**DROP vs. IBO: WHAT'S THE DIFFERENCE?**

**DROP**
- Member defers retirement for up to 36 months while continuing to work.
- Retirement accounts are credited at the time of retirement.
- Member pays contributions to LASERS and drops IBO.
- Member terminates employment and is eligible for an unreduced benefit at age 62 retirement.
- Member must begin DROP participation immediately (member participates in DROP, ends immediately).
- Regardless of when the member anticipates actual retirement, member must begin DROP participation within a specific window, regardless of when the member anticipates actual retirement.
- Member can reach 100% of FAC.
- May be difficult for member to reach 100% of FAC.
- Member is encouraged to request benefit estimates by submitting Form 5-01 or accessing Member Self-Service on the LASERS website.

**Optional Retirement**
- Member has a nest egg at retirement.
- Upon retirement, member is encouraged to select from the suite of retirement options.
- Member can receive a lump sum or request credit.

**IBO**
- Member terminates employment and retires with a lump sum of 36 months of the maximum retirement benefit.
- Member pays contributions to LASERS and drops IBO.
- Member terminates employment and is eligible for an unreduced benefit at age 62 retirement.
- Member is encouraged to request benefit estimates by submitting Form 5-01 or accessing Member Self-Service on the LASERS website.
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- Member is encouraged to request benefit estimates by submitting Form 5-01 or accessing Member Self-Service on the LASERS website.
Drop vs. IBO:

What's the difference?

Example:

Wanda enters DROP with 30 years of service on March 2, 2013 and ends DROP participation on March 1, 2016. She enters DROP with a final average compensation (FAC) of $50,000 and chooses the Maximum Option. Her DROP retirement benefit will be calculated as follows:

\[
\text{DROP Benefit (Base Benefit)} = \text{FAC} \times \text{Rate} \times \text{Service} = \$50,000 \times 2.5\% \times 30.00 = \$37,500 \text{ per year} (\$3,125 \text{ monthly})
\]

While she continues to work during DROP participation, a monthly amount of $3,125 will be deposited into her DROP account. She elected to participate in DROP for 36 months, so at the end of DROP participation, she will have $112,500 in her DROP account.

If Wanda retires immediately after completing DROP, she will not earn a supplemental retirement benefit. She has 1.10 years of unused leave that she chooses to convert to service credit. Her final retirement benefit will be calculated as follows:

\[
\text{Unused Leave Converted to Service Credit} = \text{FAC} \times \text{Rate} \times \text{Service} = \$50,000 \times 2.5\% \times 1.10 = \$1,375 \text{ per year} (\$114.58 \text{ monthly})
\]

Her monthly retirement benefit will be calculated by adding her DROP benefit and her unused leave benefit: $3,125 + $114.58 = $3,239.58. Therefore, Wanda will receive $3,239.58 per month until her death.

Lifetime Retirement Benefit = $3,239.58 per month
Lifetime DROP account balance = $112,500

Example:

Wanda retires with an IBO at age 55 with 33 years of service on March 1, 2016. Her final average compensation (FAC) is $50,000. She chooses the Maximum Option and the maximum IBO amount (36 months). She has 1.10 years of unused leave that she chooses to convert to service credit. Her retirement benefit will be calculated as follows:

\[
\text{Retirement Benefit (Unreduced Maximum)} = \text{FAC} \times \text{Rate} \times \text{Service} = \$50,000 \times 2.5\% \times 33.00 = \$41,250 \text{ per year} (\$3,437.50 \text{ monthly})
\]

\[
\text{Unused Leave Converted to Service Credit} = \text{FAC} \times \text{Rate} \times \text{Service} = \$50,000 \times 2.5\% \times 1.10 = \$1,375 \text{ per year} (\$114.58 \text{ monthly})
\]

\[
\text{Max Monthly Benefit:} = \$3,437.50 + \$114.58 = \$3,552.08
\]

To obtain Wanda's final (reduced) retirement benefit, her age and the approximate cost to receive the IBO lump sum are factored into the calculation. Wanda's age of 55 yields an approximate monthly cost (reduction) of $940.05. This reduction will be applied to her retirement benefit. Thus, she will receive $3,612.03 per month until her death.