



California Actuarial Advisory Panel
P.O. Box 942850
Sacramento, CA 94250-5872

Via email: caap@sco.ca.gov

October 20, 2023

CLARIFICATION RE: DROP “COST NEUTRALITY” REQUIREMENT

Dear California Actuarial Advisory Panel:

Several California retirement systems operating under the County Employees’ Retirement Law (CERL) have been participating in or have been aware of initial discussions among labor groups and employers regarding the Deferred Retirement Option Program (DROP) as described in Article 11.5 of the CERL.

To develop a common understanding of the DROP cost-neutrality requirement for our 20 retirement systems and constituencies we serve, the State Association of County Retirement Systems (SACRS) requests CAAP to provide the following analysis:

1. Under what general parameters could the “Forward” DROP provisions under Government Code section 31771 be considered cost neutral?
2. Under what general parameters could the “Backward” DROP provisions under Government Code section 31778 be considered cost neutral?
3. Under what general parameters could the “Actuarial Equivalent” DROP provisions under Government Code section 31777 be considered cost neutral?
4. Under Government Code section 31770.4(c), “the actuarial analysis shall identify all cost elements expected to change due to implementation of the program ... such as benefit payments, expected retirement age, and the likelihood of termination or disability by those near retirement age.” Based on the experience of other California retirement systems currently or previously offering DROP programs, what behavior changes have been observed by the Panel?



5. Government Code section 31772(c)(4) discusses various interest crediting policies. Based on any other anecdotal information the Panel may have observed, which entity (employer or retirement system) funds the interest credited to a member's DROP account?
6. Which parties (employers, employees, and/or retirement systems) bear the risks should the program result in a significant financial impact?
7. Please discuss how the IRC 415(b) annual benefit limits are integrated with a DROP lump-sum distribution.

We appreciate the guidance and insight that CAAP has provided to the pension community and welcome your feedback in the spirit of transparency to help inform our discussions regarding this issue.

Sincerely,

Eric Stern
Chief Executive Officer,
Sacramento County
Employees' Retirement System, and
Co-Chair, SACRS Legislative Committee

Dave Nelsen
Chief Executive Officer,
Alameda County
Employees' Retirement Association, and
Co-Chair, SACRS Legislative Committee

cc: Sulema Peterson, SACRS Executive Director