Glossary

Actuarial Equivalent DROP: Any type of mixed annuity plus lump-sum option that has the same present value as the regular annuity-only benefit. Mathematically this could be thought of as providing a DROP ratio of 100%. Also see definition of PLOP.

Back DROP: The type of DROP where the election is made at the time of retirement (termination of employment) and accumulation of a DROP lump sum is calculated starting at a prior point in time.

Diet DROP: A forward DROP where retirement occurs shortly after the DROP election and only a small portion of the benefit is paid as a lump sum.

DROP Participation Period: The period of time when a participant is accumulating a DROP lump sum and no longer earning a traditional annuity accrual.

DROP ratio: The ratio of the present value of the total DROP benefit to the non-DROP benefit. Both are determined based on salary and service history at time of termination. Where the DROP ratio is greater than 100%, the DROP benefit is more valuable than what the plan would have provided had the DROP not been elected.

"Forward" DROPs: The type of DROP where the election is made prior to the prospective accumulation of a DROP lump sum.

Modified Cash Refund (MCR) Option: A common normal form of payment in a governmental plan in which the annuity is payable for life with a minimum payout equal to the employee contribution made (both pre- and posttax) plus interest at the time of retirement. Should the retiree die before the sum of the annuity payments equals the employee contribution reserve at the time of retirement, the balance is paid in a single sum at time of death.

PLOP: A partial lump-sum option is any one of several options that provide for a reduced annuity in exchange for a partial lump-sum payout (e.g., a refund of employee contributions in exchange for a reduced annuity). Generally the benefit under this option is the actuarial equivalent of the normal form of payment, in which case it would meet the definition of an actuarial equivalent DROP.

Self-Directed DROP: A forward DROP where the DROP account balance is segregated and invested at the direction of the participant.

Sunset Provision: A common legal provision that automatically sets an end to a law (or plan provision) unless extended by future legislation.

Window Benefit: A retirement incentive that only applies if a participant retires within a certain period (window) of time.