension contributions and police officers do not.
- **Account Management and Growth**. Seven of the DROP plans pay a fixed rate of interest on funds in the DROP accounts, ranging from 3% up to 10%. Howard County does not pay interest on DROP accounts and does not provide a mechanism for the funds to grow. In Montgomery County, firefighters DROP accounts receive a fixed rate of interest (8.25%) on their DROP accounts. Montgomery County police self-direct the investment of funds in their DROP accounts.

Chapter VI summarizes information on the DROP plans in these jurisdictions.

In recent years, several jurisdictions have closed their DROP plans to new employees, citing the high cost of the plans. Two examples include the State of Alabama, which closed the State's DROP plan to new enrollees after March 2011 and City of Jackson, Michigan, which ended its DROP program for police officers in March 2012.

Chapter VIII. Discussion Questions

This Office of Legislative Oversight (OLO) report examines the history and experience of the County Government's deferred option retirement plans (DROP) for police officers and firefighters, the costs and benefits associated with the plans over the past decade, and how the plans fit into the County Government's workforce management strategies.

This chapter outlines three recommended questions for Council discussion with County Government representatives. In conjunction with the information in the report, these discussion issues focus on enhancing the Council's understanding, oversight, and evaluation of the DROP program.

Discussion Question #1: How do the costs and benefits of the DROP programs compare?

As reviewed in earlier chapters, there are limits to quantifying the costs and benefits of the DROP programs. Nonetheless, it is possible to hold an informed discussion about the known and comparable costs and perceived benefits of the two DROP plans.

When the County Government implemented the Fire and Police DROP plans in 2000, the stated intent was for the plans "to operate as incentives to induce employees with many years of experience, and eligible for retirement, to remain active employees and delay retirement for a number of years."[46] At the time of implementation, Executive Branch staff highlighted an immediate concern about the County Government's ability to retain police officers. The legislative record, however, does not include a detailed explanation of the long-term benefit to the County Government that comes from retaining police officers and firefighters for additional years through the DROP program.

OLO's review of the DROP plans found that, on average, fire and police DROP retirees were three years older and had two to three more years of service compared to firefighters and police officers with normal retirements. While these data appear to align with the stated goal for the program, there are many variables, both professional and personal, that can influence the timing of individual employee retirements. As a result, additional statistical and/or actuarial analysis is required to determine whether a causal connection exists between differences in age and years of service and DROP participation.

In general, it is difficult to calculate the marginal cost of a DROP plan because the individual retirement decisions of each employee drive the cost and it is not possible to know how each individual's decision would have differed without the DROP plan. Instead, OLO developed examples that compare the fiscal impact to the County Government of employees who participate in the DROP plans and those who do not. OLO's cost analysis shows that a DROP retiree can cost the County Government significantly more during the three years of DROP participation compared to an employee who takes a normal retirement.

In sum, Councilmembers could ask Executive Branch staff to summarize the current goals of the DROP program and discuss whether the benefit of retaining police officers and firefighters for three additional years through the program merits the costs associated with DROP.

[46] 7-27-99 Testimony of James Torgesen, OHR, to the County Council, at ©46 of 8-2-99 Memo from Michael Cogan, Legislative Attorney, to the Management and Fiscal Policy Committee.

Discussion Question #2: Is it equitable to offer DROP plans to a subset of County Government employees?

Providing DROP plans only for two groups of employees raises questions of equity among employees. While employee retirement benefits are subject to collective bargaining, the County Council has had several discussions in recent years (in particular during budget deliberations for FY11-FY13) of "equitable" treatment of employee compensation and benefits across and within agencies.

The current County Government DROP plans are limited to a subset of public safety employees – firefighters and police officers in the County Government's pension plan. During the 1999 discussion of DROP legislation, the County Sheriff requested that the Council provide a DROP plan for deputy sheriffs. The Council declined to do so.

In addition to functioning as a retirement benefit for employees, the DROP plans provide MCPD and MCFRS with data that the departments use for succession management purposes – allowing the departments to track impending retirements and plan accordingly to fill positions. No other County Government department has the ability to plan for employee retirements in the same way.

Discussion Question #3: Are there changes to the design of the DROP plans that would better align plan outcomes to the County's program goals?

As reviewed in Chapter 2 of this report, the County's two DROP plans have many similar provisions, such as the participation period, approach to pension benefit adjustments, and relationship with disability retirement. However, the Fire and Police DROP plans differ on several key variables:

- **Eligibility –** Firefighters can enter DROP when they become eligible for normal retirement; police officers must have 25 years of service and be at least 46 years old to participate.
- **Employee Pension Contributions –** Employees in the Fire DROP continue to make bi-weekly pension contributions (credited to their DROP account), while those in the Police DROP do not.
- **DROP Account Growth –** The County Government pays a fixed 8.25% annual rate of return on funds in Fire DROP accounts, while Police DROP participants self-direct the investment of funds in their DROP accounts without any guaranteed rate of return.

When the Council enacted DROP legislation in 1999, Councilmembers discussed the plan differences and whether to create a single DROP plan for police officers and firefighters. Compiling information from more than a decade of experience with the DROP program, this report provides the Council another opportunity to review the design of the DROP plans.

The Council could discuss with Executive Branch staff whether changes to the DROP plans could further Executive Branch goals for the programs and whether any benefits exist to consolidating the two plans. Aspects of the plans to examine could include:

- Minimum age/length of service requirements for participation;
- Length of participation period; and
- Mechanism for account growth (self-directed investments or guaranteed rates of return).

Assessing whether changes to the design of the plans would increase or decrease plan costs would require the assistance of an actuary.

CHAPTER IX. Agency Comments on Final Draft

The Office of Legislative Oversight circulated a final draft of this report to the Executive Branch through the office of the Chief Administrative Officer on May 18, 2012 and OLO staff met with Executive Branch staff on June 13, 2012 to discuss the report. OLO appreciates the time taken by agency representatives to review the draft and provide comments. OLO's final report incorporates technical corrections and comments provided by agency staff.

Written comments from the Chief Administrative Officer were not available at the time of printing. OLO anticipates that written comments will be available when the Public Safety Committee and the Government Operations and Fiscal Policy Committee meet to review the report.

MONTGOMERY COUNTY

DEFERRED RETIREMENT OPTION PLANS

OFFICE OF LEGISLATIVE OVERSIGHT
REPORT NUMBER 2012-5

Appendix

Appendix A

Sec. 33-38A. Deferred Retirement Option Plans.

The Chief Administrative Officer must establish Deferred Retirement Option Plans, or DROP plans, that allow any employee who is a member of a specified membership group or bargaining unit and who meets the eligibility requirements to elect to retire but continue to work. Pension payments must not be paid to the member while the member participates in the DROP Plan. When the member's participation in the DROP Plan ends, the member must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the DROP Plan, and receive the value of the DROP Plan payoff.

(a) *DROP Plan for Group F members.* "Discontinued Retirement Service Program" or "DRSP" means the DROP program for Group F members.

(1) *Eligibility.* A Group F member who is at least 46 years old and has at least 25 years of credited service may participate in the DRSP.

(2) *Application requirements.* An eligible employee must apply at least 60 days before the employee becomes a participant. An employee may withdraw a pending application within 2 weeks after submitting the application.

(3) *Employee participation and termination.* The employee's participation in the DRSP must begin on the first day of a month that begins at least 60 days, but not more than 90 days, after the employee applied and must end 3 years after the employee begins to participate or at an earlier date chosen by the employee. When the employee's participation in the program ends, the employee must stop working for the County and receive a pension benefit.

(4) *Employment status.* An employee who participates in the program must continue to be a member of the retirement system, earn sick and annual leave, and remain eligible to participate in health and life insurance programs.

(5) *Retirement date, retirement contributions, and credited service.* The retirement date of an employee who participates in the program is the date when the employee begins to participate in the DRSP, and neither the employee nor the County will make retirement contributions after that date. An employee who wishes to purchase prior service must do so before the employee's participation in the program begins. Sick leave in excess of 80 hours will be credited towards retirement at the beginning of the employee's participation.

(6) *Pension benefits.*

(A) Before an employee's participation begins, the employee must select a:

(i) pension payment option under Section 33-44 for the regular retirement pension payments; and

(ii) pension payment distribution option for the distribution of the employee's DRSP account.

(B) A pension benefit must not be paid to the employee while the employee participates in the program, but must be deposited in a DRSP account established for the participant by the County. The participant must receive the account balance and the County must close the account within 60 days after the employee stops participating in the program. Subject to any requirements of the Internal Revenue Code and other applicable law, the employee may roll over the account balance into an eligible retirement plan.

(C) An employee must direct the Board of Investment Trustees to allocate contributions to the employee's DRSP account to be invested in one or more of the investment funds selected by the Board. The investment fund options selected by the Board must conform to all applicable requirements of the Internal Revenue Code. An employee must allocate contributions among the investment funds in percentages of the value of the employee's DRSP account balances. An employee's direction of investment must remain in effect until the employee changes the direction. If an employee does not provide a valid direction of investment, the Board must select an appropriate investment option and invest the DRSP account balances not governed by a valid direction of investment in the investment option.

(D) After the employee's participation in the program ends, the employee's pension benefit will be based on:

(i) the employee's credited service immediately prior to the beginning of the employee's participation in the program, adjusted to include credit for unused sick leave under Section 33-41;

(ii) the employee's average final earnings, excluding earnings during the period of participation in the program; and

(iii) increases in the consumer price index during the period of the employee's participation that would have resulted in an increase in the employee's pension benefit if the employee had not been participating in the program.

(7) *Disability retirement.* An employee may apply for disability retirement prior to the termination of the employee's participation in the program.

(A) A DRSP participant who is eligible for a service-connected disability retirement must choose either:

(i) the retirement benefit under the DRSP and the DRSP account balance; or

(ii) the service-connected disability retirement benefit that the employee would have received if the employee had continued as an active employee and had not elected to participate in the DRSP, and no DRSP account balance.

(B) A DRSP participant who is eligible for a non-service-connected disability retirement benefit must receive the non-service-connected disability retirement benefit under Section 33-43(h), with the benefit calculated as of the member's DRSP exit date, plus the DRSP account balance.

(8) *Death benefit.* If an employee dies during the employee's participation in the program, the employee's beneficiary will receive:

(A) the death benefit that the beneficiary would have received if the employee had retired on the date on which the employee began to participate in the program, adjusted under subsection (6)(D); and

(B) the balance of the employee's DRSP account.

(9) *DRSP account distribution options.* A member may have the balance of the DRSP account distributed as a lump sum or an annuity, or have some or all paid directly to an eligible retirement plan as a direct rollover distribution. To the extent feasible, as determined by the Chief Administrative Officer, a member alternatively may receive the account balance as periodic payments calculated and distributed as an addition to the member's regular retirement benefit. If the member dies before the balance of the DRSP

account is distributed, the beneficiary may receive distribution of the balance under any option described in this paragraph.

(b) *DROP Plan for Group G members.*

(1) *Eligibility.* An employee who is a member of Group G and who has met the requirements for a normal retirement may participate in the DROP Plan.

(2) *Application requirements.* An eligible employee must apply at least 45 days before the employee becomes a participant. An employee may withdraw a pending application within 2 weeks after submitting the application.

(3) *Employee participation and termination.*

(A) The employee's participation in the DROP Plan must begin on the first day of a month that begins at least 45 days, but not more than 75 days, after the employee applied.

(B) A Group G member may participate in the DROP Plan for up to 36 months. An employee who elects to stop participating before the end of the 36-month period must notify Fire and Rescue Services and the Office of Human Resources at least 60 days before stopping participation in the program.

(C) When the employee's participation in the DROP Plan ends, the employee must stop working for the County and receive a pension benefit.

(4) *Employment status.* A DROP Plan participant must continue to be a member of the retirement system, earn sick and annual leave, and remain eligible to participate in health and life insurance programs for employees while the member participates in the DROP Plan.

(5) *Retirement date, retirement contributions, and credited service.*

(A) The retirement date of a member who participates in the DROP Plan is the date when the employee begins to participate in the DROP Plan.

