

Deferred Retirement Option Programs to Improve Employee Retention

Webinar

April 30, 2025



NATIONAL INSTITUTE ON
Retirement Security

Reliable Research. Sensible Solutions.

Agenda

- Logistics and Introductions
- Presentation
- Q&A



Speakers



Missie O'Neal

Executive Director (acting)

The Educational Employees'
Supplementary Retirement
System of Fairfax County



Kevin Spanier

Principal, Public Sector
Retirement Operations Leader

Gallagher



Tyler Bond

Director of Research

National Institute on
Retirement Security



Deferred Retirement Option Program (DROP) Rollout

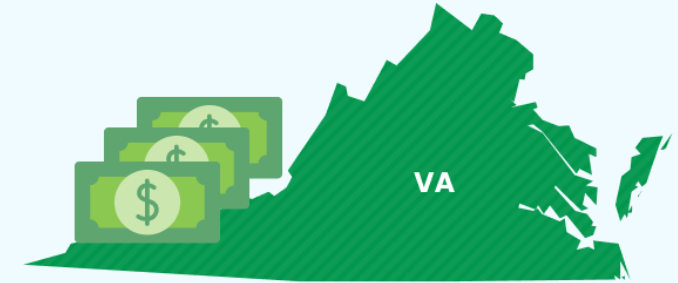
What is ERFC?



- Created on July 1, 1973, to help build **financial retirement security** for Fairfax County Public Schools (FCPS) full-time educational, administrative, and support employees



- Serves more than **43,000 members**



69.1%

of retiree benefits are paid to
Virginia residents

- Key contributor to **Virginia's economy**

What is ERFC?

VRS

(Virginia Retirement System)

ERFC

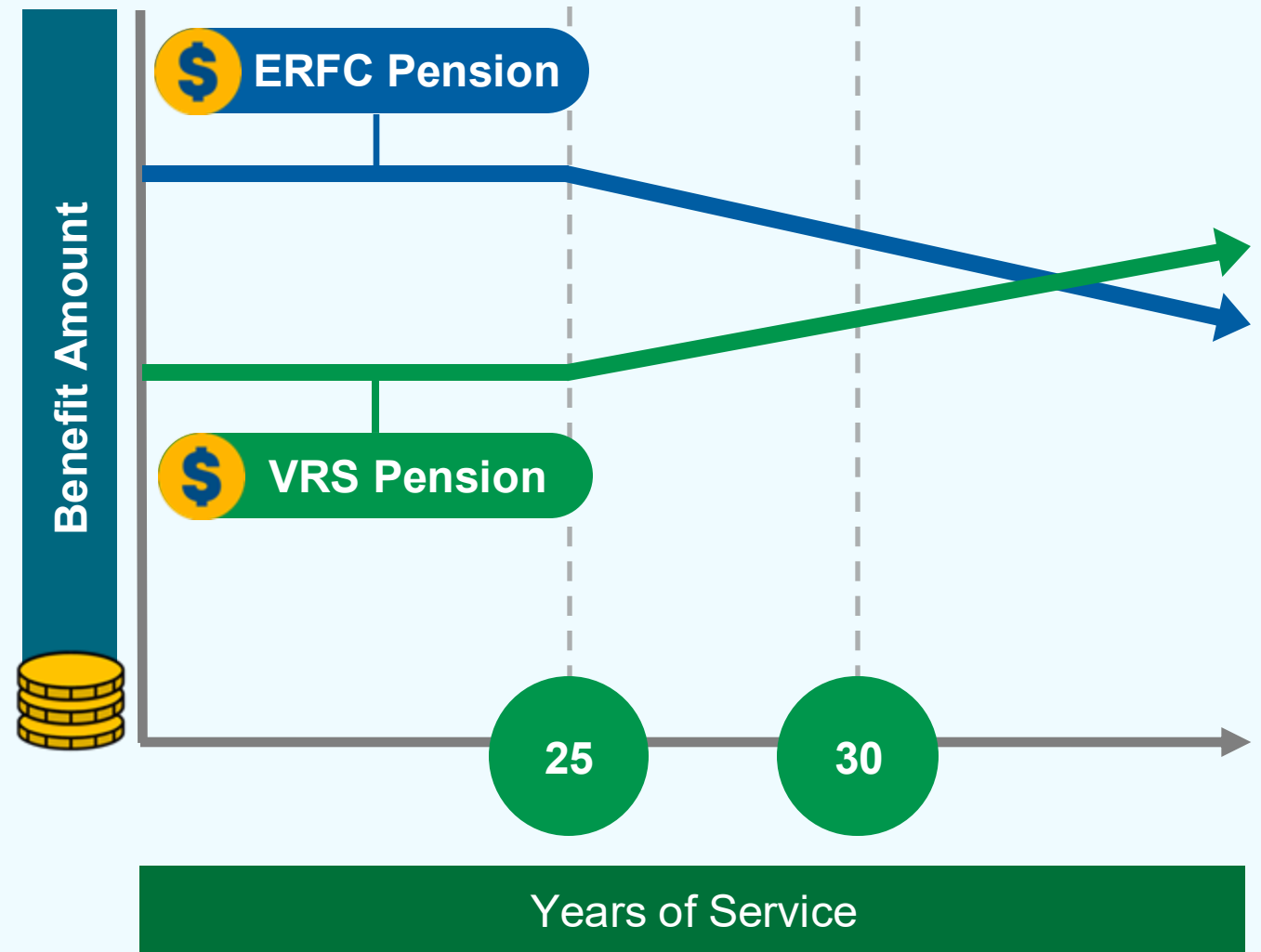
(Educational Employees'
Supplementary Retirement
System of Fairfax County)



