

MEMORANDUM

To: Joint Committee on Pensions, Investments, and Benefits

From: Jarod Waltner, Planning and Research Officer

Date: December 8, 2021

Subject: Deferred Retirement Option Program (DROP) Experience

A Deferred Retirement Option Plan (DROP) is a plan design feature where a member initiates the calculation of a retirement benefit but opts to defer actual receipt of the benefit for a specified period. During this specified DROP period, the member continues working and the member's benefit is credited to a notional account and made available in a lump sum when the member ultimately leaves employment.

The 2015 Legislature created a pilot deferred retirement option program (DROP) for KP&F members at the request of the Superintendent of the Kansas Highway Patrol. The policy goal was to aid in retention of staff at the Highway Patrol due to recruitment issues the agency was experiencing. The initial pilot period ran through January 1, 2015 and only the Highway Patrol was included in the pilot group.

In 2019 the Legislature extended the pilot period to January 1, 2025 and added KP&F members at the Kansas Bureau of Investigation to the pilot group.

Current Law

The 2015 Legislature created a Deferred Retirement Option Program (DROP) pilot. The pilot group of members included only the Kansas Highway Patrol. The DROP pilot was given a 5-year window, sun setting on January 1, 2020.

The pilot DROP for the Kansas Highway Patrol KP&F members includes the following plan design features:

- Members may enter the DROP at normal retirement age,
- Members must select a period of 3-5 years to continue working, during which time their benefit is deposited into a DROP account, which may be credited interest when certain investment thresholds are met. Members can elect to extend their DROP period to a maximum of 5 years based on a 2021 statutory change.
- Members and employer continue to make regular contributions to KPERS (7.15% for the employee and 22.80% in FY 2022 for employers).
- At ultimate retirement, the member receives the balance of the DROP account as a lump sum or a rollover to another qualified account.

Potential Costs of a DROP

The individual decisions to participate in a DROP plan are largely behavioral and therefore require several assumptions to complete a cost estimate. The initial cost estimate included looked at two different scenarios:

1. Members enter DROP when they planned to retire and work additional years.
2. Members enter DROP 3-5 years before their planned retirement date.

When members were assumed to enter the KP&F DROP at their planned retirement and work additional years there was very little change in the expected costs for the plan. However, if members decided to enter the KP&F DROP 3-5 years before they planned to there was an expected increase in the plan costs, which would require an increase in annual KP&F employer contributions.

DROP Experience

Between July 1, 2015 and December 31, 2020 there were 106 retirements from the Kansas Highway Patrol, including 66 members who did not participate in DROP and 40 members who did.

The following table summarizes the average age and service time at retirement (or DROP entry) for these two groups:

Group	Average Age at Retirement	Average Service at Retirement
DROP Participants	54.6	27.4 years
Retired Members	55.2	23.5 years

Over this period, the DROP participants did choose to enter the DROP about 7 months younger than members who elected to retire. However, the average length of the DROP period elected is 4.7 years, which means the DROP group is ultimately leaving the Highway Patrol at a later age than members who do not participate in DROP.

The higher service time among the DROP participants would indicate that it is more attractive longer tenured employees. However, KPERS does not collect position description information for members so it is not possible to state definitively what types of positions are utilizing the DROP.

With only four DROP participants at the Kansas Bureau of Investigation it is still too early to complete a meaningful analysis on DROP membership.

Participation in the DROP program is one of the actuarial assumptions that is reviewed as part of the experience study process every 3-5 years. As additional data is incorporated in future experience studies, the actuarial assumption will be refined to reflect the actual experience of the System.

I would be pleased to answer any questions the Committee has regarding the DROP.