(B) The member will continue to make retirement contributions to the Optional Plan or Integrated Plan while participating in the DROP Plan. The County must not make retirement contributions on behalf of the member after the date on which the member's DROP Plan participation begins.

(C) Sick leave credited towards retirement at the beginning of the member's participation will not be available for the member's use after participation in the DROP Plan begins.

(D) A member who wishes to purchase prior service must do so before the member's participation in the DROP Plan begins.

(6) *Pension benefits.*

(A) Before a member's participation begins, the member irrevocably must choose a pension payment option under Section 33-44 for retirement pension payments.

(B) Pension benefits will not be paid to the member while the member participates in the DROP Plan. Pension payments that are deferred while the member participates in the DROP Plan must not include cost- of-living increases under Section 33-44 that were given to retirees and beneficiaries during the period of the member's participation in the DROP Plan. The participant will receive the deferred pension payments when the member's participation in the DROP Plan ends, or within 60 days after the member gives notice under paragraph (3)(B), whichever is later.

(C) After the member's participation ends, the member's pension benefit will be based on the member's:

(i) credited service, including credit for unused sick leave, before the member's participation in the DROP Plan began, adjusted to include credit for unused sick leave accrued during the period of DROP Plan participation; and

(ii) average final earnings, excluding earnings during the period of participation in the DROP Plan.

(D) The pension benefit that a member receives after the member's participation in the DROP Plan ends must be adjusted to reflect cost-of- living adjustments under Section 33-44(c) that occurred during the period of the member's participation in the DROP Plan, but the pension payments that are deferred during the participation period must not include cost-of-living adjustments.

(7) *Disability retirement.*

(A) A member may apply for disability retirement prior to the termination of the member's participation in the DROP Plan.

(B) If the Chief Administrative Officer determines that a DROP participant is eligible for a service-connected disability retirement, the participant must elect to receive either:

(i) the retirement benefit under subsection (6)(C) and the DROP Plan payoff; or

(ii) the service-connected disability retirement benefit that the member would have received if the member had continued as an active employee and not elected to participate in the DROP Plan.

(C) A member who elects to receive a service-connected disability retirement must not receive the DROP Plan payoff.

(D) If the Chief Administrative Officer determines that a DROP participant is eligible for a non-service connected disability retirement, the participant must receive:

(i) the non-service connected disability retirement benefit provided under Section 33-43(h), with the benefit calculated as of the member's DROP entry date; and

(ii) the DROP account balance.

(8) *Death benefit.* If a member dies during the member's participation in the DROP Plan, the member's beneficiary will receive the greater of:

(A) the death benefit that the beneficiary would have received if the member had retired on the date on which the member began to participate in the DROP Plan, calculated to reflect cost-of-living adjustments under Section 33-44(c) that occurred during the period of DROP Plan participation, and the value of the DROP Plan payoff, not including retroactive cost-of-living adjustments to the deferred pension payments; or

(B) the service-connected death benefit that the beneficiary would have received if the member had not elected to participate in the DROP Plan, but not the DROP Plan payoff.

(9) *DROP Plan payoff and distribution.*

(A) *DROP Plan payoff.* The DROP Plan payoff must include the total of the following, accumulated over the period of the member's participation in the DROP Plan:

(i) the member's deferred monthly pension payments, not including any cost-of-living adjustments;

(ii) the member's retirement contributions to the Optional Plan or Integrated Plan treated as picked-up contributions; and

(iii) 8.25 percent annual interest compounded quarterly, credited each calendar quarter on the amount in the DROP Plan payoff at the beginning of each quarter during the member's participation in the DROP Plan.

(B) *DROP Plan payoff distribution options.* At the time that a member's DROP Plan participation ends, the member must elect to have the DROP Plan payoff distributed as a:

(i) lump sum payment;

(ii) annuity; or

(iii) direct rollover distribution, in compliance with the Internal Revenue Code, to an eligible retirement plan. (1999 L.M.C., ch. 26, § 1; 2001 L.M.C., ch. 28, §§ 5, 15 and 16; 2006 L.M.C., ch. 20, § 1; 2007 L.M.C., ch. 3, § 1; 2008 L.M.C., ch. 23, § 2; 2009 L.M.C., ch. 11, § 1.)

Editor's note-The effective date of the amendment made to this section by 2001 L.M.C., ch. 28, § 5, is the same effective date as 1999 L.M.C., ch. 26, § 1.

Bill No. 18-99
Concerning: Personnel - Retirement - Amendments from Collective Bargaining
Revised: Nov. 16, 1999 Draft No. 5
Introduced: June 22, 1999
Enacted: November 16, 1999
Executive: November 24, 1999
Effective: March 1, 2000
Sunset Date: None
Ch. 26, Laws of Mont. Co. 1999

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

AN ACT to:

(1) allow a Group G member to retire after 25 years of credited service regardless of age;

(2) provide for Deferred Retirement Option (DROP) Plans that allow certain bargaining unit and other employees to elect a deferred retirement option under which the participating employee [[:

(a)]] "retires" but continues to work for a specified time period while pension payments are deferred;

[[(b) actually retires at the end of the period and receives pension payments deferred during the period; and

(c) upon actual retirement, receives retirement benefits based on credited service before the member began participating in the DROP Plan;]]

[[(3) establish a DROP Plan for Group F members that allows an employee who is at least 41 years old with at least 20 years of credited service to participate for up to 24 months;]]

[[(4) establish a DROP Plan for Group G members that allows an employee with at least 25 years of credited service to participate for up to 36 months;]]

[[(5) increase the amount of the employee contribution for a Group F member in the Integrated Plan;]]

[[(6)]]

(3) increase the amount of the employee retirement contribution for [[a]] certain Group F and G [[member]] members in the Optional Plan or Integrated Plan;

[[(7) increase the amount of pension at Social Security retirement age for a Group F member in the Integrated Plan;]]

[[(8)]]

(4) increase the amount of pension at Social Security retirement age for certain Group F members and at normal retirement for [[a]] certain Group G [[member]] members in the Optional Plan or Integrated Plan;

[[(9)]]

(5) [[with certain exceptions, provide that]] require an application for disability retirement filed by a employee in the Police Bargaining Unit generally must be reviewed under the same process that applies to other members of the Employees' Retirement System;

[[(10)]]

(6) require the Disability Review Panel to establish a deadline for submission of information related to an application for disability benefits for a member who is not a member of the Firefighter/Rescuer Bargaining Unit and establish when the Panel may extend the deadline;

[[(11) include a presumption that a Group G member is entitled to]]

(7) presume a disability is service-connected [[disability retirement benefits]] if [[the member has]] it is an occupational disease [[that is]] compensable under Section 9-503 of the Maryland Workers' Compensation Law, if the member[[:]]

[[(a) did not use, or limited the use of, tobacco products;

(b) participated in a cardiovascular fitness assessment and evaluation program; and

(c) if a tobacco-user, participated in a smoking assessment program]] meets certain requirements;

[[(12)]]

(8) provide an alternative placement incentive for an employee, other than a member of the Police Bargaining Unit, who is eligible for service-connected disability retirement or continued service-connected disability benefits;

[[(13) for]]

(9) modify the pension benefit paid to a Group G member eligible for service-connected disability retirement[[, provide a two-tiered minimum pension benefit based on the degree of disability]];

[[(14)]]

(10) require that the certified representative pay [[the]] any fees [[associated with the cancellation of]] for canceling a [[scheduled]] Disability Arbitration Board hearing if the [[certified]] representative caused the cancellation and the applicant is a member of [[the Office, Professional and Technical or Service, Labor and Trades Bargaining Unit]] a certain bargaining unit;

[[(15)]]

(11) increase the cost-of-living adjustment for a Group F or Group G member in the Integrated Plan; and

[[(16)]]

(12) generally amend County law regarding the Employees' Retirement System and the Retirement Savings Plan.

By adding

Montgomery County Code
Chapter 33, Personnel and Human Resources
Section 33-38A.

By repealing

Montgomery County Code
Chapter 33, Personnel and Human Resources
Section 33-43.

By amending
Montgomery County Code
Chapter 33, Personnel and Human Resources
Sections 33-38, 33-39, 33-42, [[33-43]], 33-43A, 33-44, 33-45, 33-129, and 33-138.

Boldface	*Heading or defined term.*
Underlining	*Added to existing law by original bill.*
[Single boldface brackets]	*Deleted from existing law by original bill.*
Double underlining	*Added by amendment.*
[[Double boldface brackets]]	*Deleted from existing law or the bill by amendment.*
* * *	*Existing law unaffected by bill.*

The County Council for Montgomery County, Maryland approves the following Act:

Section 1. Section 33-43 is repealed, Section 33-38A is added, and Sections 33-38, 33-39, 33-42, [[33-43,]] 33-43A, 33-44, 33-45, 33-129, and 33-138 are amended as follows:

33-38. Normal retirement date, mandatory retirement date, early retirement date, and trial retirement.

(a) *Normal retirement date.* Normal retirement date is the first day of the month elected by a member after the following requirements have been met:

* * *

(6) Group G: The member has at least:

(A) 15 years of credited service and has reached age 55; or

(B) 25 years of credited service [and has reached age 46; or] regardless of age.

[(C) 25 years of actual service, regardless of age.]

* * *

33-38A. Deferred Retirement Option Plans.

The Chief Administrative Officer must establish Deferred Retirement Option Plans, or DROP[[, Plans]] plans, that allow any employee who is a member of a specified membership group or bargaining unit and who meets the eligibility requirements to elect to retire but continue to work. Pension payments [[will]] must not be paid to the member while the member participates in the DROP Plan. When the member's participation in the DROP Plan ends, the member [[will]] must stop working for the County, draw a pension benefit based on the member's credited service and earnings as of the date that the member began to participate in the [[Drop]] DROP Plan, and receive the value of the DROP Plan payoff.

(a) *DROP Plan for Group F members.* "Discontinued Retirement Service Program" or "DRSP" means the DROP program for Group F members.

(1) *Eligibility.* A Group F member who is at least 41 years [[of age]] old and has at least 20 years of credited service may participate in the [[program]] DRSP.

(2) *Application requirements.* An eligible employee [[may participate by filing an application during the first year of the program]] must apply at least 60 days [[prior to the beginning of the employee's participation]] before the employee becomes a participant. [[An employee who wishes to participate must apply no later than the first day of the 10th month after the program begins.]] The County must not approve an application for participation in the DRSP on or after March 1, 2001. An employee [[who applies]] may withdraw [[the]] a pending application [[at any time during the 2-week period following the date on which]] within 2 weeks after submitting the application [[was submitted]].

(3) *Employee participation and termination.* The employee's participation [[will begin]] in the DRSP must begin on the first day of [[the]] a month that [[falls]] begins at least 60 days, but not more than 90 days, after the employee [[applies]] applied and [[will]] must end 2 years after the employee begins to participate or at an earlier date chosen by the employee. When the employee's participation in the program ends, the employee [[will]] must stop working for the County and [[will]] receive a pension benefit.

(4) *Employment status.* An employee who participates in the program [[will]] must continue to be a member of the retirement

system, earn sick and annual leave, and remain eligible to participate in health and life insurance programs.

(5) *Retirement date, retirement contributions, and credited service.* The retirement date of an employee who participates in the program [[will be]] is the date [[on which]] when the [[employee's participation]] employee begins to participate in the DRSP, and neither the employee nor the County will make retirement contributions after that date. An employee who wishes to purchase prior service must do so before the employee's participation in the program begins. Sick leave in excess of 80 hours will be credited towards retirement at the beginning of the employee's participation.

(6) *Pension benefits.*

(A) Before an employee's participation begins, the employee must select a:

(i) pension payment option under Section 33-44 for the regular retirement pension payments; and

(ii) pension payment distribution option for the distribution of the employee's [[discontinued retirement service program]] DRSP account.

(B) Pension benefits will not be paid to the employee while the employee participates in the program, but will be deposited in a [[discontinued retirement service program]] DRSP account established for the participant by the County. The participant [[will]] must receive the account balance [[when]] and the County must close the account within 60 days after the employee's participation in the program ends.