Total Pension

Retention Challenge

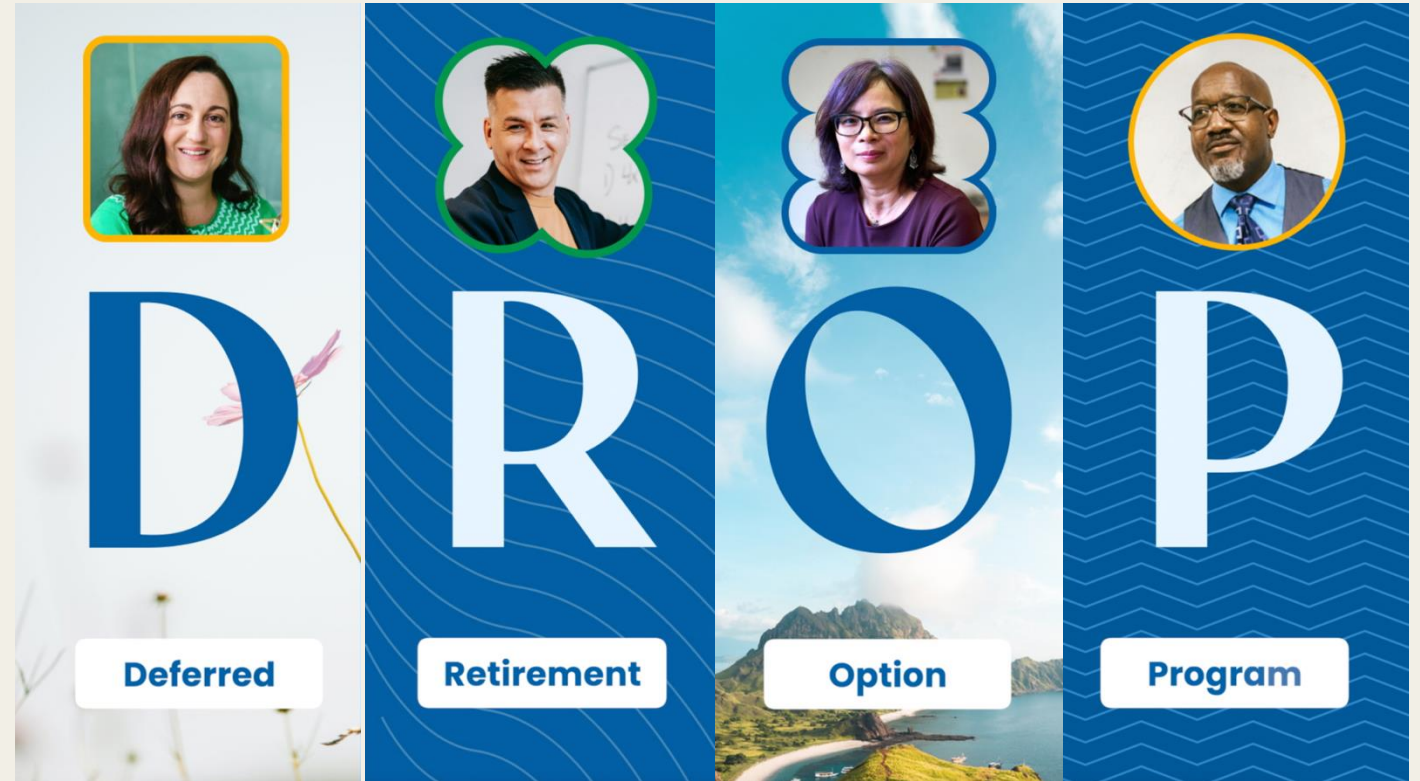
FCPS employees in the ERFC Legacy plan (~2,000 members) were leaving for other Virginia school districts that offer VRS state pension.



