

DROP plans: A flexible plan design to the rescue



Hooker & Holcombe, founded in 1956, is a leading regional provider of comprehensive actuarial, investment advisory and retirement plan consulting services. Through the expertise of dedicated and knowledgeable professionals, including skilled actuaries and CFA Charterholders, the firm designs and implements customized retirement plan programs based on proven best practices and advanced technology that exceed client expectations. The firm also provides portfolio management services for individuals. Learn more at hhconsultants.com

Identify

A mid-sized municipality wanted to entice their valued Police and Fire (P&F) employees to continue working beyond the typical 20- to 25-year time span. The Town was also faced with budget constraints that did not currently support retaining their employment past normal retirement with additional retirement benefits. As their long-term actuary, Hooker & Holcombe (H&H) was challenged with developing a solution that would give this group of employees a reason to continue their important work beyond standard retirement dates, while keeping the cost neutral for the Town.

Achieve

H&H knew the best way to appeal to these employees was to help the client enhance and modernize their existing pension plan. We proposed a Deferred Retirement Option Plan (DROP), a form of pension benefit specifically designed for employees who would normally retire earlier than most.

Our skilled actuaries applied actuarial factors to monthly DROP payments which provided employees with two choices:

1. Discontinue contributions to the plan and have a higher reduction factor (smaller monthly payments to the DROP account), or
2. Continue current contributions and prosper with a lower reduction (larger monthly payments to the DROP account)

This innovative solution increased retirement payment flexibility for participants through a combination of a monthly annuity and lump sum payments from the DROP account.

The Town continues to benefit from the modified plan design because P&F employees must now announce their retirement date, aiding in transition planning and reducing overtime costs. The plan design was also able to achieve the goal of keeping the costs neutral. Retirees benefit from the new plan design, too. They may elect to receive part of their benefit in a lump sum through the DROP account, while receiving the traditional monthly annuity benefit at the same time.

Exceed

Because H&H took the time to fully understand our client's goals, we were able to craft a DROP plan design positively affecting both the Town and their employees. Our professionals exceeded the client's expectations by giving them a means to keep costs level, plan job succession, and retain workers who dedicate their lives to helping others.

This is just one example of the many ways we help plan sponsors and their participants maximize benefits while lowering costs. Leverage our experience for your retirement plan needs. Visit hhconsultants.com to learn more.



The elements of success