(C) An employee must direct the Board of Investment Trustees to allocate contributions to the employee's DRSP account to be invested in one or more of the investment funds selected by the Board. The investment fund options selected by the Board must conform to all applicable requirements of the Internal Revenue Code. An employee must allocate contributions among the investment funds in percentages of the value of the employee's DSRP account balances. An employee's direction of investment must remain in effect until the employee changes the direction. If an employee does not provide a valid direction of investment, the Board must select an appropriate investment option and invest the DRSP account balances not governed by a valid direction of investment in the investment option.

[[(C)]]

(D) After the employee's participation in the program ends, the employee's pension benefit will be based on:

(i) the employee's credited service immediately prior to the beginning of the employee's participation in the program. adjusted to include credit for unused sick leave under Section 33-41;

(ii) the employee's average final earnings, excluding earnings during the period of participation in the program; and

(iii) increases in the consumer price index during the period of the employee's participation that would have resulted in an increase in the employee's pension benefit if the employee had not been participating in the program.

(7) *Disability retirement.* An employee may apply for disability retirement prior to the termination of the employee's participation in the program. An employee who receives a service-connected disability retirement will receive the balance in the [[discontinued retirement service program]] DRSP account less an amount equal to the full actuarial value of the credited service which the employee would have received if the employee had not participated in the program. If an employee's participation in the program ends before a final decision is made on the disability retirement application, the balance of the [[discontinued retirement service program]] DRSP account will not be distributed until a final decision is made.

(8) *Death benefit.* If an employee dies during the employee's participation in the program, the employee's beneficiary will receive:

(A) the death benefit that the beneficiary would have received if the employee had retired on the date on which the employee began to participate in the program, adjusted under subsection (6)(C); and

(B) the balance of the employee's [[discontinued retirement service program]] DRSP account.

(9) [[*Discontinued retirement service program*]] *DRSP account distribution options.* An employee may elect to have the balance of the [[discontinued retirement service program]] DRSP account distributed as a lump sum[[,]] or an annuity, [[periodic payments in the same form as the employee elected for the employee's regular retirement benefit,]] or to have some or all paid directly to an eligible retirement plan as a direct rollover distribution. To the extent feasible as determined by the Chief Administrative Officer, an employee alternatively may choose to receive the account balance as periodic payments calculated and distributed as an addition to the employee's regular retirement benefit. If the employee dies before the balance of the [[discontinued retirement service program]] DRSP account is distributed, the beneficiary [[will have the same distribution options]] may elect to receive distribution of the balance according to any option described in this paragraph.

(10) *Termination of program for Group F members.* The [[DROP]] DRSP Plan program for Group F members [[will terminate after 3 years]] must end on March 1, 2003.

(b) *DROP Plan for Group G members.*

(1) *Eligibility.* An employee who is a member of Group G and who has completed at least 25 years of credited service may participate in the DROP Plan.

(2) *Application requirements.* An eligible [[member may participate by filing an application]] employee must apply at least 45 days [[prior to the beginning of the member's participation]] before the employee becomes a participant. [[A member who applies]] An

employee may withdraw [[the]] a pending application [[at any time during the 2-week period following the date on which]] within 2 weeks after submitting the application [[was submitted]].

(3) *Employee participation and termination.*

(A) [[Participation will]] The employee's participation in the DROP Plan must begin on the first day of [[the]] a month that [[falls]] begins at least 45 days, but not more than 75 days, after the [[employee applies]] employee applied.

(B) A Group G member may participate in the DROP Plan for up to 36 months [[or may elect to stop participating after 12 months or 24 months]]. [[A member]] An employee who elects to stop participating [[after 12 months or 24 months]] before the end of the 36-month period must [[give 60 days prior notice to]] notify Fire and Rescue Services and [[to]] the Office of Human Resources at least 60 days before stopping participation in the program.

[[(C) The Chief Administrative Officer may approve a request from a Drop Plan participant to stop participating in the DROP Plan before completing 12 months, 24 months, or 36 months when the member shows extenuating circumstances to justify the request.]]

[[(D)]]

(C) When the [[member's]] employee's participation in the DROP Plan ends, the [[member]] employee must stop working for the County and receive a pension benefit.

[[(E)]]

[[(D) An eligible Group G member who is not a member of the Firefighter/Rescuer Bargaining Unit may elect [[during the one-year period after the effective date of this legislation]], before March 1, 2001, to participate for up to 36 months in the DROP Plan. [[Such a Group G member who elects to participate may do so for up to 36 months. During the initial one-year period]] Before March 1, 2001, the County Executive must evaluate the impact on the delivery of Fire/Rescue services of allowing non-bargaining unit members to participate in the DROP Plan and [[decide if the right to elect to participate should be extended to]] may extend the deadline for non-bargaining unit members [[for an additional time period. This restriction must not apply to a Firefighter/Rescuer Bargaining Unit employee.]] to apply for the DROP Plan from March 1, 2001, to a later date.]]

(4) *Employment status.* A DROP Plan participant must continue to be a member of the retirement system, earn sick and annual leave, and remain eligible to participate in health and life insurance programs for employees while the member participates in the DROP Plan.

(5) *Retirement date, retirement contributions, and credited service.*

(A) The retirement date of a member who participates in the DROP Plan [[will be]] is the date [[on which]] when the [[member's participation]] employee begins to participate in the DROP Plan.

(B) The member will continue to make retirement contributions to the Optional Plan or Integrated Plan while participating in the DROP Plan. The County must not make retirement contributions on behalf of the member after the date on which the member's DROP Plan participation begins.

(C) Sick leave credited towards retirement at the beginning of the member's participation will not be available for the member's use after participation in the DROP Plan begins.

(D) A member who wishes to purchase prior service must do so before the member's participation in the DROP Plan begins.

(6) *Pension benefits.*

(A) Before a member's participation begins, the member irrevocably must choose a pension payment option under Section 33-44 for [[the]] retirement pension payments. [[This choice is irrevocable.]]

(B) Pension benefits will not be paid to the member while the member participates in the DROP Plan. Pension payments that are deferred while the member participates in the DROP Plan must not include cost-of-living increases under Section 33-44 that were given to retirees and beneficiaries during the period of the member's participation in the DROP Plan. The participant will receive the deferred pension payments when the member's participation in the DROP Plan ends, or within 60 days after the member gives notice under paragraph (3)(B), whichever is later.

(C) After the member's participation ends, the member's pension benefit will be based on the member's:

(i) credited service, including credit for unused sick leave, before the member's participation in the DROP Plan began, adjusted to include credit for unused sick leave accrued during the period of DROP Plan participation; and

(ii) average final earnings, excluding earnings during the period of participation in the DROP Plan.

(D) The pension benefit that a member receives after the member's participation in the DROP Plan ends must be adjusted to reflect cost-of-living adjustments under Section 33-44(c) that occurred during the period of the member's participation in the DROP Plan, but the pension payments that are deferred during the participation period must not include cost-of-living adjustments.

(7) *Disability retirement.* A member may apply for disability retirement prior to the termination of the member's participation in the DROP Plan. A member who is determined to be eligible for a service-connected disability retirement must elect to receive either:

(A) the retirement benefit under subsection (6)(C)and the DROP Plan payoff; or

(B) the service-connected disability retirement benefit that the member would have received if the member had continued as an active employee and not elected to participate in the DROP Plan.

A member who elects to receive a service-connected disability retirement must not receive the DROP Plan payoff.

(8) *Death benefit.* If a member dies during the member's participation in the DROP Plan, the member's beneficiary will receive the greater of:

(A) the death benefit that the beneficiary would have received if the member had retired on the date on which the member began to participate in the DROP Plan, calculated to reflect cost-of-living adjustments under section 33-44(c) that occurred during the period of DROP Plan participation, and the value of the DROP Plan payoff, not including retroactive cost-of-living adjustments to the deferred pension payments; or

(B) the service-connected death benefit that the beneficiary would have received if the member had not elected to participate in the DROP Plan, but not the [[Drop]] DROP Plan payoff.

(9) *DROP Plan payoff[[: Drop Plan payoff]] and distribution [[options]].*

(A) *DROP Plan payoff.* The [[Drop]] DROP Plan payoff must include the total of the following, accumulated over the period of the member's participation in the DROP Plan:

(i) the member's deferred monthly pension payments, not including any cost-of-living adjustments ;

(ii) the member's retirement contributions to the Optional Plan or Integrated Plan treated as picked-up contributions; and

(iii) 8.25 percent annual interest compounded quarterly, credited each calendar quarter on the amount in the DROP Plan payoff at the beginning of [[the]] each quarter during the member's participation in the DROP Plan.

(B) *[[Drop]] DROP Plan payoff distribution options.* At the time that a member's DROP Plan participation ends, the member must elect to have the DROP Plan payoff distributed as a:

(i) lump sum payment;

(ii) annuity; or

(iii) direct rollover distribution, in compliance with the Internal Revenue Code, to an eligible retirement plan.

33-39. Member contributions and credited interest.

(a) *Percent of member contributions.* Each member of the retirement system must contribute, through regular payroll deductions, a portion of the member's regular earnings as follows:

(1) Optional Retirement Plan.

(A) For members who elect to remain in the Optional Retirement Plan, the contribution is 6 percent for a Group A or H member, 7 percent for a Group B member, [and] 7½ percent for a Group D, E, or F[, or G] member, and 8½ percent for a Group G member.

* * *

(2) Integrated Retirement Plan.

(A) For members of the Integrated Retirement Plan, the contribution is:

* * *

(iv) Group F - [3¾ percent] 4 percent up to the maximum Social Security wage base and [7½ percent] 8 percent of regular earnings that exceed the wage base.

(v) Group G - [3¾ percent] 4¾ percent up to the maximum Social Security wage base and [7½ percent] 8½ percent of regular earnings that exceed the wage base.

* * *

33-42. Amount of pension at normal retirement date or early retirement date.

* * *

(b) *Amount of pension at normal retirement date.*

(1) *Optional Retirement Plan.*

(A) [The] Except for a Group G member, the annual pension for a member of the optional retirement plan who retires on a normal retirement [will] must equal 2 percent of average final earnings multiplied by years of credited service, up to a maximum of 36 years, plus sick leave credits. Years of credited service of less than one full year must be prorated.

(B) [[For a Group G member, the annual pension for a member of the optional retirement plan who retires on a normal retirement must equal 2 percent of average final earnings for each of the first 20 years of credited service up to 21 years; 3 percent of average final earnings for each year of credited service between the 21^{st} through 24^{th} year of credited service; 8 percent of average final earnings for the 25th year of credited service completed or for a prorated portion of credited service of more than 24 years up to 25 years; and 2 percent of average final earnings for credited service of more than 25 years up to a maximum of 31 years.]]

For a Group G member who is a member of the optional plan and retires on a normal retirement, the annual pension must equal 2 percent of average final earnings for each of the first 20 years of credited service completed, 3 percent of average final earnings for completion of any year, or prorated portion of a year of credited service, in years 21 through 24, 8 percent of average final earnings for the 25th year of credited service completed or for a prorated portion of credited service of more than 24 years up to the completion of 25 years, and 2 percent of average final earnings for each year or prorated portion of a year of credited service of more than 25 years, to a maximum of 31 years plus sick leave credits.

* * *

(2) Integrated Retirement Plan.

(A) [The] Except for a Group F or G member, the annual pension for a member of the integrated retirement plan who retires on a normal retirement must be computed as follows:

[(A)]

(i) * * *

[(B)]

(ii) From the month of attainment of Social Security retirement age: one percent of average final earnings up to the Social Security maximum covered compensation level at time of retirement, plus 2 percent of average final earnings in excess of the Social Security maximum covered compensation level at time of retirement, multiplied by years of credited service, up to a maximum of 36 years, plus sick leave credits. Years of credited service of less than one full year must be prorated. This amount is subject initially to the cost-of-living adjustment provided in subsection (c) of Section 33-44 from date of retirement to Social Security retirement age, if any. [Under no circumstances must the resulting benefit of a member who transferred from the optional retirement plan be less than the benefit for which eligible on July 1, 1978, based on 2 percent of average final earnings as of that date multiplied by years of credited service as of that date up to a maximum of 36 years, plus sick leave credits, less the benefit amount determined by the actuary to be attributable to the accumulated member contributions and credited interest returned as of the date of transfer to the integrated plan.]