Solution

The FCPS Board approved the launch of **DROP**.

ERFC Legacy members who are eligible for an unreduced retirement have the option to retire with ERFC while continuing to work full time for FCPS and receive a salary for a maximum of five years.



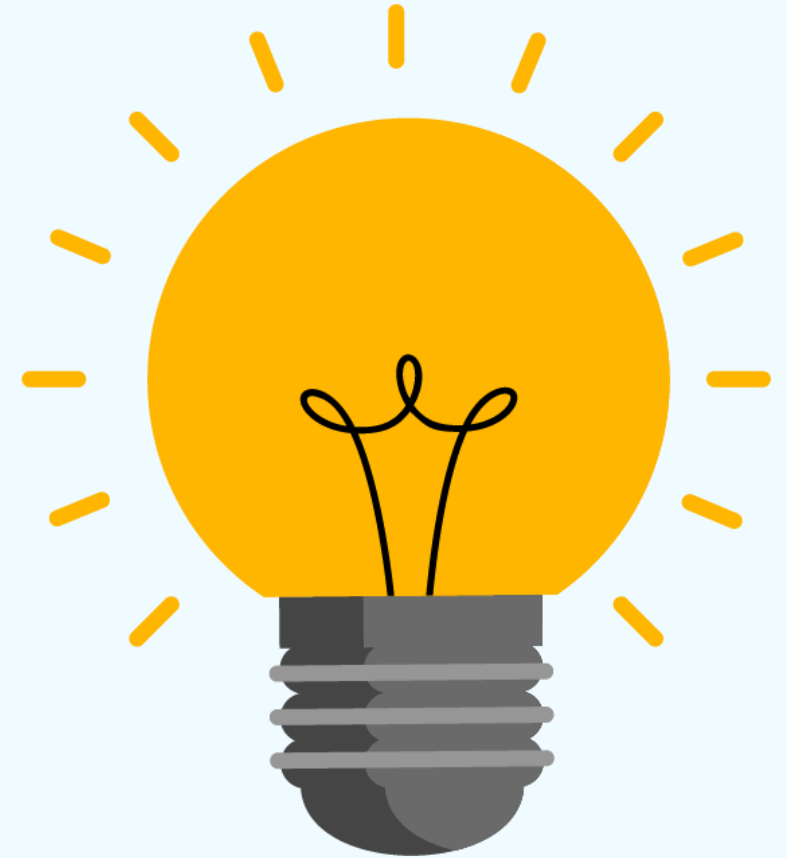
Considerations

- DROP programs are somewhat controversial in the industry.
- In 2020, the Government Financial Officers Association (GFOA) issued an advisory against DROPs:
www.gfoa.org/materials/deferred-retirement-option-plans
- Well-designed and well-managed DROPs can be effective under certain circumstances.



DROP Design Considerations

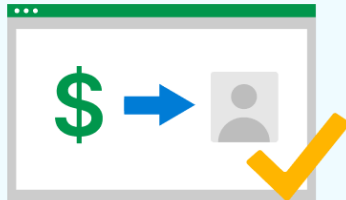
- Who is the program designed for? How long?
- Eligibility requirements (age and service years)
- Timing for retirement election choices
- Maximum DROP length
- How benefits would be accumulated
- COLA impact
- Timing for DROP balance withdrawal



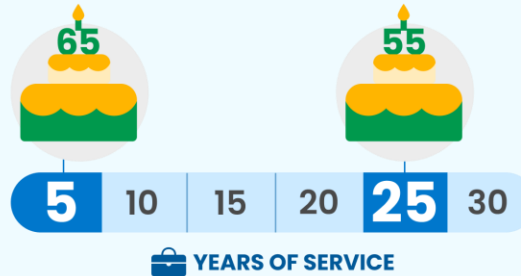
How DROP Works



Optional program



Members make their retirement elections when they enter DROP



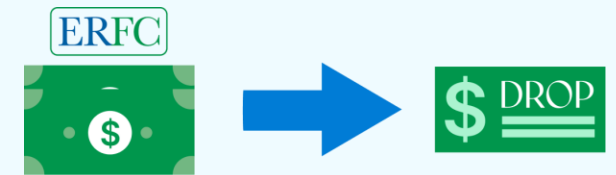
Only open to Legacy members eligible for an unreduced benefit



