

**Article 4: City Employees' Retirement System**

**Division 14: Deferred Retirement Option Plan**

*("Deferred Retirement Option Plan"  
added 3-4-1997 by O-18385 N.S.)*

**§24.1401 Purpose and Duration**

- (a) Effective April 1, 1997, a deferred retirement option plan (*DROP*) is created and offered to *Members* as an alternative method of benefit accrual in the *System* as set forth in this Division.
- (b) *DROP* is created to add flexibility to the *System* and its *Members*. It provides *Members* who elect to participate in *DROP* access to a lump sum benefit at the time of their actual retirement, in addition to their normal monthly retirement allowance. *DROP* is intended to be cost neutral.
- (c) *DROP* was initially offered on a trial basis for a period of three years beginning on April 1, 1997. *DROP* became a permanent benefit effective April 1, 2000.

*(Amended 6-18-2002 by O-19071 N.S.)*

*(Amended 6-10-2014 by O-20376 N.S.; effective 7-10-2014.)*

**§24.1402 Eligibility, Duration of DROP Participation, and Waiver**

- (a) A *Member* is eligible to participate in *DROP* if the *Member*: (1) was hired by or assumed office with the *City* before July 1, 2005, (2) is eligible for a service retirement, and (3) is not a *Safety Member* who elected to accrue benefits under section 24.0403(d).
- (b) Before a *Member* may participate in *DROP*, he or she must voluntarily and irrevocably:
  - (1) designate a participation period of 60 consecutive months or less;
  - (2) elect to receive either the Maximum Benefit or one of the retirement settlement options described in Division 6 of this Article;
  - (3) designate his or her *Beneficiary* for the continuance payable upon his or her death, if any;
  - (4) stop accruing benefits under any other Division of this Article starting on the date the *Member* enters *DROP*;

- (5) have *DROP* benefits credited to a *DROP* Account as provided in this Division;
- (6) accrue benefits under the terms of this Division starting on the date the *Member* enters *DROP*;
- (7) receive benefits from the *System* when the *Member* leaves *City* employment, as provided in the relevant sections of this Article;
- (8) agree to leave *City* employment on or before the end of the *Member's* designated *DROP* period, unless the *Member* is represented by the San Diego City Fire Fighter's Local 145 bargaining unit, in which case the *Member* may extend his or her five-year *DROP* period by the amount of unused annual leave the *Member* has remaining at the end of his or her *DROP* period that was earned after July 1, 2002.

*(Amended 12-3-2002 by O-19126 N.S.)*

*(Repealed Subsection (b)(9) of Section 24.1402 on 4-28-2008 by O-19740 N.S.; effective 5-28-2008.)*

*(Amended 6-10-2014 by O-20376 N.S.; effective 7-10-2014.)*

#### **§24.1403 Termination of DROP Participation**

- (a) A *Member* who is participating in *DROP* may leave *DROP* at any time before the end of his or her designated *DROP* period by voluntarily leaving *City* employment.
- (b) The *System* will terminate the *Member's* *DROP* participation when any of the following events occurs:
  - (1) the *Member's* designated *DROP* period ends, or in the case of a *Member* who is represented by the Firefighter's Local 145 bargaining unit, at the end of the *Member's* five-year *DROP* period extended by the amount of unused annual leave earned after July 1, 2002 that the *Member* has at the end of his or her *DROP* period, if the *Member* elects to extend his *DROP* period pursuant to 24.1402(b)(8);
  - (2) the *Member's* *City* employment is terminated for cause; but, if the termination for cause is reversed, the *Member's* participation will be reinstated for the remainder of the *Member's* designated *DROP* period, less any benefits previously distributed from the *Member's* *DROP* Account;

- (3) the *Member* dies; or
- (4) the *Board* grants the *Member* a disability retirement.

(Amended 12-3-2002 by O-19126 N.S.)

(Amended 6-10-2014 by O-20376 N.S.; effective 7-10-2014.)

