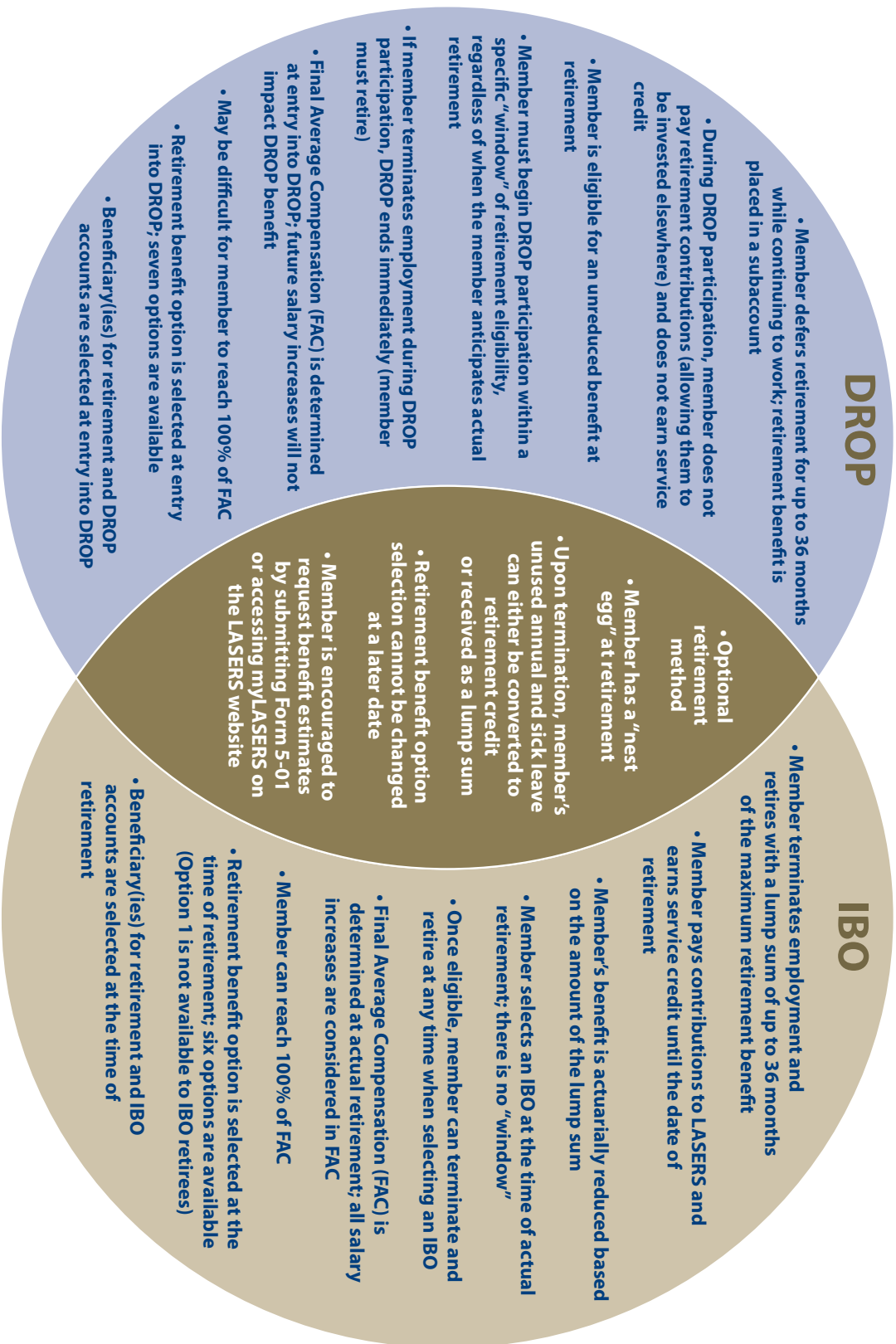


DROP vs. IBO: WHAT'S THE DIFFERENCE?



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Wanda is considering retirement options and is unsure if she should participate in DROP or retire with an IBO. The following examples compare retirement after DROP participation to retirement with an IBO. How would these options impact her retirement benefit?

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:

$\text{FAC} \times \text{Rate} \times \text{Years of Service} =$	$\text{\$50,000} \times 2.5\% \times 30.00 =$
Maximum DROP Benefit	\\$37,500 per year (\\$3,125 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:

Unused Leave Converted to Service Credit	
$\text{Pre-DROP FAC} \times \text{Rate} \times \text{Years of Service} =$	$\text{\$50,000} \times 2.5\% \times 1.10 =$
After-DROP Leave Conversion	\\$1,375 per year (\\$114.58 monthly)

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

Lifetime retirement benefit = \\$3,239.58 per month
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 selects 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:

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

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

Maximum Monthly Benefit: $\text{\$3,437.50} + \text{\$114.58} = \text{\$3,552.08}$

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 subtracted from her maximum benefit to determine the actuarially reduced monthly maximum benefit:

Actuarially Reduced Maximum Benefit	
$\text{Maximum Benefit} - \text{IBO Reduction} =$	$\text{\$3,552.08} - \text{\$940.05} =$
Reduced Maximum Benefit	\\$31,344.36 per year (\\$2,612.03 monthly)

Since Wanda chose the maximum IBO amount, she will receive a lump-sum payment of **\$127,874.88**. Her monthly benefit is actuarially reduced based on the amount of the lump sum. Therefore, Wanda will receive **\$2,612.03 per month until her death.**

Lifetime retirement benefit = \$2,612.03 per month
IBO lump sum amount = \$127,874.88