Pension benefits earn an annual 4% interest rate compounded monthly

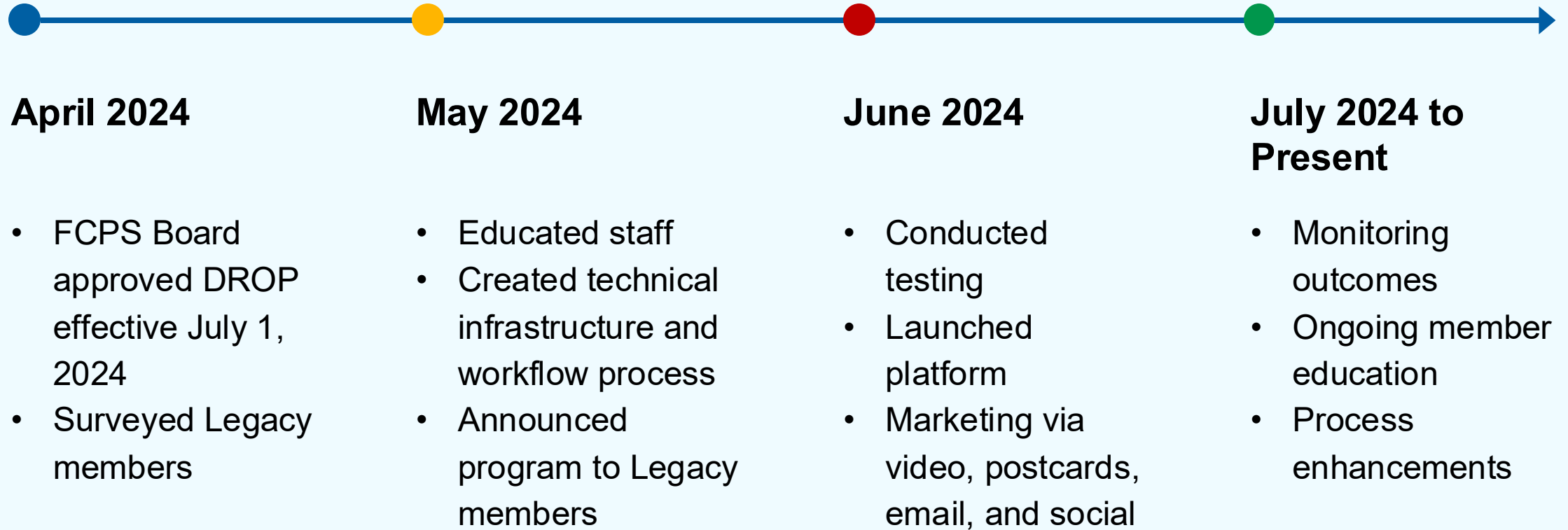


Can exit DROP anytime but must exit after 5 years



Members must receive their DROP account balance upon exiting DROP

Timeline



Collaboration

Legal

ERFC plan updates, regulations, and handbooks



Plan Doc



Regulations



Handbook

IT

Backend infrastructure and technical buildout



Member Services

- Member education
- Timelines
- User experience
- Application processing
- Staff training



Finance

- Payment workflow
- Timelines
- DROP exit processing
- Staff training



Communications

Messaging, marketing & outreach campaigns





D

Deferred



R

Retirement



O

Option



P

Program

Legal

ERFC plan updates, regulations, and handbooks



The Educational Employees' Supplementary
Retirement System of Fairfax County

ERFC
Benefit Plan Structure

As restated effective July 1, 2024

Plan Doc

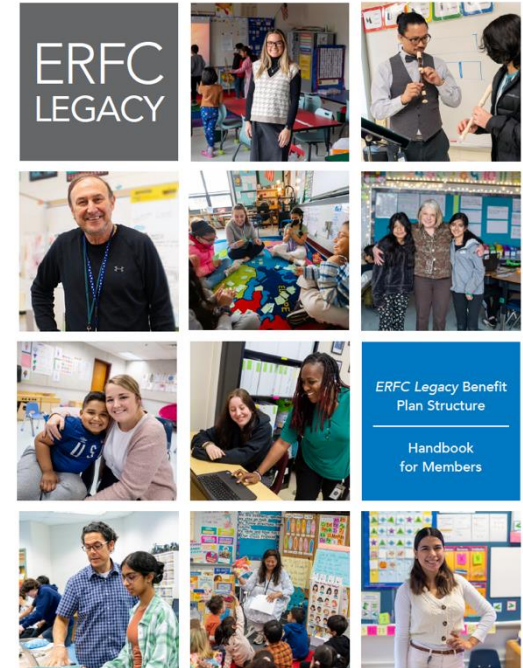


The Educational Employees' Supplementary
Retirement System of Fairfax County

Regulations

As amended through
November 18, 2022

Regulations



Handbook





Member Information

Account Summary

Earnings History

Contact Information

Demographics

Named Beneficiaries

Create Your Own
Estimate

Estimate History

Education

Seminars

DROP Account
Summary

Communications

Create Your Own Estimate

You are not eligible to receive retirement benefits.
Please contact the retirement office for more
information.