#### §24.1404 DROP Benefits and Accounts

- (a) A *DROP* Account is a “nominal” account established within the *System* on behalf of each *DROP* participant. All benefits accrued by a *Member* under this Division are accounted for in the *Member’s DROP* Account. A *DROP* participant does not have a claim on the assets of the *System* with respect to his or her *DROP* Account, nor will the *System* set aside any assets for any *DROP* participant that are separate from other *System* assets.
- (b) All amounts credited to a *Member’s DROP* Account are fully vested.
- (c) A *Member’s DROP* Account will be credited with:
  - (1) The *Member’s Base Retirement Benefit*, credited monthly, using the *Member’s* age, *Service Credit*, and *Final Compensation* in effect when the *Member* enters *DROP*, and consistent with the retirement benefit levels in place on that date. This amount will increase each year by a cost of living adjustment (COLA), as described in Division 15 of this Article.
  - (2) An amount, credited annually, representing the annual supplemental benefit described in Division 15 of this Article, based upon the *Member’s Service Credit* on the day before the *Member* entered *DROP*.
  - (3) An amount equal to 3.05% of the *Member’s Base Compensation*, credited bi-weekly at the end of each pay period, which is paid by the *City*.
  - (4) An amount equal to 3.05% of the *Member’s Base Compensation*, credited bi-weekly at the end of each pay period. This amount will be deducted from the *Member’s* salary on a pre-tax basis pursuant to Internal Revenue Code section 414(h)(2).

- (5) Interest on the above amounts, as determined by the *Board* through *Rules* adopted under Division 9 of this Article. These *Rules* have the same force and effect as a duly adopted ordinance.

*(Amended 12-3-2002 by O-19126 N.S.)  
(Retitled to "Drop Benefits and Accounts," and amended 6-10-2014 by O-20376 N.S.; effective 7-10-2014.)*

#### **§24.1405 Additional DROP Provisions**

- (a) The *Member* and the *City* will stop making employer and employee contributions for the *Member* on the day the *Member* enters *DROP* (except as provided under section 24.1404(c), subsections (3) and (4)).
- (b) A *Member* who becomes disabled while participating in *DROP* is eligible to apply for disability retirement benefits. If the *Member's* application for disability retirement benefits is approved by the *Board*:
  - (1) the *Member's* disability retirement benefit will be calculated using the *Member's* age, *Service Credit*, and *Final Compensation* in effect the day the *Member* entered *DROP*; and
  - (2) the *Member* will be eligible to receive all amounts in his or her *DROP* Account, as provided in section 24.1407.
- (c) If a *Member* dies while participating in *DROP*, his or her *Beneficiary* or *Beneficiaries* will receive:
  - (1) All amounts in the *Member's* *DROP* Account.
  - (2) The retiree death benefit.
  - (3) If eligible, the *Member's* *Beneficiary* may elect to receive an industrial death benefit in place of any survivor continuance otherwise payable under this Division. The industrial death benefit is calculated using the *Member's* age, *Service Credit*, and *Final Compensation* in effect on the day the *Member* entered *DROP*.
  - (4) If the *Member's* *Beneficiary* is not eligible for an industrial death benefit, and the *Member* designated a *Beneficiary* to receive a continuance before entering *DROP*, the *Member's* *Beneficiary* will receive the survivor continuance elected by the *Member*.

- (d) When a *DROP* participant leaves *DROP* and retires, the participant will begin receiving any retiree health benefits under Division 12, or post-employment health benefits under Article 9, Division 1, that the participant is eligible to receive.

*(Amended 6-19-2002 by O-19071 N.S.)*

*(Amended 6-10-2014 by O-20376 N.S.; effective 7-10-2014.)*

**§24.1406 Designation of Beneficiary**

- (a) Before entering *DROP*, the *Member* must designate a *Beneficiary* for his or her *DROP* Account. This designation will apply to all distributions made from the *Member's DROP* Account. The *Member* may change this *Beneficiary* designation at any time before the amounts in his or her *DROP* Participation Account are fully distributed.
- (b) If the *Member's DROP* Account *Beneficiary* dies before the *Member* does, and the *Member* then dies before designating a new *Beneficiary*, all amounts in the *Member's DROP* Account will be distributed pursuant to section 24.0706.
- (c) No *Beneficiary* designation made under this section may abrogate the *Member's* community property obligations under applicable California law.

