



## **411 System Deferred Retirement Option Plan**

The Municipal Fire and Police Retirement (411) System of Iowa provides a Deferred Retirement Option Plan (DROP). The DROP Program was created in HF 2712 (Statewide Fire and Police Retirement System-Deferred Retirement Act) during the 2006 Legislative Session. The program went through a qualified plan review and was approved by the Internal Revenue Service (IRS) in 2007.

### **DROP Program**

A member that has attained 55 years of age with at least 22 years of membership in the 411 retirement system may elect to participate in the DROP Program. The DROP Program allows an eligible member to delay retirement, continue working for an agreed number of additional years not to exceed five years, and have a portion of the retirement allowance set aside in a separate account.

The decision to enter the program cannot be revoked. The DROP period begins the first day of the month the member commences participation and ends the last day of the month member participation terminates. Termination agreements exist between each city and the participating member, as required, to initiate participation in the DROP Program. The termination date can be three, four, or five years after the DROP commencement date.

When a member enters the DROP Program, they remain active in the 411 retirement system but the retirement benefit is calculated from the date of entering the DROP Program contract. Each month, the member participates in the DROP Program, an amount equal to 75.0% of the member's DROP Program monthly benefits is credited to a separate account for the benefit of that member. The amount deposited in the member's account does not accrue interest or dividends. If the member terminates employment on the planned date or as a result of disability or death, the remaining 25.0% is credited to the member's DROP account. The active member contribution rate is increased to cover the increased cost of the DROP Program.

At retirement, members receive a retirement benefit as well as the money credited to the DROP account. Members can select a lump sum distribution or a rollover to a qualified retirement plan.

### **411 System Membership**

Since the program's inception in 2007, there have been 653 members eligible to participate and 298 chose to participate (45.0%). Of the 298 participants, 162 elected a DROP of three years or less, 31 elected a four-year DROP, and 105 elected a five-year DROP. As of June 1, 2013, there were 139 active members of the 411 System participating in the DROP Program in 28 cities. These numbers are fluid and will change as more members become eligible for retirement or leave the system.

### **Impact to the 411 System**

The retirement system's actuary estimates that the plan design will not add additional contribution costs to the plan. However, if contribution costs do occur, due to DROP program experience that is not consistent with the actuarial assumptions or for any other reason associated with the DROP, the contribution costs will be assigned the active member contribution rate.

### **Impact to Cities**

There may be a potential disability cost to cities if firefighters and police officers are allowed to work additional years; however, no study has been completed. In addition, by having an employee work additional years, there is a potential increased salary expense resulting from retaining an experienced employee and delaying the training costs of a new recruit that would potentially have a lower salary.

#### **More Information**

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