Benefit Options

Retirement
✓ DROP

Enter On

Survivor Options

Name

Relationship

3110 Fairview Park Dr., Ste 300
Falls Church, VA 22042-4525
703-428-3600 | erfcpension.org

ERFC

Member Status: Active
John Doe (***-**-2222)

Monthly Benefit Estimate Calculation Summary for:

Created: 4/25/2024 1:28:13 PM Benefit Type: DROP (Service Retirement)
Plan Name: ERFC

Ship Date: 09/2000 Retirement Date: 12/1/2030 Beneficiary Name: Doe, Johnny T
Date of Birth: 11/18/1974 Age at Retirement: 55.00 Beneficiary Date of Birth: 11/5/1974
Social Security: 12/1/2042 Full Social Security Age: 67.00 Beneficiary Age at Retirement: 55.00

DROP Account Estimates

The below displays your DROP account balance at the end of each year of DROP Participation. Also displayed is the total of your ongoing monthly benefit (including cost-of-living adjustments, COLA if applicable) if you were to exit DROP at the end of the respective year.

The computed DROP Account Balance is the accumulation of the monthly DROP benefit, COLA if applicable, and interest earned using the current DROP interest rate. Your DROP account will earn 4% annual interest compounded annually (unless the Board of Trustees adopts a lower rate for a particular fiscal year.) Interest on your DROP account will be applied for full months, not partial months.

DROP Account

Basic Benefit Option - Standard		
Year	DROP Monthly Benefit	DROP Acct Balance
1	\$1,698.72	\$20,746.20
2	\$1,749.69	\$42,866.12
3	\$1,802.18	\$66,509.63
4	\$1,856.25	\$91,756.87
5	\$1,911.94	\$118,691.70

Basic Benefit Option - Level Lifetime		
Year	DROP Monthly Benefit	DROP Acct Balance
1	\$1,092.58	\$13,343.50
2	\$1,125.36	\$27,570.52
3	\$1,159.12	\$42,777.47
4	\$1,193.89	\$59,015.82
5	\$1,229.71	\$76,339.60

Option A: 100% Survivor - Standard		
Year	DROP Monthly Benefit	DROP Acct Balance
1	\$1,443.91	\$17,634.25
2	\$1,487.23	\$36,436.11
3	\$1,531.84	\$56,532.94
4	\$1,577.79	\$77,992.83
5	\$1,625.13	\$100,887.17

