

Sec. 30. Deferred Retirement Option Program (DROP).

(1) Election of DROP

- (a) Subject to the funding requirements of section 46, a participating municipality or court, by resolution of its governing body or by administrative order of its chief judge, may adopt Benefit Program DROP, commencing January 1, 2015. The resolution or administrative order shall specify the effective date of the change in coverage, which shall not be earlier than the actual date of adoption, and shall be uniformly applicable to all members employed by the participating municipality or court in the division for which Benefit Program DROP is adopted.
- (b) To elect Benefit Program DROP, a member who is eligible to retire under section 20, with the exception of a retirement under section 20(3) shall, in writing and on a form prescribed by the Retirement System,
 - (i) Apply for retirement,
 - (ii) Elect a specified DROP period,
 - (iii) Voluntarily and irrevocably determine a beginning date (which shall be the first day of a month) upon which to enter DROP and an end date (which shall be the last day of a month) upon which to exit DROP,
 - (iv) Agree to terminate employment with the participating municipality or court on the last day of their participation in DROP; and
 - (v) Elect a DROP account beneficiary.

Members may choose a DROP end date at least six months after the beginning date, but no more than sixty months after the beginning date, in one-month increments.

(2) Administration of DROP

- (a) The Retirement System shall, upon the member's election of DROP and the receipt of an application to enroll in DROP, calculate the member's service retirement and benefit payment as of the beginning date. The Retirement System also shall calculate any age differential between the member and the member's beneficiary as of the calendar year of the DROP exit date in accordance with Treas. Reg. § 1.401(a)(9)-6.

- (b) Upon the beginning date of the DROP period, the member shall cease to accrue any additional retirement benefits either through service accruals, future pay increases, active cost of living adjustments or promotions.
 - (c) Upon the beginning date of the DROP period, the member shall be responsible to continue employee contributions, if any, pursuant to section 39. Member contributions will be deposited into and become a part of the employer fund. Member contributions shall not be deposited into nor become a part of the DROP account established under (2)(a) of this section. Employer contributions based on the wages of the member shall not continue during the DROP period.
 - (d) During the DROP period, the member shall remain employed by the participating municipality or court, subject to the exceptions specifically referenced herein, and should have all of the rights, privileges, and benefits, including health benefits, and be subject to all other terms and conditions of the active employment.
 - (e) On the next available benefit payment date after processing is complete, and monthly thereafter, an amount equal to 100% of the monthly service retirement benefit payment the member would have received if he or she had retired as of the DROP beginning date (the "DROP benefit") will be credited to a notional account ("DROP account") for the benefit of the member. The DROP benefit shall be frozen as of the DROP beginning date, and shall not be adjusted except for cost of living adjustments applicable to all retirees in the division, if applicable.
 - (f) The Retirement System shall credit the amounts in the DROP account with interest in the amount of 3% annually, or prorated in the event of a DROP period that is less than twelve months. No interest shall accrue after a member terminates DROP participation.
 - (g) After the member terminates employment, the DROP account shall be subject to court orders and statutory liens in the same manner as the monthly service retirement and according to the terms of the court order.
- (3) Termination of DROP Period
- (a) Prior to End Date:
 - (i) Voluntary Termination of Employment – If a member voluntarily terminates employment prior to the end date, the member shall only be vested in eighty percent (80%) of the DROP account. The member must take a lump-sum distribution of the amount in the DROP account, and begin receiving directly the monthly service retirement benefit payments under the payment option elected at

the beginning date, which payments shall be subject to section 27. For purposes of section 9, the last date of employment will be considered the date of termination.

- (ii) Involuntary Termination of Employment – If a member's employment is terminated by the employer prior to the end date, the member shall take a lump-sum distribution of the amount in the DROP account, and begin receiving directly the monthly service retirement benefit payments under the payment option elected at the beginning date, which payments shall be subject to section 27. For purposes of section 9, the last date of employment will be considered the date of termination.
 - (iii) Death – If a member dies prior to the end date, the DROP account beneficiary will receive the lump-sum distribution of the DROP account, and the member's survivor beneficiary, if any, will receive any benefit payments to which he or she is entitled, depending on the payment option elected at the beginning date, which payments shall be subject to section 27.
 - (iv) Disability – If a member becomes disabled prior to the end date and meets the requirements of section 31(1), the member shall take a lump-sum distribution of the amount in the DROP account, and begin receiving directly the monthly service retirement benefit payments under the payment option elected at the beginning date, which payments shall be subject to section 27.
- (b) Upon End Date:
- (i) The member must terminate employment upon the end date unless employment was previously terminated under section (a) above.
 - (ii) Upon the end date, the member shall receive a lump-sum distribution of the member's DROP account. The member shall elect the form of distribution within 60 days of the end date, on a form prescribed by the Retirement System. If the member fails to make an election within 60 days of the end date, MERS may distribute the amount into a default account, as determined by the Retirement System. The payment of the member's DROP account shall be subject to all applicable taxes. Members may elect a direct rollover of the DROP account to an eligible retirement plan in accordance with section 87(10).

- (iii) On the first day of the calendar month following end date, the member will begin receiving monthly service retirement benefit payments under the payment option elected at the beginning date, which payments shall be subject to section 27.
- (4) A participating municipality or court shall not adopt DROP under this section for retirement allowances payable under the Hybrid Plan.
- (5) In the event of any alteration of this section through collective bargaining, such alteration shall not be recognized or administered by MERS.