(B) For a Group F member in the integrated retirement plan who retires on a normal retirement, the annual pension must be computed as follows:

(i) From date of retirement to the month of attainment of Social Security retirement age: 2 percent of average final earnings multiplied by years of credited service up to a maximum of 36 years, plus sick leave credits. Credited service of less than one full year must be prorated.

(ii) From the month of attainment of Social Security retirement age: 1 ¼ percent of average final earnings up to the Social Security maximum covered compensation level at time of retirement, plus 2 percent of average final earnings above the Social Security maximum covered compensation level at time of retirement, multiplied by years of credited service up to a maximum of 36 years, plus sick leave credits. Credited service of less than one full year must be prorated. This amount is subject initially to the cost-of-living adjustment provided in subsection (c) of Section 33-44 from date of retirement to Social Security retirement age.

(C) For a Group G member in the integrated retirement plan who retires on a normal retirement, the annual pension must be computed as follows:

[[(i) From date of retirement to the month of attainment of Social Security retirement age: 2 percent of average final earnings for each of the first 20 years of credited service up to 21 years; 3 percent of average final earnings for each year of credited service between the 21st through 24th year of credited service; 8 percent of average final earnings for the 25th year of credited service completed or for a prorated portion of credited service of more than 24 years up to 25 years; and 2 percent of average final earnings for credited service of more than 25 years up to a maximum of 31 years.]]

[[(ii) From the month of attainment of Social Security retirement age: for each of the first 20 years of credited service up to 21 years, 1 percent of average final earnings up to the Social Security maximum covered compensation level at time of retirement plus 2 percent of average final earnings in excess of the Social Security maximum covered compensation level at time of retirement; for each year of credited service between the 21st through 24th year of credited service, 1.5 percent of average final earnings up to the Social Security maximum covered compensation level at time of retirement plus 3 percent of average final earnings in excess of the Social Security maximum covered compensation level at time of retirement; for the 25th year of credited service completed or for a prorated portion of credited service of more than 24 years up to 25 years, 4 percent of average final earnings up to the Social Security maximum covered compensation level at time of retirement plus 8 percent of average final earnings in excess of the Social Security maximum covered compensation level at time of retirement; and for credited service of more than 25 years up to a maximum of 31 years, 1 percent of average final earnings up to the Social Security maximum covered compensation level at time of retirement plus 2 percent of average final earnings in excess of the Social Security maximum covered compensation level at time of retirement. This amount is subject initially to the cost-of-living adjustment provided in subsection (c) of Section 33-44 from date of retirement to Social Security retirement age, if any. The benefit of a member who transferred from the optional retirement plan must not be less than the benefit for which eligible on July 1, 1978, based on 2 percent of average final earnings as of that date multiplied by years of credited service as of that date up to a maximum of 36 years, plus sick leave credits, less the benefit amount determined by the actuary to be attributable to the accumulated member contributions and credited interest returned as of the date of transfer to the integrated plan.]]

[[(iii) Credited service of less than one full year must be prorated.]]

(i) From the date of retirement to the month that the member reaches Social Security retirement age, the following percentages of average final earnings apply:

(a) 2 percent, for each of the first 20 years of credited service;

(b) 3 percent, for years 21 through 24;

(c) 8 percent, for year 25; and

(d) 2 percent, for years 25 through 31, and any sick leave credits in excess of 31 years; and

(e) 0 percent for years after year 31 (except sick leave credits referred to in subclause (d))

(ii) From the month the member reaches Social Security retirement age, the percentages specified in clause (i) must be reduced, respectively, by the following percentages of average final earnings for the portion of any amount equal to or less than the Social Security maximum covered compensation in effect on the date of retirement:

(a) 1 percent, for each of the first 20 years of credited service;

(b) 1½ percent, for years 21 through 24;

(c) 4 percent, for year 25; and

(d) 1 percent for years 25 through 31, and any sick leave credits in excess of 31 years.

(iii) The cost-of-living adjustment formula in Section 33-44(c) applies to pension under this subparagraph between the member's date of retirement and the month the member reaches Social Security retirement age.

(iv) Any portion of a year described in this subparagraph must be prorated.

* * *

[[33-43. Disability retirement.]]

[[(a) Applicability.

(1) Except as otherwise provided, this Section applies to all members with respect to applications for disability benefits submitted before May 15, 1986, or on and after July 1, 1989. However, the provisions of this Section apply to members who are elected officials on July 1, 1989, with respect to applications submitted before May 15, 1986, or on and after December 3, 1990.

(2) Except as otherwise provided, this Section applies to individuals who were members of the retirement system before May 15, 1986 and did not opt into the disability benefits program under Article VI.

(3) This Section does not apply to any member who files an application under this Article after May 18, 1995, unless the member is a member of the Police Bargaining Unit.]]

[[(b) Administrator defined. In this Section, "administrator" means an entity as defined in Section 33-87 of this Chapter.]]

[[(c) Disability retirement procedures. All disability retirements shall be approved by the administrator. A disability retirement shall become effective on the date a member exhausts all accrued sick leave and accrued compensatory leave in excess of 80 hours, if any, or on the date the application is approved by the administrator, whichever comes first.]]

[[(d) Non-service-connected disability retirement. A member may be retired on a non-service- connected disability retirement if

(1) The member has 5 years of credited service and is not eligible for normal retirement;

(2) The member is mentally or physically incapacitated for the further performance of duty as the result of an illness or injury incurred after enrollment as a member, that the incapacity is not due to the member's willful negligence, and that the incapacity is likely to be permanent. In extenuating circumstances, the administrator may waive the requirement that a member's incapacity is likely to be permanent and may approve a temporary disability retirement for one or more one-year periods until the incapacity is either removed or it becomes apparent that it is likely to be permanent;

(3) The member is not eligible for service-connected disability retirement; and

(4) The member is unable to productively perform the duties of another available position for which qualified.]]

[[(e) Service-connected disability retirement. A member may be retired on a service- connected disability retirement if:

(1) The member is totally incapacitated for duty or partially and permanently incapacitated for duty as the natural and proximate result of an accident occurring, or an occupational disease

incurred or condition aggravated while in the actual performance of duty; that the incapacity is not due to willful misconduct or willful negligence, and the incapacity is likely to be permanent. In extenuating circumstances, the administrator may waive the requirement that a member's incapacity is likely to be permanent and may approve a temporary disability retirement for one or more one-year periods until the incapacity is either removed or it becomes apparent that it is likely to be permanent.

(2) The member is unable to perform the duties of the occupational classification to which assigned at the time disability occurred or a position of comparable status within the same department, if qualified.]]

[[(f) Medical reexamination of disability retiree. The administrator may require a member receiving disability pension payments to undergo a yearly physical examination during the five-year period following retirement, and once in every three-year period thereafter, until age 55 if a member of group B, E, F, or G, or age 60 if a member of group A or H. The administrator must review the findings of the physical examination and take appropriate action, which may include a hearing. Should a member refuse to submit to the examination, the administrator may reduce or discontinue pension payments.]]

[[(g) Amount of pension at non-service-connected disability retirement. The yearly amount of pension payable upon retirement for non-service-connected disability will equal 2 percent of average final earnings multiplied by years of credited service, up to a maximum of 36 years, plus sick leave credits, but not less than 30 percent of final earnings.]]

[[(h) Amount of pension at service-connected disability retirement.

(1) The yearly amount of pension payable upon retirement for service-connected disability equals:

(A) Total Incapacity.

(i) 2% of final earnings, multiplied by years of credited service, up to a maximum of 36 years, plus sick leave credits, but not less than 66 2/3% of final earnings, if the member is totally and permanently incapacitated.

(ii) For a member who applies before July 1, 1989, the term "60" will be substituted for the term "66 2/3" in subparagraph (A)(i) of this subsection or

(B) Partial incapacity. 6% of final earnings for each 10% of permanent disability, but not less than 25% of final earnings, if the member is partially and permanently incapacitated. However, if the member meets the age requirements for early retirement, not less than the yearly amount of retirement pension computed under subsection (c) of Section 33-42 must be payable.

(2) For purposes of this subsection, final earnings means the regular earnings that the member would have received if the member had been employed on a full-time or 40-hour per week basis on the last date of active service for any member:

(A) participating in a job-sharing program under a collective bargaining agreement between the County and the Fraternal Order of Police; and

(B) who holds or has held the rank of Master Police Officer or Police Officer III.

The limits in Section 33-42(i) apply to the calculation of any benefit under this paragraph.]]

[[(i) Adjustment or cessation of disability pension payments.

(1) If a member receiving service-connected disability pension payments reaches the first day of the month following normal retirement date, the amount of pension then payable shall not be less than the amount that would have been payable under the provisions of subsection (c) of Section 33-45, if the member had terminated service on the date disability pension commenced and had not elected a return of member contributions with credited interest.

(2) Whenever the administrator determines that a member, who has not yet reached normal retirement date, receiving disability pension payments is engaged in or is able to engage in a gainful occupation paying more than the difference between the amount of disability pension payments and the current maximum earnings of the occupational classification from which disabled, the amount of the member's disability pension payments may be reduced to the point at which the amount of disability pension payments plus the amount earnable equals such maximum earnings.

(3) Whenever a disability retiree's earnings capacity is changed, the amount of disability retirement pension may be further modified by the administrator. The amount of the revised pension shall not exceed the original disability retirement pension plus cost-of-living increases or an amount which, when added to the amount earnable by the member, equals the maximum earnings of

occupational classification from which disabled. For the purpose of this paragraph, "disability pension" is the amount of pension payable without election of a pension payment option.

(4) If a member receiving disability pension payments should fail or refuse to supply to the administrator whatever information it determines necessary to make a decision on the amount of retirement pay legally due, the member's pension payments shall be discontinued until the member complies with its request for information.

(5) If a member receiving disability pension payments returns to the service of the County or is appointed or elected to any office, the salary or compensation of which is paid wholly or in part by the County, pension payments will cease, and the individual will again become a member of the retirement system and resume member contributions.

(6) For those employees enrolled or re-enrolled on or after July 1, 1978, a member's disability retirement benefits for any month shall be integrated with the primary disability benefits received from social security and the total benefits from both sources shall not exceed 100% of the average final earnings of the member; provided, however, that this limitation shall not apply to the cost-of-living adjustments issued pursuant to subsection (c) of Section 33-44.]]

[[(j) Administrative disability retirement. Whenever any member becomes disabled or incapacitated and is demonstratively not capable of performing the duties and responsibilities of the position to which assigned at an acceptable level of competence for medical reasons, the member shall be notified by the head of the department, office or agency that in consideration of the medical condition, a disability retirement application should be initiated. If the member fails or refuses to make application for disability retirement, the department, office or agency head may initiate a disability retirement application on behalf of the member. All pertinent information, including the member's attendance record, job performance record and medical record, must be transmitted to the administrator.]]

[[(k) Appeals of decisions.

(1) If the County or an employee disagrees with a preliminary decision of the administrator, the County or the employee has a right to a hearing before the administrator. Any contract between the County and the administrator must provide procedures to:

(A) Assure the impartiality of the hearing;

(B) Notify an applicant for disability benefits of the right to counsel at the hearing; and

(C) Establish a record of the hearing that will be the basis for subsequent reviews.

(2) The County or the employee may appeal on the record the final decision of the administrator to the Merit System Protection Board within 30 days from the date that the employee receives written notice of the decision.

(3) The County or the employee may appeal the final decision of the Merit System Protection Board to a court of competent jurisdiction as provided in the Maryland Rules of Procedure, Chapter 1100, Subtitle B.]]

[[33-43A.]]

33-43. Disability retirement.

(a) *Applicability.* This Section applies [[to any member, with respect]] to [[applications]] an application for disability benefits [[submitted]] under this Article [[on or after May 18, 1995, except]] filed:

(1) on or after March 1, 2000, by a member who is also a member of the Police Bargaining Unit[[. This Section applies to Police Bargaining Unit members after (the effective date of this bill)]]; or

(2) after May 18, 1995, by any other member.

