

Although it does not appear that most ERS members will receive a benefit that will approach the Code section 415(b) limits, the County should confirm that no member will violate Code section 415(b). If ERS provides a member with benefits in excess of the 415 limits, ERS could lose its tax qualified status. Code § 401(a)(15). Therefore, the County's actuary should confirm that allocating the DROP benefit will not cause a member to violate Code section 415(b).

To demonstrate how the County's proposed FAS increase and back DROP benefit will be affected by the Code section 415 limits, we provide the following illustration. Assume that ~~Mr. Robert Ott~~ ^{an employee} retires from the County in the ^{fall} ~~spring~~ of 2004 with ~~29~~ ^{6 31} years of service. ~~Mr. Ott~~ ^{He} then elects a back DROP date of

^{fall of} June 2002. ^{Assume} His final average salary, calculated as of June 2002, was \$118,000. ^{41 is \$120,000.}

Because he is a pre-1982 employee with service after 2001, ~~Mr. Ott~~ ^{he} receives the benefit of the final average salary increase. He has over three years of service after 2001, so he receives the maximum 25% FAS increase to his final average salary.

After receiving the final average salary increase, his final average salary for purposes of determining his annual pension, would be \$147,500. Therefore, his

annual pension would be \$79,650 ($\$147,500 \times .02 \times 27$). The County would then add two years of benefits, or \$159,300, to Mr. Ott's DROP "account" as his back

DROP benefit, and then credit the account with interest based on a fixed rate of return. ~~Mr. Ott~~ ^{He} would then receive the DROP account in a lump sum payment.

Let's ask!
Can we get 7.5% after DROP date?

MW660470

the employee's

At least some yrs @ 8.1% @ 2.5%
Assume max. (29 yrs)