*(Amended 6-18-2002 by O-19071 N.S.)*

*(Amended 6-10-2014 by O-20376 N.S.; effective 7-10-2014.)*

**§24.1407 Payment of Benefits**

- (a) When a *Member* simultaneously leaves *DROP* and leaves *City* employment:
  - (1) the *Member* will begin receiving his or her monthly retirement allowance, as determined under this Division;
  - (2) the *Member* will begin receiving the annual supplemental benefit in accordance with Division 15, to the extent the *Member* is eligible, based upon the *Member's Service Credit* on the day he or she entered *DROP*; and
  - (3) the *Member* will be entitled to receive the amounts credited to his or her *DROP* Account as of the day the *Member* left *DROP*.

- (b) A *Member* may receive the amounts in his or her *DROP* Account in any of the following benefit forms:
  - (1) a single lump sum distribution of all amounts credited to the *Member's DROP* Account;
  - (2) equal monthly payments over 240 months starting with the date the *Member* leaves *DROP* and retires; or
  - (3) any other benefit form approved by the *Board*, subject to applicable provisions of the Internal Revenue Code.
- (c) The following rules govern the payment of benefits under this Division:
  - (1) No COLA, Annual Supplemental Benefit or later similar adjustment will be made with respect to any benefit payable under subsection (b).
  - (2) Each form of benefit paid must be the *Actuarial Equivalent* of the amount credited to the *Member's DROP* Account at the end of his or her *DROP* period. Where appropriate, the *Annuity* will be calculated using the *Member's* age and, if the *Member* elected a joint and survivor option, the age of the *Beneficiary* at the end of the *DROP* period.
  - (3) Each form of benefit paid must equal the amount credited to the *Member's DROP* Account, including interest credited to that account after the *Member* retires. If amounts remain credited to the *Member's DROP* Account after the *Member's* death, the *System* will pay the remaining amounts to the *Member's Beneficiary* in the form selected by the *Member* before his or her death. If the *Member* did not select a form, the *Beneficiary* may elect to be paid under any of the benefit forms provided in subsection (b).
- (d) The *System* will credit the *DROP* Accounts of retired *Members* as follows:
  - (1) If a *Member* or *Beneficiary* receives a benefit in a form other than a single, lump-sum distribution of the entire *DROP* Account, the value of his or her *DROP* Account will be credited with interest quarterly and reduced by the amount of distributions.
  - (2) The interest rate credited to the *DROP* Account under subsection (d)(1) may not exceed the higher of the following:
    - (A) 5%, or

- (B) the interest rate the *Board* is using to credit *DROP* Accounts on the date the *Member* is first eligible to receive distributions from his or her *DROP* Account.

*(Amended 6-18-2002 by O-19071 N.S.)*

*(Amended 6-10-2014 by O-20376 N.S.; effective 7-10-2014.)*

**§24.1408 Compliance with Applicable Provisions of the Internal Revenue Code**

- (a) DROP is not intended to jeopardize the tax-qualified status of the Retirement System under the rules and regulations of the Internal Revenue Service. The Board has the authority under Division 9 of this Article to adopt rules and regulations to assure that DROP complies with applicable Federal laws and regulations. The Board’s rules and regulations will have the same force and effect as a duly enacted ordinance.
- (b) Despite any other provision in this Article, benefits provided under this Division are subject to the requirements of the Internal Revenue Code and regulations issued thereunder for the Retirement System to remain a tax qualified retirement plan, including the following:
  - (1) The limitations of Section 415 of the Code relating to the amount of benefits that can be paid. In this regard, the interest rate that will be used for testing benefits under the limits of Section 415 and DROP benefits will be the greater of the following:
    - (A) 5%, or
    - (B) the interest rate the Board is using to credit DROP Participation Accounts on the date the Member is first eligible to receive distributions from his or her DROP Participation Account.
  - (2) The limitations of Section 401(a)(17) of the Code relating to the amount of compensation that can be taken into account for benefit accrual.
  - (3) The limitations of Section 401(a)(9) relating to the time that benefit payments must begin.
  - (4) The rules of Section 401(a)(31) relating to the rollover of benefits.
  - (5) The limitations of Section 401(a)(25) relating to “definitely determinable” benefits.

*(Amended 6-18-2002 by O-19071 N.S.)*

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**§24.1409 Employment Status during DROP Participation**

Except as provided in this Division, a Member who elects to participate in DROP has all of the rights, privileges and benefits, and is subject to all other terms and conditions of active employment, including the City Flexible Benefits Plan.  
*(Amended 6-18-2002 by O-19071 N.S.)*