



## AGENDA MEMORANDUM

*Finance Department*

**City Council Regular Meeting Date: September 8, 2025**

**To:** City Council  
**From:** Steve C. Chaipel, Deputy City Manager/CFO  
**Date:** September 2, 2025

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**SUBJECT:** Deferred Retirement Option (DROP)

**BACKGROUND:** The Deferred Retirement Option Program (DROP) was authorized by the Florida Legislature in 1998 through amendments to Chapter 121, Florida Statutes, which governs the Florida Retirement System (FRS) and sets forth guidelines for how public pension plans operate within the State. Specifically, Section 121.091(13), Florida Statutes, establishes the framework for DROP.

**DISCUSSION:** DROP allows an eligible member who has reached **normal retirement** to formally retire for pension purposes while continuing to work for the same employer for a predetermined maximum period. During this period:

- The member's retirement benefits are calculated and "frozen" as of the DROP entry date.
- The monthly retirement benefits that would normally have been paid to the employee are instead deposited into a DROP "account" while the employee continues to receive their salary from the City. The accounts' assets continue to be held by the Plan's custodian and earn interest according to plan guidelines.
- Upon completion of the DROP period (or earlier), the employee officially separates from service and receives the accumulated DROP balance, in addition to beginning their monthly retirement benefit payments. Both the lump sum DROP payment, and the normal monthly retirement benefits are paid by the retirement plan from the assets accumulated at the custodian for the purpose of paying benefits to retirees.
- Throughout the period defined above, the employee is receiving cash payments from only **one source at a time** – either the City, or the pension plan.

The Florida Legislature designed DROP to provide a predictable window of retirement planning for employees and employers alike. It is commonly used in cities and counties throughout the State of Florida, particularly in public safety and general employee pension plans.

*Sanibel is and shall remain a barrier island sanctuary*

The City of Sanibel maintains two defined benefit pension plans:

1. General Employees' Pension Plan (CLOSED)
2. Police Officers' Pension Plan (ACTIVE)

Both plans currently include DROP provisions consistent with Florida Statutes and approved through the City's adopting ordinances. The availability of DROP has supported the City in retaining experienced employees for critical functions while providing employees with a tool to better plan their retirement transition.

Annually, both plans perform an actuarial review of assets, investment performance, and anticipated expenses (to include benefit payments to retirees). For financial purposes, DROP payments that are made into separate accounts are considered the same as benefit payments that are made in cash to retirees. The City's contributions into each pension plan are actuarially determined on an annual basis. The actuarial analysis includes an estimate of retirement (and therefore benefit payments) that does not distinguish between "normal" retirement and DROP retirement – both are funded from existing plan assets and do not individually affect the City's minimum required contributions.

A participant in the DROP program continues to receive a salary from the City since that individual is still an employee of the City. Likewise, the employee is eligible to receive the standard full-time benefits that all other employees receive (i.e. vacation time) with the exception that since they are in a "retired" status, they cannot contribute to a defined benefit pension plan, nor is their salary earned while in that status used in the calculation of their final retirement benefit.

The DROP program is an established and widely used retirement benefit in the State of Florida. For the City of Sanibel, DROP has been an important tool to provide retirement planning flexibility for employees while offering the City predictability in financial and workforce planning.

**FUNDING SOURCE:** N/A

**RECOMMENDED ACTION:** Discussion only.