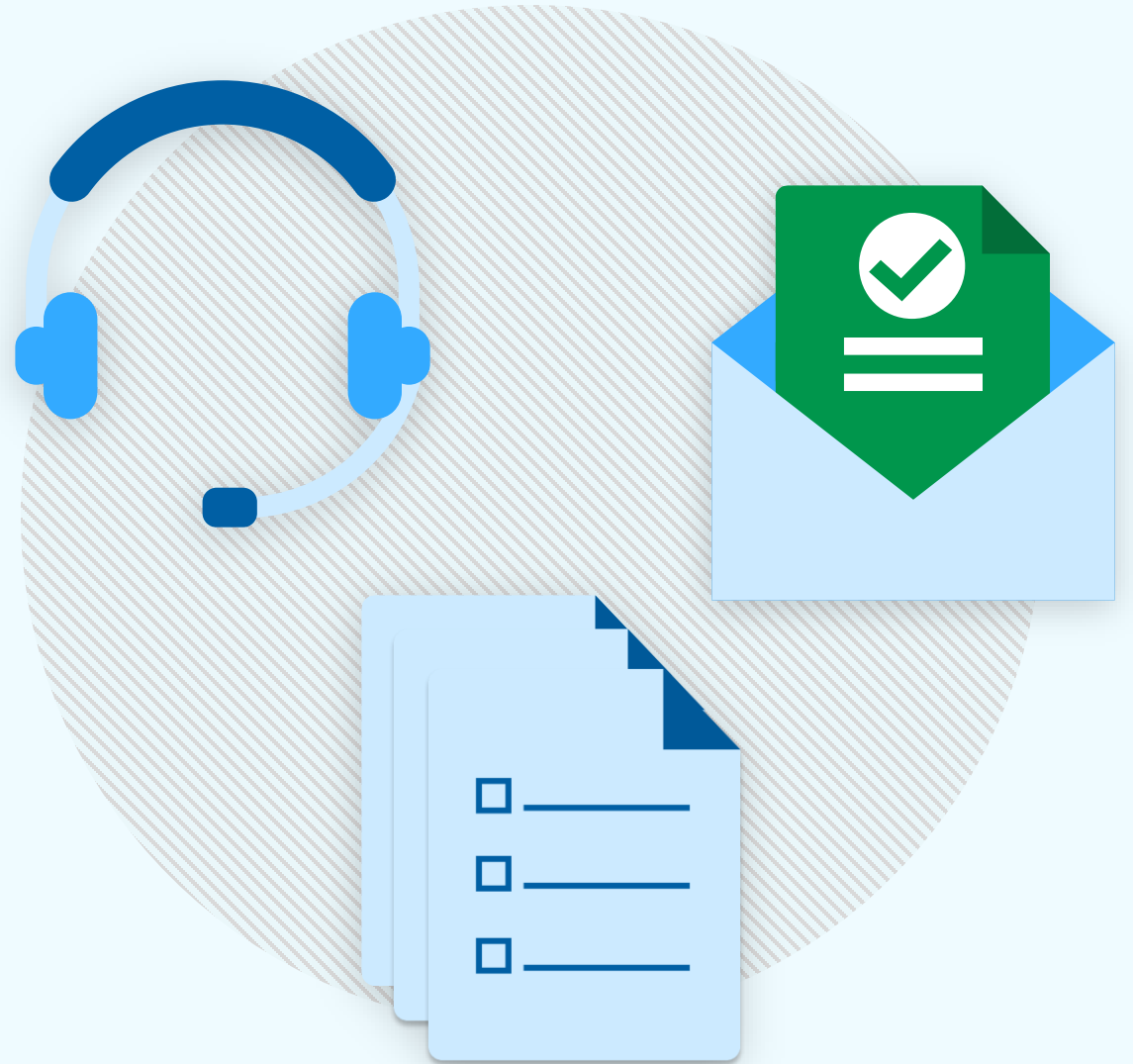
Option A: 100% Survivor - Level Lifetime		
Year	DROP Monthly Benefit	DROP Acct Balance
1	\$928.68	\$11,341.85
2	\$956.54	\$23,434.62
3	\$985.24	\$36,360.35
4	\$1,014.80	\$50,162.85
5	\$1,045.24	\$64,887.91

Option B: 50% Survivor - Standard		
Year	DROP Monthly Benefit	DROP Acct Balance
1	\$1,545.84	\$18,879.09
2	\$1,592.22	\$39,008.25
3	\$1,639.99	\$60,523.90
4	\$1,689.19	\$83,498.91
5	\$1,739.86	\$108,009.57

Option B: 50% Survivor - Level Lifetime		
Year	DROP Monthly Benefit	DROP Acct Balance
1	\$994.25	\$12,142.63
2	\$1,024.08	\$25,089.27
3	\$1,054.80	\$38,927.62
4	\$1,086.44	\$53,704.52
5	\$1,119.03	\$69,469.12

Member Services

- Member education
- Timelines
- User experience
- Application processing
- Staff training