(b) *Definitions.* [[The]] In this Section, the following words and phrases [[, as used in this Section,]] have the following meanings:

* * *

(2) *Certified representative* means an employee organization certified under [Section 33-106 to represent the Firefighter/Rescuer Bargaining Unit, the Office, Professional and Technical Bargaining Unit or the Service, Labor and Trades Bargaining Unit] Section 33-79, 33-106, or 33-151 to represent a bargaining unit.

(3) *Disability Arbitration Board* or *Board* means the 3 persons designated [in accordance with] under subsection (m)(1) to review an appeal of the Chief Administrative Officer's final decision regarding an application for disability benefits filed by any member except a member of the Police Bargaining Unit.

* * *

(7) *Police Disability Arbitration Board* or *Police Board* means the 3 persons designated under subsection (m)(1) to review an appeal of a decision by the Chief Administrative Officer affecting a

member of the Police Bargaining Unit's right to disability benefits.

* * *

(d) *Disability retirement procedures.*

* * *

(2) [Applications] The Disability Review Panel must consider an application for disability retirement benefits filed by a member or **a certified representative** [[certified under Section 33-79, 33-106, or 33-151 to represent a bargaining unit]]. [must be considered by the Disability Review Panel to] The Panel must determine if an applicant is eligible for non-service-connected disability or service-connected disability in accordance with subsections (e)(2) through (4) and subsection (f).

(3) [The] Subject to the limitations in subsection (f)(4)(E), the Panel may consider any information or material submitted by the applicant, the certified representative or the County.

(4) Before the Panel meets to review an application for a member other than a member of the Firefighter/Rescuer Bargaining Unit, the Panel must advise each party of the deadline date for submitting information to the Panel. The Panel must allow a reasonable amount of time for the parties to submit additional information, and may extend the deadline at the request of either party for good cause shown.

(5) Except for information from a member of the Firefighter/ Rescuer Bargaining Unit, the Panel must not accept or consider information from a member if the information is received after the established deadline date unless the information is related to:

(A) the applicant's reinjury that occurred or was diagnosed after the deadline date; or

(B) a change in the applicant's medical condition that occurred or was diagnosed after the deadline date.

(6) The Panel must meet as a body and review and consider all evidence submitted to it no later than 60 calendar days after the application is filed. A majority vote on a decision to take any action in accordance with the provisions of this Section will prevail. If only 2 Panel members participate in the decision-making process, the vote on a decision to take any action must be unanimous. No action may be taken upon a decision made by one Panel member.

[(3)]

(7) * * *

[(4)]

(8) * * *

[(5)]

(9) * * *

[(6)]

(10) * * *

* * *

(f) *Service-connected disability retirement.*

(1) A member may be retired on a service-connected disability retirement if [the member is]:

[(1)]

(A) the member is totally incapacitated for duty or partially and permanently incapacitated for duty as the natural and proximate result of an accident occurring, or an occupational disease incurred or condition aggravated while in the actual performance of duty;

(B) the incapacity is not due to the member's willful negligence[, and] ;

(C) the incapacity is likely to be permanent[.] ; and

(D) the member is unable to perform the duties of either:

(i) the occupational classification to which assigned at the time disability occurred; or

(ii) a position of comparable status within the same department for which the member is qualified.

(2) In extenuating circumstances, the Chief Administrative Officer may waive the requirement that a member's incapacity is likely to be permanent and may approve a temporary disability retirement for one or more one-year periods until the incapacity is either removed or it becomes apparent that it is likely to be permanent[; and] .

[(2) unable to perform the duties of the occupational classification to which assigned at the time disability occurred or a position of comparable status within the same department, if qualified.]

(3) A Group G member who has an occupational disease that is compensable under Section 9-503 of the Maryland Workers' Compensation [[Law must be]] Act is entitled to receive service-connected disability benefits [[under the following conditions]] if:

(A) [[an]] the employee [[who becomes]] became a member of Group G on or after July 1, 1999, [[must not have:

(i) used tobacco products for any purpose while on-duty or off-duty during the entire period of County employment as a Group G member; or]] and

[[(ii) been]] did not use, or get terminated for [[having used]] using tobacco products for any purpose [[while]] either on-duty or off-duty while employed by the County as a Group G member; or

(B) [[an]] the employee [[who]] became a member of Group G before July 1, 1999 and:

(i) [[must]] did not [[have used]] use tobacco products more than 3 times for any purpose while on-duty after June 30, 2000;

(ii) if a tobacco-user, [[must have]] completed a tobacco-cessation program approved by the County; and

(iii) [[if a member of the Firefighter/Rescuer Bargaining Unit, must complete]] completed a cardiovascular fitness assessment and evaluation program established by the County (or by the County and the certified representative, for members of the Firefighter/Rescuer Bargaining Unit) and make a good faith effort to follow the health and fitness recommendations that resulted from the cardiovascular assessment[[; and

(iv) if not a member of the Firefighter/Rescuer Bargaining Unit, must complete a cardiovascular fitness assessment and evaluation program established by the County and make a good faith effort to follow the health and fitness recommendations that resulted from the cardiovascular assessment]].

(4) *Alternative placement incentive.*

(A) The Chief Administrative Officer may offer a 5-percent salary increase to an employee who:

(i) is not a member of the Police Bargaining Unit;

(ii) is eligible to receive a service-connected disability retirement; and

(iii) accepts an alternative position [[within]] in the County government for which the employee is qualified.

(B) The employee's salary in the alternative position must not exceed the maximum salary of the pay grade assigned to the position.

(C) A member of the Office, Professional and Technical Bargaining Unit or the Service, Labor and Trades Bargaining Unit who accepts an alternative placement incentive is not eligible to apply for a service connected disability retirement based on the disability for which the alternative placement was made.

(D) A Group G member who accepts an alternative placement incentive:

(i) must remain a Group G member for the remainder of the member's County employment; and

(ii) is not eligible for a service-connected disability retirement based on the medical condition that existed at the time the alternative placement was made.

(E) If a member applies for service-connected disability retirement instead of accepting an alternative placement incentive, the member's failure to accept the incentive must not:

(i) be included in the information considered by the Disability Review Panel, Chief Administrative Officer, or Disability Arbitration Board;

(ii) be considered at any time by the Disability Review Panel, Chief Administrative Officer, or Disability Arbitration Board; or

(iii) effect the member's eligibility for service-connected disability retirement or the amount of the service-connected disability pension benefit.

(g) *Medical reexamination of disability retiree.* The Chief Administrative Officer may require a member receiving disability pension payments to undergo a yearly physical examination during the 5-year period following retirement, and once in every 3-year period thereafter, until age 55 if a member of group B, E, F, or G, or age 60 if a member of group A or H. The Chief Administrative Officer must review the findings of the physical examination and take appropriate action, which may include submitting the results of the evaluation to the Disability Review Panel for a redetermination as to whether the individual qualifies for disability benefits in accordance with subsection (d). If a member refuses to submit to the examination, the Chief Administrative Officer may reduce or discontinue pension payments.

(h) *Amount of pension at non-service-connected disability retirement.*

(1) [[The yearly amount of pension payable upon retirement for]] A member, other than a Group G member, who retires on non-service-connected disability [[will]] retirement must receive an annual pension equal [[2%]] to the greater of:

(A) 2 percent of average final earnings [[multiplied by years]] for each year of credited service, up to [[a maximum of]] 36 years [[,]] plus any additional sick leave credits; or

(B) [[,but the minimum annual pension must be not less than [[33 1/3%]] 33 1/3 percent of final earnings.

(2) A Group G member who retires on non-service-connected disability retirement must receive an annual pension equal to the greater of:

(A) the amount calculated under Section 33-42(b); or

(B) 33 1/3 percent of final earnings.

(i) *Amount of pension at service-connected disability retirement.*

(1) [The yearly amount of pension payable upon retirement for] [[After]] A member, other than a Group G member, who retires on service-connected disability [equals] retirement[[, a member other than a member of Group G]] must receive an annual pension computed as follows:

[(1)]

(A) [*Total*] *For total incapacity.* [2%] 2 percent of final earnings, multiplied by years of credited service, up to a maximum of 36 years[[, plus]] and any additional sick leave credits, but not less than [66 2/3%] 66 2/3 percent of final earnings, if the member is totally and permanently incapacitated.

[(2)]

(B) [*Partial*] *For partial incapacity*. [6%] 6 percent of final earnings for each [10%] 10 percent of permanent disability, but not less than [25%] 25 percent of final earnings, if the member is partially and permanently incapacitated. However, if the member meets the age requirements for early retirement, not less than the yearly amount of retirement pension computed under Section 33-42(c) must be payable.

(2) A Group G member must receive a service-connected disability pension benefit calculated under Section 33-42(b), subject to the following:

(A) the benefit must be at least 70 percent of final earnings if the Chief Administrative Officer determines, based on a recommendation from the Disability Review Panel, that:

(i) the member suffers from a medically determinable physical or mental impairment that makes the member unable to engage in any substantial gainful activity and which is expected to end in death or last for at least 12 consecutive months; or

(ii) the member's disability is so severe that the member would qualify to receive disability benefits from the U. S. Social Security Administration, even though the member does not receive or has not applied for such benefits; or

(B) the benefit must be at least 52½ percent of final earnings if the Chief Administrative Officer determines that the member meets the standards to receive service-connected disability benefits under subsection (f).

(3) Under this subsection, "final earnings" for a Group F or G member who is participating in a job-sharing program under a collective bargaining agreement between the County and a certified representative means the regular earnings that the member would have received if the member had been employed on a full-time basis on the last date of active service.

(j) *Adjustment or cessation of disability pension payments.*

* * *

(7) A Group G member must not have the member's service-connected disability pension payments reduced by other income received from sources other than County Government employment.

* * *

(l) *Appeal procedures.*

(1) An applicant who is a member of the Police Bargaining Unit or the certified representative of the Police Bargaining Unit may appeal a decision of the Chief Administrative Officer that affects the member's right to disability benefits to the Police Disability Arbitration Board. [The] An applicant who is not a member of the Police Bargaining Unit, or the certified representative on behalf of the applicant, may appeal the written decision of the

Chief Administrative Officer to the Disability Arbitration Board. Any appeal must be filed within 20 calendar days of the date on which the applicant receives the Chief Administrative Officer's decision.

(2) An appeal filed by a member of the Police Bargaining Unit must be considered by the Police Disability Arbitration Board. All other appeals must be considered by the Disability Arbitration Board.

(3) The Disability Arbitration Board and Police Disability Arbitration Board must convene within a reasonable time after an appeal is filed. The appeal and judicial review proceedings are governed by [[Sections 3-201 through 3-234 of]] the Maryland Uniform Arbitration Act.

(4) The Disability Arbitration Board and Police Disability Arbitration Board must render [its decision expeditiously,] a decision quickly. [generally] The Disability Arbitration Board and Police Disability Arbitration Board should issue the decision within 30 calendar days [following] after [the close of] the hearing or [the submission of] receiving any post-hearing briefs.

(m) *Disability Arbitration Board and Police Disability Arbitration Board.*

(1) (A) The County Executive must appoint a neutral arbitrator to be the Chairperson of the Disability Arbitration Board. The County Executive must select the neutral arbitrator from a list of 5 arbitrators agreed upon by the County and the certified representatives that represent all bargaining units except for the Police Bargaining Unit [and the County]. To the extent possible, the 5 neutral arbitrators on the list

should be experienced in law and occupational medicine. The appointment of the Chairperson of the Disability Arbitration Board must be confirmed by the County Council.

(B) The County Executive must appoint a neutral arbitrator to be Chairperson of the Police Disability Arbitration Board. The neutral arbitrator must be selected by the County and the certified representative of the Police Bargaining Unit either by agreement or through the processes of the American Arbitration Association. To the extent possible, the neutral arbitrator should be experienced in law and occupational medicine. The appointment of the Chairperson of the Police Disability Arbitration Board must be confirmed by the County Council.

(2) [The] Each neutral arbitrator appointed by the County Executive under [[subsection (m)]] paragraph (1) [[above]] must serve for a term of 3 years. At the expiration of the arbitrator's term, the arbitrator is eligible for reappointment to a new 3-year term unless, at any time within 30 to 60 days prior to the expiration of the 3-year term, either a certified representative gives written notice to the County [and the other certified representatives] or the County gives written notice to the certified representatives that it objects to the neutral arbitrator serving another term. If no objection is filed, the arbitrator is eligible for appointment to an additional term.

