

**DEFERRED RETIREMENT OPTION PROGRAM**

2001 GENERAL SESSION

STATE OF UTAH

**Sponsor: Gene Davis**

**This act modifies the Utah State Retirement Systems Code by authorizing a deferred retirement option program for members of all retirement systems. This act provides and regulates DROP eligibility, accounts, contributions, penalties, restrictions, and limitations.**

This act affects sections of Utah Code Annotated 1953 as follows:

ENACTS:

**49-1-801**, Utah Code Annotated 1953

**49-1-802**, Utah Code Annotated 1953

**49-1-803**, Utah Code Annotated 1953

**49-1-804**, Utah Code Annotated 1953

**49-1-805**, Utah Code Annotated 1953

**49-1-806**, Utah Code Annotated 1953

**49-1-807**, Utah Code Annotated 1953

**49-1-808**, Utah Code Annotated 1953

**49-1-809**, Utah Code Annotated 1953

*Be it enacted by the Legislature of the state of Utah:*

Section 1. Section **49-1-801** is enacted to read:

**Part 8. Deferred Retirement Option Program**

**49-1-801. Definitions.**

As used in this part:

(1) "DROP" means a deferred retirement option plan.

(2) "System" means the retirement system covering the member at the time of retirement.

Section 2. Section **49-1-802** is enacted to read:

**49-1-802. Eligibility for DROP.**



28           (1) (a) A member is eligible to participate in DROP if the member is qualified to retire  
29 with no actuarial reduction in accordance with the member's system.

30           (b) A member may purchase retirement service credit prior to participation in DROP.

31           (2) Participation in DROP is voluntary and at the discretion of the participant.

32           Section 3. Section **49-1-803** is enacted to read:

33           **49-1-803. Application -- Agreement.**

34           (1) To participate in DROP, a participant shall apply to the retirement office and enter an  
35 agreement that the participant:

36           (a) shall continue active employment, subject to the DROP conditions under this part;

37           (b) has retirement finalized, with no future change in retirement options;

38           (c) may not accrue additional retirement service credit;

39           (d) may participate in DROP for a maximum of 60 months; and

40           (e) employment shall terminate with the employer prior to the end of the 60 months.

41           (2) After three calendar days, the participant's DROP agreement is irrevocable.

42           (3) The board shall adopt:

43           (a) approved DROP agreements and forms; and

44           (b) policies and procedures governing DROP.

45           Section 4. Section **49-1-804** is enacted to read:

46           **49-1-804. DROP accounts.**

47           (1) Upon approval of a participant's DROP agreement, the retirement office shall create  
48 a DROP account for the participant.

49           (2) (a) A DROP participant's employer shall pay 2/3 of the system's board certified  
50 contribution rate to the retirement office.

51           (b) The retirement office may deduct its actual DROP administrative costs from the  
52 contribution under Subsection (2)(a), up to a maximum of 1/3 of the system's certified contribution  
53 rate.

54           (3) The retirement office shall deposit monthly into the participant's DROP account:

55           (a) the participant's system monthly retirement allowance calculated as if the participant  
56 had retired;

57           (b) the participant's system cost-of-living allowance adjustments;

58           (c) the employer's contribution, less the deduction, in accordance with Subsection (2); and

- 59 (d) interest compounded monthly at an effective annual rate of 7.5%.
- 60 (4) The participant may elect to make an additional tax deferred contribution to the
- 61 participant's DROP account.
- 62 (5) A participant's DROP account is vested to the participant, subject to Section 49-1-805.
- 63 (6) The payout of a DROP account shall be elected by the participant within 60 days of
- 64 DROP termination as:
  - 65 (a) a lump sum payout;
  - 66 (b) an annuity;
  - 67 (c) a direct rollover;
  - 68 (d) a partial lump-sum payout; or
  - 69 (e) any other distribution permitted by the Internal Revenue Service and approved by the
  - 70 board.

71 Section 5. Section **49-1-805** is enacted to read:

72 **49-1-805. Penalty.**

73 If a participant does not leave employment after the 60 month maximum under DROP, the

74 retirement office shall:

- 75 (1) cancel the participant's retirement; and
- 76 (2) (a) terminate the participant's DROP account and forfeit the account balance to the
- 77 participant's system; and
- 78 (b) charge the employer for the remaining employer contributions due during the
- 79 participant's DROP participation as calculated by the administrator on an actuarial equivalent
- 80 basis.

81 Section 6. Section **49-1-806** is enacted to read:

82 **49-1-806. Interruptions in DROP service.**

83 (1) A DROP participant is not eligible for long-term disability benefits if the participant

84 incurs a disability.

85 (2) The death benefit for a DROP participant is:

- 86 (a) the participant's DROP account balance; and
- 87 (b) the system death benefit for retirees.

88 Section 7. Section **49-1-807** is enacted to read:

89 **49-1-807. Postretirement restrictions.**

90 Upon termination of DROP participation, the participant:  
91 (1) is subject to the reemployment restrictions in Section 49-1-505;  
92 (2) may not accrue additional retirement service credits; and  
93 (3) may not participate in DROP again.  
94 Section 8. Section **49-1-808** is enacted to read:  
95 **49-1-808. Effect of court order.**  
96 A participant's DROP account is subject to division upon a court order with respect to  
97 domestic relations matters in accordance with Section 49-1-609.  
98 Section 9. Section **49-1-809** is enacted to read:  
99 **49-1-809. Limit on benefits.**  
100 Nothing in this part shall allow a participant to receive benefits in excess of those allowed  
101 by the Internal Revenue Code for qualified pension plans.

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**Legislative Review Note**  
**as of 1-30-01 5:12 PM**

A limited legal review of this legislation raises no obvious constitutional or statutory concerns.

**Office of Legislative Research and General Counsel**