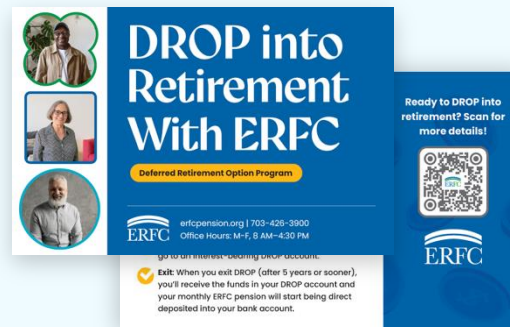
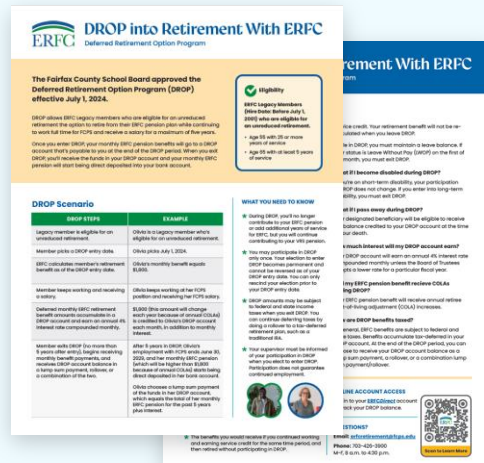
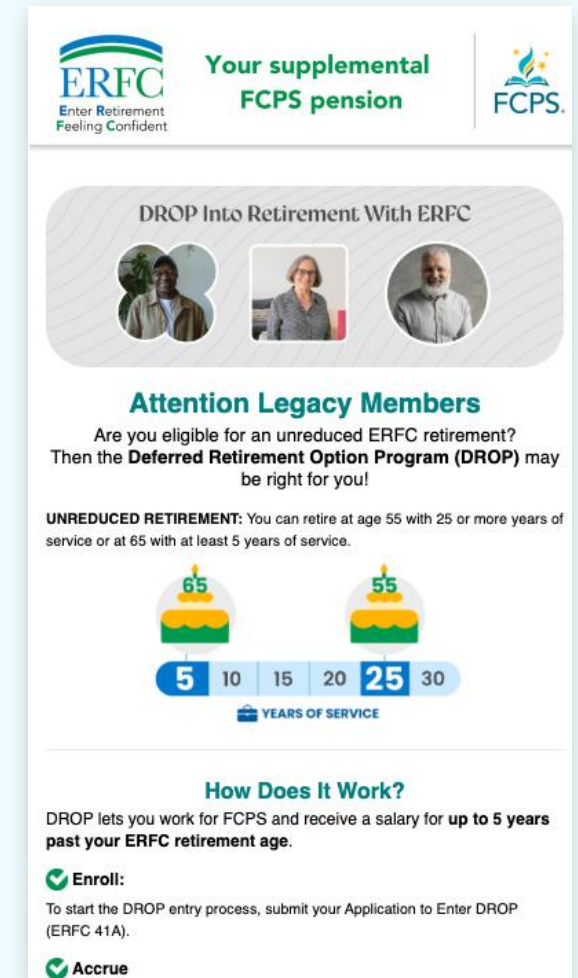
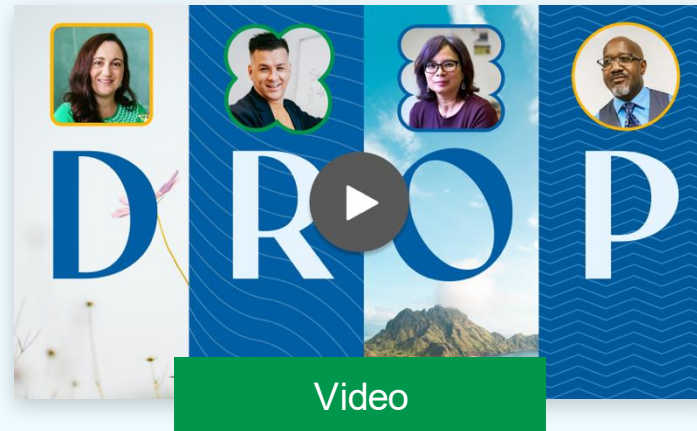
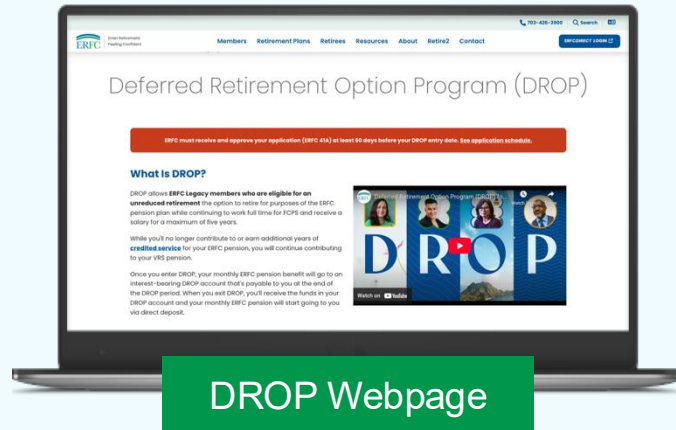


- Payment workflow
- Timelines
- DROP exit processing
- Staff training

An illustration of two overlapping forms, labeled 'VA-4P' and 'W-4P', representing tax forms. The forms are white with black text and lines, set against a background of light blue and white diagonal stripes. The 'VA-4P' form is on the left, and the 'W-4P' form is on the right, partially overlapping the first. Both forms have a header section, followed by several horizontal lines for text, and a grid section at the bottom. The 'VA-4P' form has a grid with 4 columns and 4 rows, while the 'W-4P' form has a grid with 4 columns and 5 rows.