(3) In the event the neutral arbitrator declines to be reappointed, dies, resigns, or for other cause is unable to serve on the Disability

Arbitration Board or Police Disability Arbitration Board, a new arbitrator must be [selected] appointed by the County Executive [from a list described in] under [[subsection (m)]] paragraph (1).

(4) The County must pay all reasonable fees and expenses of the arbitrator, as determined by the Chief Administrative Officer, except that a certified representative representing an applicant who is a member of the Office, Professional or Technical or Service, Labor and Trades Bargaining Unit must pay any fee resulting from the cancellation of a scheduled hearing if the certified representative:

(A) causes a hearing to be canceled and the application remanded to the Disability Review Panel; or

(B) causes a hearing to be canceled and rescheduled on a later date.

(5) The applicant, or the certified representative on behalf of the applicant, must designate an individual to serve as a member of the Disability Arbitration Board for determination of the applicant's appeal. The applicant must designate an individual to serve as a member of the Police Disability Arbitration Board. The Chief Administrative Officer must [also] designate an individual to serve on the Disability Arbitration Board or Police Disability Arbitration Board for determination of the applicant's appeal. The applicant, or the certified representative on behalf of the applicant, and the County, respectively, may designate Board members on a case-by-case basis according to each party's chosen procedure. There must be no restriction on who may serve as the designee of the applicant or the County, except that

no member of the Board may be involved in, or a witness to, any matter that is before the Board.

* * *

33-44. Pension payment options and cost-of-living adjustments.

* * *

(c) *Cost-of-living adjustment.* [Each] A retired member or [any] beneficiary, including [widows of group D members,] a [[widow]] surviving spouse of a group D member or other beneficiary who survives [[such]] the member under a pension option or who is otherwise eligible to receive benefits, [shall] must receive an annual cost-of-living adjustment in pension benefits computed as follows:

* * *

(3) The percentage cost-of-living adjustment of pension benefits [shall] must be obtained by dividing the most recent index determined under [[subsection (c)]] paragraph (2) [[of this Section]] by the next preceding index multiplied by [one hundred (100)] 100 less [one hundred (100)] 100.

(A) [Members] A member enrolled [[prior to]] before July 1, 1978, [shall be eligible to] must receive the full cost-of-living adjustment.

(B) [Members] A member enrolled on or after July 1, 1978, [shall be eligible to] must receive [sixty (60)] 60 percent of the cost-of-living adjustment up to a [[maximum]] total adjustment of [five (5)] 5 percent in any year. [[except that]] [retired members who are] [[a]] The 5-percent annual limitation does not apply to:

(i) a retired member who is disabled [shall] [[must not be subject to this maximum and]] [pensioners age sixty-five (65)]; or

(ii) a pensioner aged 65 or older [shall also] [[must not be subject to this maximum]] [with respect to] for a fiscal year beginning after the date [[of attainment of age]] [sixty-five (65)] the pensioner reaches age 65.

(C) A member of Group F or G enrolled on or after July 1, 1978, must receive 100 percent of the change in the consumer price index up to 3 percent, and 60 percent of any change in the consumer price index [[in excess of]] greater than 3 percent, [[except that the total adjustment must not exceed]] up to a total adjustment of 7½ percent in any year. The 7 ½-percent [[maximum adjustment must]] annual limitation does not apply to:

(i) a retired Group F or G member who is disabled; or [[to]]

(ii) a retired Group F or G member in a County fiscal year that begins after the member reaches age 65.

* * *

33-45. Vested benefits and withdrawal of contributions.

* * *

(d) *Discontinued service [pension] retirement.*

* * *

[[(4) The amount of discontinued service pension of an optional plan member enrolled prior to July 1, 1978, and continuously enrolled thereafter, with 10 years of continuous service, is 25 percent of final earnings. For each additional year of credited service the member must receive an additional 2 percent of final earnings. Total credited service may not exceed 36 years, plus sick leave credits. Years of credited service of less than one full year will be prorated.]]

[[(5) The amount of discontinued service pension for those members enrolled on or before June 30, 1978, who submit an application to transfer from the optional plan to the integrated plan prior to September 26, 1983, is 25 percent of final earnings for the first 10 years of credited service. For each additional year of credited service, the member must receive an additional 2 percent of final earnings. Total credited service may not exceed 36 years, plus sick leave credits. Years of credited service of less than one full year will be prorated.]]

[[(6) However, any member covered by this plan on April 1, 1970, and continuously employed thereafter, who has reached elective early retirement date and has at least 20 years of continuous county service, will be eligible to receive a pension commencing immediately in an amount not less than 50 percent of final earnings.]]

[[(7) The amount of discontinued service pension for members enrolled on or before June 30, 1978, who submit an application to transfer to the integrated plan after September 26, 1983, must be computed as follows:

a. From date of retirement to the month of attainment of social security retirement age, 25 percent of final earnings for the first 10 years of credited service. For each additional year of credited service, the member must receive an additional 2 percent of final earnings. Total credited service may not exceed 36 years, plus sick leave credits. Years of credited service of less than one full year will be prorated.

b. From the month of attainment of social security retirement age, benefits will be 25 percent of final earnings for the first 10 years of credited service, plus 2 percent of final earnings for each additional year of credited service, reduced by one percent of final earnings up to the social security maximum covered compensation level at time of retirement, multiplied by years of credited service, plus sick leave credits. Years of credited service of less than one full year will be prorated.]]

(4) The discontinued service retirement pension of a member who has been continuously enrolled in the retirement system since before July 1, 1978, is the amount of pension the member would have received under Section 33-42(b) for regular retirement, modified as follows:

(A) substitute "final earnings" wherever the term "average final earnings" appears in the applicable formula under Section 33-42(b);

(B) add 5 percent of final earnings; and

(C) treat a member who submitted an application to transfer from the optional plan to the integrated plan before September 26, 1983, as if the member had remained in the optional plan.

[[(8)]]

(5) [[For members enrolled or reenrolled on or after July 1, 1978,]] The discontinued service retirement pension of any other member is the amount of [[discontinued service]] pension [[must be as provided in section]] the member would have received under Section 33-42(b)(2) for regular retirement.

* * *

33-129. Disability benefits.

* * *

(e) *Continued service-connected disability benefits.*

(1) Before the end of the distribution period for initial service-connected disability benefits, the administrator must re-evaluate the employee to determine if the employee satisfies the requirements for a continued service-connected disability. If the employee does not meet the requirement for a continued service-connected disability, the payment of disability benefits must stop. If the employee meets the requirements for a continued service-connected disability, the payment of disability benefits must continue subject to this plan.

(2) The Chief Administrative Officer may offer a 5-percent salary increase to an employee who:

(A) is eligible to receive continued service-connected disability benefits; and

(B) accepts an alternative position within the County government for which the employee is qualified.

(3) The employee's salary in the alternative position must not exceed the maximum salary of the pay grade assigned to the position

(4) A member of the Office, Professional and Technical Bargaining Unit or the Service, Labor and Trades Bargaining Unit who accepts an alternative placement incentive is not eligible to receive continued service connected disability benefits based on the disability for which the alternative placement was made.

(5) If a member applies for continued service-connected disability benefits instead of accepting an alternative placement incentive, the member's failure to accept the incentive must not:

(A) be included in the information considered by the Disability Review Panel, Chief Administrative Officer, or Disability Arbitration Board;

(B) be considered at any time by the Disability Review Panel, Chief Administrative Officer, or Disability Arbitration Board; or

(C) [[effect]] affect the member's eligibility for continued service-connected disability benefits or the amount of the continued service-connected disability benefits.

(f) *Role of the Disability Review Panel.*

(1) * * *

(2) Before the Panel meets to review the application, the Panel must advise each party of the deadline date for submitting information to the Panel. The Panel must allow a reasonable amount of time for the parties to submit additional information, and may extend the deadline at the request of the applicant for good cause shown.

(3) The Panel must not accept or consider information from a certified representative representing an applicant if the

information is received after the established deadline date unless the information is related to:

(A) the applicant's reinjury that occurred or was diagnosed after the deadline date; or

(B) a change in the applicant's medical condition that occurred or was diagnosed after the deadline date.

[(2)]

(4) * * *

[(3)]

(5) * * *

[(4)]

(6) * * *

* * *

33-138. Appeals of decisions.

* * *

(d) The County must pay all reasonable fees and expenses of the arbitrator, as determined by the Chief Administrative Officer, except that a certified representative must pay any fee resulting from the cancellation of a scheduled hearing if the certified representative:

(1) causes a hearing to be canceled and the application remanded to the Disability Review Panel; or

(2) causes a hearing to be canceled and rescheduled on a later date.

* * *

Sec. 3. Effective date.

This Act takes effect March 1, 2000.

Approved:

Isiah Leggett — Nov 18, 1999

Isiah Leggett, President, County Council — Date

Approved:

Douglas M. Duncan — November 24, 1999

Douglas M. Duncan, County Executive — Date

This is a correct copy of Council action.

Mary A. Edgar — November 26, 1999

Mary A. Edgar, CMC, Clerk of the Council — Date

Expedited Bill No. 7-08
Concerning: Personnel – Retirement - Group F - Mandatory Retirement
Revised: 6/24/08 Draft No. 3
Introduced: April 8, 2008
Enacted: June 24, 2008
Executive: July 7, 2008
Effective: July 1, 2008
Sunset Date: None
Ch. 23, Laws of Mont. Co. 2008

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

AN EXPEDITED ACT to:

(1) change the normal retirement date for a Group F member to 25 years of credited service regardless of age;
(2) change the time period for a Group F member to submit written application for retirement to at least 2 weeks before the date elected;
(3) repeal the mandatory retirement age for all members;
(4) reestablish the Discontinued Retirement Service Program for Group F members;
(5) change the formula for calculating the pension amount of a Group F member who retires on a normal retirement;
(6) allow a Group F member to purchase service credit for leave without pay; and
(7) generally amend the County retirement law.

By amending

Montgomery County Code
Chapter 33, Personnel and Human Resources
Sections 33-38, 33-38A, 33-41, and 33-42

Boldface	*Heading or defined term.*
Underlining	*Added to existing law by original bill.*
[Single boldface brackets]	*Deleted from existing law by original bill.*
Double underlining	*Added by amendment.*
[[Double boldface brackets]]	*Deleted from existing law or the bill by amendment.*
* * *	*Existing law unaffected by bill.*

The County Council for Montgomery County, Maryland approves the following Act:

Sec. 1. Section 33-38 is amended as follows:

33-38. Normal retirement date, mandatory retirement date, early retirement date, and trial retirement.

(a) Normal retirement date.

* * *

(5) Group F: The member must have at least:

(A) 15 years of credited service and be at least age 55; or

(B) 25 years of credited service [and be at least age 46].

* * *

(b) Retirement date election. A member other than a Group F member must submit written application for retirement at least 30 days before the date elected. A Group F member must submit a written application for retirement at least 14 days before the date elected. In extenuating circumstances, the Chief Administrative Officer may waive this requirement.

[(c) Mandatory retirement date. The mandatory retirement date for a group A or H member is the first day of the month following the member's 70th birthday. The mandatory retirement date for a group B, D, E, F, or G member is the first day of the month following the member's 60th birthday.]

[(d) Mandatory retirement date extension. The Chief Administrative Officer may grant one or more one-year extensions of active membership in accordance with the following procedures:

(1) Request for extension may be initiated by the member, the immediate supervisor or department head. The department head's recommendation must be reviewed by the Chief Administrative Officer.

(2) The request and all endorsements must clearly demonstrate that the extension is in the best interest of the County.

(3) The Chief Administrative Officer may request a certification of the medical examiner that the member is medically acceptable for continuance in the position.

(4) Request for an extension must be submitted at least 60 days prior to mandatory retirement date.

The same procedure must be followed by a member of a participating agency requesting an extension and will be subject to all requirements established by the Chief Administrative Officer.]

