

MEMORANDUM

To: Joint Committee on Pensions, Investments, and Benefits

From: Alan D. Conroy, Executive Director

Date: December 2, 2020

Subject: Deferred Retirement Option Program

A Deferred Retirement Option Program (DROP) is a plan design feature where a member initiates the calculation of retirement benefits but opts to defer actual receipt of the benefit for a specified period. During the DROP period the member continues working while their retirement benefit accrues in a notional DROP account. At the end of the DROP period, the member receives a lump sum payment of the DROP account balance and begins receiving retirement benefits.

KP&F DROP History

The KP&F DROP was created as a pilot program by the 2015 Legislature. The program was created as a recruitment and retention tool to help the Kansas Highway Patrol with reported staffing issues. The program was extended by the 2019 Legislature and expanded to include eligible Kansas Bureau of Investigation employees. The DROP has a statutory sunset of January 1, 2025.

KP&F DROP Structure

Eligible members can enter the DROP when they are eligible for normal (unreduced) retirement. For most KP&F members, normal retirement eligibility is as follows:

- 50 years old with 25 years of service
- 55 years old with 20 years of service
- 60 years old with 15 years of service

The member, with approval of the agency head, makes a one-time irrevocable election to enter DROP for 3, 4 or 5 years.

During the DROP period both the employer and the member continue to make contributions to KPERS. The contributions are not a part of the notional DROP account. The DROP account can earn interest according to a statutory formula. Currently, the formula allows for 3.0% interest in any year where KPERS investments reach the 7.75% investment return assumption.

The member does not earn any additional retirement benefits during the DROP period.

At the end of the DROP period the member receives a lump sum of the accumulated balance, including any interest earned during the DROP period.

KP&F DROP Participation

Since the program was created in 2015, there have been 44 members enrolled in the DROP program. 7 members have completed their DROP periods and received their lump sum payouts.

I would be pleased to answer any questions the Committee may have.