Communications

Messaging, marketing & outreach campaigns



Fact Sheet

Postcard

DROP Slides

Email

Results

July 1, 2024

133 Members Entered DROP

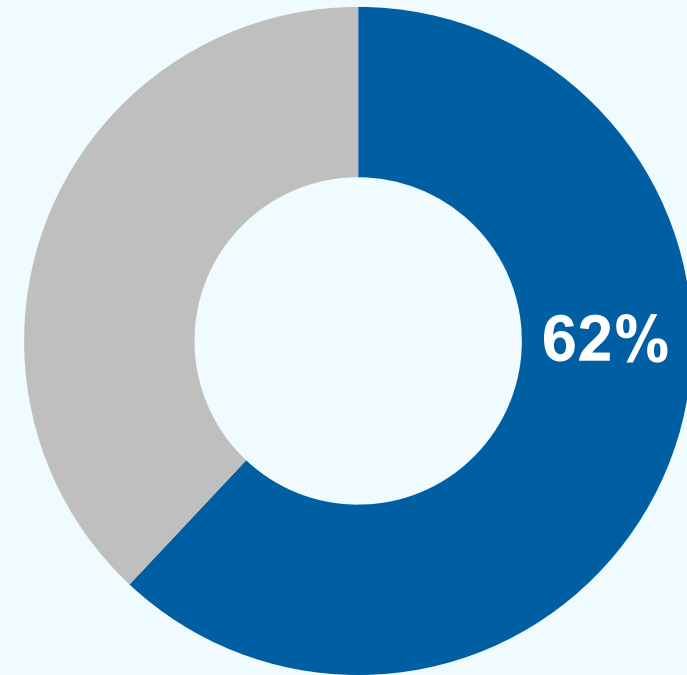
As of March 2025

308 members have entered DROP

June 2025 – September 2025

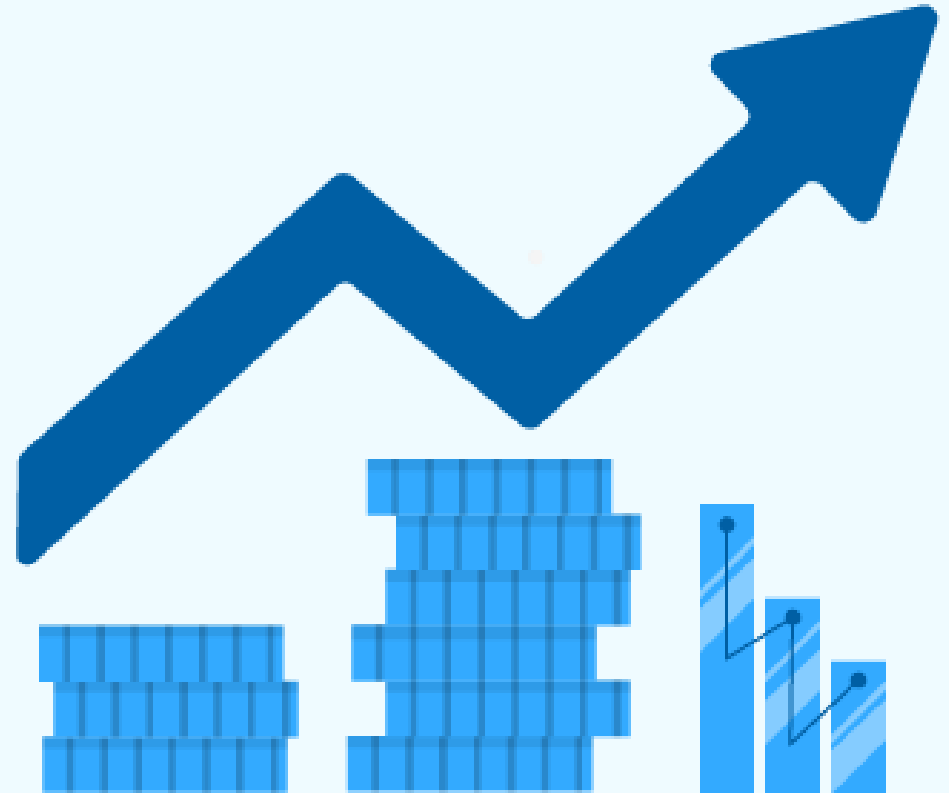
An additional 40 have applied to enter DROP in FY 26

62% of currently eligible members are enrolled in DROP (280 of 445)



Financial Impact

- DROP increased cost and Plan's risk profile
- **Yet, Long Term Benefit**
Cost of replacing these employees outweighed the cost and risk of providing these additional benefits, based on 30-year forecast based on conservative estimates of impact on member behavior.
- DROP is temporary and will phase out over ten years



Lessons Learned

- ✓ Allow adequate preparation period prior to launch (one year minimum).
- ✓ Establish a minimum time frame members must stay in DROP.
- ✓ Clarify reasons for member removal from DROP.
- ✓ Allow more time to build an automated DROP entry and exit process.
- ✓ Build a monthly report to keep the Board of Trustees updated.

Questions