[e] (c) Early retirement date. * * *

[f] (d) Trial retirement

(1) A trial retirement under this subsection is not available to:

[(A) a member required to retire under subsection (c);]

[(B)] (A) an elected official;

[(C)] (B) a non-merit appointed official;

[(D)] (C) a member covered under a collective bargaining agreement, except [for] a member of the Police Bargaining Unit;

[(E)] (D) a non-County Government employee; or

[(F)] (E) a member who participates in a retirement incentive program.

* * *

Sec. 2. Section 33-38A is amended as follows:

33-38A. Deferred Retirement Option Plans.

* * *

(a) DROP Plan for Group F members. "Discontinued Retirement Service

Program" or "DRSP" means the DROP program for Group F members.

(1) Eligibility. A Group F member who is at least [41] 46 years old and has at least [20] 25 years of credited service may participate in the DRSP.

(2) Application requirements. An eligible employee must apply at least 60 days before the employee becomes a participant. [The County must not approve an application for participation in the DRSP on or after March 1, 2001.] An employee may withdraw a pending application within 2 weeks after submitting the application.

(3) Employee participation and termination. The employee's participation in the DRSP must begin on the first day of a month that begins at least 60 days, but not more than 90 days, after the employee applied and must end [2] 3 years after the employee begins to participate or at an earlier date chosen by the employee. When the employee's participation in the program ends, the employee must stop working for the County and receive a pension benefit.

* * *

(6) Pension benefits.

(A) Before an employee's participation begins, the employee must select a:

(i) pension payment option under Section 33-44 for the regular retirement pension payments; and

(ii) pension payment distribution option for the distribution of the employee's DRSP account.

(B) [Pension benefits will] A pension benefit must not be paid to the employee while the employee participates in the program, but [will] must be deposited in a DRSP account established for the participant by the County. The participant must receive the account balance and the County must close the account within 60 days after the [employee's participation] employee stops participating in the program [ends]. Subject to any requirements of the Internal Revenue Code and other applicable law, the employee may roll over the account balance into an eligible retirement plan.

* * *

(9) DRSP account distribution options. [An employee] A member may [elect to] have the balance of the DRSP account distributed as a lump sum or an annuity, or [to] have some or all paid directly to an eligible retirement plan as a direct rollover distribution. To the extent feasible, as determined by the Chief Administrative Officer, [an employee] a member alternatively may [choose to] receive the account balance as periodic payments calculated and distributed as an addition to the [employee's] member's regular retirement benefit. If the [employee] member dies before the balance of the DRSP account is distributed, the beneficiary may [elect to] receive distribution of the balance [according to] under any option described in this paragraph.

[(10) Termination of program for Group F members. The DRSP Plan program for Group F members must end on March 1, 2003.]

* * *

Sec. 3. Section 33-41 is amended as follows:

33-41. Credited service.

* * *

(m) *Purchase of service credits for periods of leave without pay.* A Group F member who is on leave without pay[[, unrelated to disciplinary action,]] may buy service credits at their full actuarial cost, in a lump sum or on an extended basis, for up to one year of that leave. A member must not buy service credits for a period of leave without pay in connection with an act for which the member was charged with a felony unless the charge is resolved by other than a finding of guilty.

[(m)] (n) Payment for purchase of service credits.

* * *

[(n)] (o) Limitation on purchase of credited service. Except as required by state or federal law, an elected officials' participant may not be granted or permitted to purchase credited service for any purpose under the elected officials' plan.

[(o)] (p) Despite any other provision in this Section, a member must not transfer or purchase credited service for membership in a defined contribution or capital accumulation plan or in a plan with both defined contribution and defined benefit elements.

Sec. 4. Section 33-42 is amended as follows:

33-42. Amount of pension at normal retirement date or early retirement date.

* * *

(b) Amount of pension at normal retirement date.

(1) Pension amount for an Optional Retirement Plan member.

* * *

(C) For a Group F member who is a member of the optional plan and retires on a normal retirement, the annual pension must equal 2.4% [percent] of average final earnings multiplied by years of credited service, up to a maximum of [30] 36 years, [plus] including sick leave credits. Years of credited service of less than one full year must be prorated. [[Sick leave credits used for years in excess of 30 years must be credited at 2% [percent] of average final earnings.]] The maximum benefit with the application of sick leave credits must not exceed [76 percent] 86.4% of average final earnings.

* * *

(2) Pension amount for an Integrated Retirement Plan member.

* * *

(D) For a Group F member in the integrated retirement plan who retires on a normal retirement, the annual pension must be computed as follows:

(i) From date of retirement to the month of attainment of Social Security retirement age: 2.4% [[percent]] of average final earnings multiplied by years of credited service up to a maximum of [30] 36 years, [plus] including sick leave credits. Credited service of less than one full year must be prorated. [[Sick leave credits used for years in excess of 30 years must be credited at 2% [percent] of average final earnings.]] The maximum benefit with the application of sick leave credits must not exceed

[76 percent] 86.4% of average final earnings.

(ii) From the month the member reaches Social Security normal retirement age: 1.65% [[percent]] of average final earnings up to the maximum of [[30]] 36 years, including sick leave credits, [[and 1.25 percent of average final earnings for years in excess of 30 years, credited with sick leave,]] up to the Social Security maximum covered compensation in effect on the date of retirement, plus 2.4% [[percent]] of average final earnings above the Social Security maximum covered compensation in effect on the date of retirement, multiplied by years of credited service up to a maximum of [[30]] 36 years, [[plus]] including sick leave credits. Years of credited service of less than one full year must be prorated. [[Sick leave credits used for years in excess of 30 years must be credited at 2 percent of average final earnings above the Social Security maximum covered compensation in effect on the date of retirement.]] The County must increase this initial amount by the cost-of-living adjustments provided under Section 33-44(c) for the period from the member's date of retirement to the month in which the member reaches Social Security retirement age.

* * *

Sec. 5. Expedited Effective Date.

The Council declares that this legislation is necessary for the immediate protection of the public interest. This Act takes effect on July 1, 2008.

Approved:

Michael J. Knapp — 26 JUNE 08

Michael J. Knapp, President, County Council — Date

Approved:

Isiah Leggett — July 7, 2008

Isiah Leggett, County Executive — Date

This is a correct copy of Council action.

Linda M. Lauer — July 7, 2008

Linda M. Lauer, Clerk of the Council — Date

APPENDIX D

Cost Assumptions and Methodology

Chapter V provides two examples to quantify the potential fiscal impact of DROP participation for individual employees. This Appendix summarizes the data and cost assumptions used in each example broken out by position type, and describes the methodology OLO used to calculate the costs shown in Examples 1 and 2.

OLO consulted with staff from the Office of Human Resources in determining the assumptions to use and the calculation methodology, and greatly appreciates the insight and assistance received.

Master Firefighter Assumptions

	Example 1		Example 2	
	Employee A	**Employee B**	**Employee A**	**Employee B**
Employment Status				
Years 1-3	DROP	Retired	DROP	Active
Years 4-34	Retired	Retired	Retired	Retired
Service and Retirement				
Total Years of Service	27	27	27	30
Years in DROP	3	0	3	0
Years in Retirement	31	34	31	31
TOTAL	61	61	61	61
Assumed Hiring/Promotions				
Cost (Savings)		($51,674)		
New Hire		Recruit		
Promotion(s)		Firefighter III to Master Firefighter		
Salary – Years 1-3 (LS2, top of grade)	$84,562	None	$84,562	$84,562
Average Final Earnings (w/ FY10 imputed compensation)	$85,689	$85,689	$85,689	$85,689
Social Security/Medicare Costs	7.65% of salary	None	7.65% of salary	7.65% of salary
MCG Pension Contribution (FY12 rate)	None	None[1]	None	37.62% of salary
MCG Health Care Cost – Yrs 1-3	$15,155	$14,144	$15,155	$15,155
MCG Health Care Cost – Yrs 4-14	$14,144	$14,144	$14,144	$14,144
MCG Health Care Cost – Yrs 15-34	$6,375	$6,375	$6,375	$6,375
Annual Pension				
Pre-Social Security Integration	$54,841	$54,841	$54,841	$59,983
Post-Social Security Integration	$37,703	$37,703	$37,703	$41,238
MCG DROP Account Contribution				
Year 1	$54,920	None	$54,920	None
Year 2	$55,007	None	$55,007	None
Year 3	$55,101	None	$55,101	None
Age at Social Security Integration	67	67	67	67
Age at Death	84	84	84	84

[1] OLO assumed a contribution rate of 37.62% of salary for newly-hired and –promoted employee(s).

Police Officer III Assumptions

	Example 1		Example 2	
	Employee A	**Employee B**	**Employee A**	**Employee B**
Employment Status				
Years 1-3	DROP	Retired	DROP	Active
Years 4-34	Retired	Retired	Retired	Retired
Service and Retirement				
Total Years of Service	27	27	27	30
Years in DROP	3	0	3	0
Years in Retirement	31	34	31	31
TOTAL	61	61	61	61
Assumed Hiring/Promotions				
Cost (Savings)		($74,020)		
New Hire		Recruit		
Promotion(s)		None		
Salary – Years 1-3 (L1, top of grade)	$86,774	None	$86,774	$86,774
Average Final Earnings (w/ FY10 imputed compensation)	$88,003	$88,003	$88,003	$88,003
Social Security/Medicare Costs	7.65% of salary	None	7.65% of salary	7.65% of salary
MCG Pension Contribution (FY12 rate)	None	None[2]	None	38.69% of salary
MCG Health Care Cost – Yrs 1-3	$15,155	$14,144	$15,155	$15,155
MCG Health Care Cost – Yrs 4-14	$14,144	$14,144	$14,144	$14,144
MCG Health Care Cost – Yrs 15-34	$6,375	$6,375	$6,375	$6,375
Annual Pension				
Pre-Social Security Integration	$57,026	$57,026	$57,026	$63,362
Post-Social Security Integration	$39,205	$39,205	$39,205	$43,562
MCG DROP Account Contribution				
Year 1	$57,026	None	$57,026	None
Year 2	$57,026	None	$57,026	None
Year 3	$57,026	None	$57,026	None
Age at Social Security Integration	67	67	67	67
Age at Death	84	84	84	84

[2] OLO assumed a contribution rate of 38.69% of salary for newly-hired and –promoted employee(s).

Fire and Rescue Captain Assumptions

	Example 1		Example 2	
	Employee A	**Employee B**	**Employee A**	**Employee B**
Employment Status				
Years 1-3	DROP	Retired	DROP	Active
Years 4-34	Retired	Retired	Retired	Retired
Service and Retirement				
Total Years of Service	28	28	28	31
Years in DROP	3	0	3	0
Years in Retirement	28	31	28	28
TOTAL	59	59	59	59
Assumed Hiring/Promotions				
Cost (Savings)		($45,580)		
New Hire		Recruit		
Promotion(s)		(1) FF III to MFF, (2) MFF to Lieut., (3) Lieut. to Captain		
Salary – Years 1-3 (LS2, top of grade)	$108, 443	None	$108, 443	$108, 443
Average Final Earnings (w/ FY10 imputed compensation)	$109,889	$109,889	$109,889	$109,889
Social Security/Medicare Costs	7.65% of salary	None	7.65% of salary	7.65% of salary
MCG Pension Contribution (FY12 rate)	None	None[3]	None	37.62% of salary
MCG Health Care Cost – Yrs 1-3	$15,155	$14,144	$15,155	$15,155
MCG Health Care Cost – Yrs 4-11	$14,144	$14,144	$14,144	$14,144
MCG Health Care Cost – Yrs 12-31	$6,375	$6,375	$6,375	$6,375
Annual Pension				
Pre-Social Security Integration	$72,527	$72,527	$72,527	$79,120
Post-Social Security Integration	$49,862	$49,862	$49,862	$54,395
MCG DROP Account Contribution				
Year 1	$72,631	None	$72,631	None
Year 2	$72,746	None	$72,746	None
Year 3	$72,870	None	$72,870	None
Age at Social Security Integration	66	66	66	66
Age at Death	84	84	84	84

[3] OLO assumed a contribution rate of 37.62% of salary for newly-hired and –promoted employee(s).

Police Sergeant Assumptions

	Example 1		Example 2	
	Employee A	**Employee B**	**Employee A**	**Employee B**
Employment Status				
Years 1-3	DROP	Retired	DROP	Active
Years 4-34	Retired	Retired	Retired	Retired
Service and Retirement				
Total Years of Service	28	28	28	31
Years in DROP	3	0	3	0
Years in Retirement	28	31	28	28
TOTAL	59	59	59	59
Assumed Hiring/Promotions				
Cost (Savings)		($64,055)		
New Hire		Recruit		
Promotion(s)		(1) POIII to Master PO, (2) Master PO to Sgt.		
Salary – Years 1-3 (L1, top of grade)	$100,221	None	$100,221	$100,221
Average Final Earnings (w/ FY10 imputed compensation)	$101,641	$101,641	$101,641	$101,641
Social Security/Medicare Costs	7.65% of salary	None	7.65% of salary	7.65% of salary
MCG Pension Contribution (FY12 rate)	None	None[4]	None	38.69% of salary
MCG Health Care Cost – Yrs 1-3	$15,155	$14,144	$15,155	$15,155
MCG Health Care Cost – Yrs 4-11	$14,144	$14,144	$14,144	$14,144
MCG Health Care Cost – Yrs 12-31	$6,375	$6,375	$6,375	$6,375
Annual Pension				
Pre-Social Security Integration	$68,303	$68,303	$68,303	$75,621
Post-Social Security Integration	$46,958	$46,958	$46,958	$51,989
MCG DROP Account Contribution				
Year 1	$68,303	None	$68,303	None
Year 2	$68,303	None	$68,303	None
Year 3	$68,303	None	$68,303	None
Age at Social Security Integration	66	66	66	66
Age at Death	84	84	84	84

[4] OLO assumed a contribution rate of 38.69% of salary for newly-hired and –promoted employee(s).

Cost Methodology for Example 1

Example 1 compares the cost of an employee (Employee A) who enters DROP at the beginning of year 1 with the cost of an employee who retires (Employee B) at the beginning of year 1.

1. Annual County Government costs for Employee A in Years 1-3 (while in the DROP program) include: salary, employer portion of medical and prescription drug insurance premiums, Social Security/Medicare payroll costs, and the pension payment (and interest payment for firefighters) to the employee's DROP account.
2. Annual County Government costs for Employee A in Years 4-34 (while retired) include: pension payment and employer portion of medical and prescription drug insurance premiums.
3. Annual County Government costs for Employee B in Years 1-3 (while retired) include: pension payment, employer portion of medical and prescription drug insurance premiums, and the salary costs associated with promotions/hiring to fill Employee B's position to maintain staffing levels.
4. OLO assumed that the County Government replaced Employee B by promoting an employee into Employee B's position. OLO also assumed that the County Government hired a new recruit to fill the vacancy in the Police Officer III and Firefighter III positions. For the Master Firefighter, Fire/Rescue Captain, and the Police Sergeant, OLO assumed that the County Government promoted employees to fill all resulting vacancies above the Police Officer III and Firefighter III positions.
5. Annual County Government costs for Employee B in Years 4-34 (while retired) include: pension payment and employer portion of medical and prescription drug insurance premiums. The salary costs associated with promotions/hiring are no longer included because they would also occur for Employee A in Years 4-34 and offset each other.
6. For medical and prescription drug insurance, OLO assumed enrollment in the County Government plans with the highest enrollment (CareFirst High Option Medical plan with Family coverage and the Caremark Standard Option Rx Drug plan with Family coverage) and used the FY12 premium rates for active employees and retirees under age 65. At age 65, OLO assumed the retirees switched to the Self +1 coverage option for the same plans and used the FY12 premium rates for 65+ retirees.
7. To calculate the County Government's cost for the firefighters' DROP account, OLO included the County Government's contributions and employee contributions and calculated interest for each year of DROP participation. OLO then discounted the cost of the interest to the County Government to account for an investment earning of 7.5% annually because the funds remain in the Employees' Retirement System (ERS) trust fund during an employee's DROP participation. OLO assumed the 7.5% investment earning because that is the amount of the annual investment return assumed by the County Government's actuaries for the ERS. OLO then totaled the County Government's contributions with the discounted interest cost to arrive at a total County Government cost.
8. To calculate the County Government's cost for the police officers' DROP account, OLO summed the amount of the County Government's contributions to officers' DROP accounts.
9. OLO assumed that the amounts of the retirees' annual pensions remain constant over time. The amounts remain constant because they are shown in current year dollars and OLO assumed that future cost of living adjustments will approximate the future rate of inflation, canceling each other out. For example, future cost of living adjustments will raise the annual pension income above its current amount. However, the increases will be offset by inflation, keeping the value of future payments equal to its current amount when measured in current year dollars.

Cost Methodology for Example 2

Example 2 compares the cost of one employee who enters DROP in Year 1 (Employee A) with the cost of an identical employee who remains in normal service (Employee B), and both employees retire at the end of Year 3.

1. Annual County Government costs for Employees A and B in Years 1-3 (while in the DROP program) include: salary, employer portion of medical and prescription drug insurance premiums, Social Security/Medicare payroll costs, and the pension payment (and interest payment for firefighters) to the employee's DROP account (Employee A) or the employer retirement contribution (Employee B).
2. Annual County Government costs for Employees A and B in Years 4-34 (while retired) include: pension payment and employer portion of medical and prescription drug insurance premiums.
3. For medical and prescription drug insurance, OLO assumed enrollment in the County Government plans with the highest enrollment (CareFirst High Option Medical plan with Family coverage and the Caremark Standard Option Rx Drug plan with Family coverage) and used the FY12 premium rates for active employees and retirees under age 65. At age 65, OLO assumed the retirees switched to the Self +1 coverage option for the same plans and used the FY12 premium rates for 65+ retirees.
4. To calculate the County Government's cost for the firefighters' DROP account, OLO included the County Government's contributions and employee contributions and calculated interest for each year of DROP participation. OLO then discounted the cost of the interest to the County Government to account for an investment earning of 7.5% annually because the funds remain in the Employees' Retirement System (ERS) trust fund during an employee's DROP participation. OLO assumed the 7.5% investment earning because that is the amount of the annual investment return assumed by the County Government's actuaries for the ERS. OLO then totaled the County Government's contributions with the discounted interest cost to arrive at a total County Government cost.
5. To calculate the County Government's cost for the police officers' DROP account, OLO summed the amount of the County Government's contributions to officers' DROP accounts.
6. OLO assumed that the amounts of the retirees' annual pensions remain constant over time. The amounts remain constant because they are shown in current year dollars and OLO assumed that future cost of living adjustments will approximate the future rate of inflation, canceling each other out. For example, future cost of living adjustments will raise the annual pension income above its current amount. However, the increases will be offset by inflation, keeping the value of future payments equal to its current amount when measured in current year dollars.

APPENDIX E

**Estimates of DROP Fiscal Impact to County Government
Fire and Rescue Captain and Police Sergeant**

As discussed in Chapter V, the Office of Legislative Oversight developed examples to compare the fiscal impact to the County Government of employees who participate in the DROP plans and those who do not. In each example, one employee (Employee A) participates in a DROP plan for three years and one employee does not (Employee B).

Chapter V of this report summarized the cost calculations for two positions – a Master Firefighter and a Police Officer III. This Appendix summarizes the cost calculations for two additional positions – a Fire and Rescue Captain and a Police Sergeant.

Overview

These additional examples quantify the 31-year retirement costs, broken down into **short-term personnel costs** (defined as years one through three) and the **long-term personnel costs** (defined as years four through thirty-one).[1]

- **In Example 1**: One employee enters DROP at the beginning of Year 1 (Employee A) and an identical employee retires at the beginning of Year 1 (Employee B). The DROP employee retires at the end of Year 3.
- **In Example 2**: One employee enters DROP in Year 1 (Employee A), an identical employee remains in normal service (Employee B), and both employees retire at the end of Year 3.

The methodology for and assumptions used in OLO's cost calculations in each example are explained in more detail in Appendix D.

[1] OLO assumed a retiree life expectancy of 84 years, the current average life expectancy assumption for ERS members.

Example 1 – DROP vs. Retirement

This example contrasts the costs for two employees with identical salaries[2] and years of service who change their employment status at the same time (July 1, 2012): Employee A enters DROP with 28 years of service and retires three years later (on July 1, 2015); and Employee B retires under normal retirement with 28 years of service. To maintain a constant level of service, Example 1 assumes that MCFRS or MCPD immediately fills the position of Employee B and incorporates replacement costs.

The different cost components associated with each employee that were used in the analysis are summarized below, divided into short-term and long-term costs. The analysis includes replacement costs for years 1-3 because the analysis incorporated the cost of maintaining the same level of staffing while Employee A was in DROP. Both employees have the same cost components (and the same cost) for the long-term (year 4 and beyond) because they both will be retired and receive the same pension amount (based on the same number of service years).

	Employee A (joins DROP and retires on 7/1/15)	**Employee B** (normal retirement on 7/1/12 and position is refilled)
Short-Term Cost Components: Years 1-3	• Annual Salary • Benefits* • Pension for 28 Years of Service (Placed in DROP Account)	Retiree • Pension for 28 Years of Service Replacement(s) • Annual Salary • Benefits* • Pension Contribution
Long-Term Cost Components: Years 4-31	• Pension for 28 Years of Service • Retiree Health Benefits	• Pension for 28 Years of Service • Retiree Health Benefits

*Includes the employer cost for Social Security, Medicare, medical benefits, and prescription drug benefits.

This table shows the short-term, long-term, and total cost results under Example 1.

Comparison of County Government Costs for Employees in Example 1

	Employee A (Joins DROP)	Employee B (Retires + Replaced)	Cost Difference of DROP	
			$	%
Fire and Rescue Captain				
Short Term Cost (Years 1-3)	$613,927	$214,432	+$399,496	+186%
Long Term Cost (Years 4-34)	$1,840,770	$1,840,770	$0	0%
Total Costs*	**$2,454,697**	**$2,055,202**	**+$399,496**	**+$19%**
Police Sergeant				
Short Term Cost (Years 1-3)	$574,037	$183,285	+$390,752	+213%
Long Term Cost (Years 4-34)	$1,747,575	$1,747,575	$0	0%
Total Costs*	**$2,321,612**	**$1,930,861**	**+$390,752**	**+20%**

* Totals may not add due to rounding.

[2] OLO used a Fire and Rescue Captain with an annual salary of $108,443 and a Police Sergeant with an annual salary of $100,224.

Example 2 – DROP vs. Active Employment

This example contrasts the cost for two employees with identical salaries[3] who retire at the same time (July 1, 2015): Employee A enters DROP with 28 years of service (on July 1, 2012) and retires three years later; and Employee B retires under normal retirement with 31 years of service. The different costs associated with each employee that were used in the analysis are summarized below.

	Employee A (joins DROP and retires on 7/1/15)	Employee B (normal retirement on 7/1/15)
Short-Term Cost Components: Years 1-3	• Annual Salary • Benefits* • Pension for 28 Years of Service (Placed in DROP Account)	• Annual Salary • Benefits* • Pension Contribution
Long-Term Cost Components: Years 4-34	• Pension for 28 Years of Service • Retiree Health Benefits	• Pension for 31 Years of Service • Retiree Health Benefits

*Includes the employer cost for social security, Medicare, medical benefits, and prescription benefits.

This table shows the cost results under Example 2.

Comparison of County Government Cost for Employees in Example 2

	Employee A (Joins DROP)	Employee B (No DROP)	Cost Difference of DROP	
			$	**%**
Fire and Rescue Captain				
Short Term Cost (Years 1-3)	$613,927	$518,069	+$95,859	+19%
Long Term Cost (Years 4-34)	$1,840,770	$1,986,235	-$145,464	-7%
Total Costs	**$2,454,697**	**$2,504,304**	**-$49,607**	**-2%**
Police Sergeant				
Short Term Cost (Years 1-3)	$574,037	$485,454	+$88,583	+18%
Long Term Cost (Years 4-34)	$1,747,575	$1,909,032	-$161,458	-8%
Total Costs	**$2,321,612**	**$2,394,486**	**-$72,875**	**-3%**

* Totals may not add due to rounding.

[3] OLO used a Fire and Rescue Captain at a salary of $108,443 and a Police Sergeant at a salary of $100,224.