CURRAN ACTUARIAL
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Back-DROP Study 2025

Registrars of Voters Employees' Retirement System

CURRAN ACTUARIAL CONSULTING, LTD.

September 5, 2025

Board of Trustees
Registrars of Voters Employees' Retirement System
P.O. Box 1959
Gonzales, Louisiana 70707

Ladies and Gentlemen:

We are pleased to present this report on the expected cost of potential legislation. This study seeks to quantify the potential employer and administrative costs should the Louisiana Legislature enact legislation repealing the DROP provisions applicable to members and replace them with provisions of a Back-DROP.

Louisiana currently has four public retirement systems with Back-DROP provisions. This report will discuss the different design options and provide a comparison to the traditional DROP. Additionally, the report will discuss the approach used to price the expected impact of a Back-DROP and describe the results of the study.

The actuarial calculations within this report were performed based upon the plan's assumptions effective with the most recently completed actuarial valuation report (the June 30, 2024 actuarial valuation). Although the Board recently received a 2025 experience study with proposed updates to assumptions, this study was begun before the completion of the experience study and calculations are not made on recommended 2025 assumptions. We do not believe that the use of updated assumptions would materially impact the conclusions of this study.

This report was prepared at the request of the Board of Trustees of the Registrars of Voters Employees' Retirement System. It was prepared exclusively for the Registrars of Voters Employees' Retirement System for a specific limited purpose and is not for the use or benefit of any third party for any purpose.

Sincerely,

CURRAN ACTUARIAL CONSULTING, LTD.

By: _____
Gregory Curran, F.C.A., M.A.A.A., A.S.A.
Senior Consulting Actuary

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Understanding the Current Traditional DROP

To understand the possibility of changing from a traditional DROP to a Back-DROP, we begin by looking at the current plan population.

The census of members and former members as of June 30, 2024:

CATEGORY	COUNT AS OF JUNE 30, 2024
Active pre-DROP participants	215
Active post-DROP participants	12
DROP participants	12
Regular Retirees	154
Disability Retirees	2
Survivors	33
Terminated former members	52

A review of the most recent ten-year period finds that 17 members retired without entering the DROP while 63 members elected to enter the DROP prior to retirement. This shows us that a majority of members want to build a lump sum as a part of their retirement. The use of traditional DROP to build a lump sum comes with a concern that a member may elect to enter DROP at a point where they do not optimize their lifetime benefit. Often, the fact that a DROP participant elects to remain employed after completing DROP indicates that they have not elected the most advantageous point to enter DROP. Because the entry into DROP freezes both the service credit and final average compensation that are used to determine the lifetime monthly benefit for the pre-DROP period, entering too early generally results in a lower lifetime monthly benefit than entering at the end of the career.

The most basic advantage of Back-DROP relates to the requirement in the current DROP statutes that a member must make an irrevocable decision related to the calculation of benefits before there is certainty surrounding their final date of retirement. Back-DROP can be designed such that it essentially replicates the traditional DROP while allowing members to make irrevocable elections only when they have made the decision to finally end employment and retire.

The following section enumerates the advantages and disadvantages of Back-DROP when compared to the current DROP provisions.

Advantages and Disadvantages of Back-DROP to Traditional DROP

Typical Back-DROP advantages over traditional DROP:

1. The member gets to wait until he/she is finally retiring to make irrevocable decisions about retirement or Back-DROP. The member can compare a few Back-DROP scenarios to the regular retirement scenario to understand all of their options.

2. The member knows all their salaries when making the retirement versus Back-DROP decision (allows members to better optimize their final average compensation (FAC) within their final election). Each scenario run will likely use a different FAC.

3. Members know more about their health and their spouse's health at the time of retirement than years before (such as at DROP entry). This additional information allows members to make more optimal decisions about optional form under Back-DROP.

4. Back-DROP results in a larger lump sum even if the member would have entered DROP 36 months prior to their actual retirement. This is true because with Back-DROP the lump sum is determined based on the maximum benefit level. The use of the maximum benefit level occurs because there is no need to provide optional coverage for the spouse during the "Back-DROP period" since the decision is made after completion of that period.

Disadvantages of Back-DROP

1. Employees contribute until retirement, so employee contributions are made during the "Back-DROP period". This differs with traditional DROP where employees seldom contribute once entering DROP.

2. Because members are likely to make decisions that are better for them, the cost of providing benefits under Back-DROP is higher than under a traditional DROP.

Advantages and disadvantages can differ when looking at the two forms of benefit from the employer's perspective versus the member's perspective. The advantages to Back-DROP provide members with the ability to better optimize their benefits. By the very nature of the ROVERS' funding policy, if an employee makes decisions that increase the present value of the future benefits that they will receive, the employers that fund ROVERS are expected to pay a larger amount to guarantee actuarial funding. Since not all Back-DROP provisions are the same, there are some design decisions that can impact the ultimate cost of Back-DROP. In the next section, these design choices are laid out with information related to other Louisiana systems and their design.

Key Back-DROP Design Choices

Key Design Decision #1 - Maximum Back-DROP period

a. The current maximum DROP period for ROVERS is 36 months.
b. LARF (Louisiana Assessors' Retirement Fund) has a maximum Back-DROP period of 36 months.
c. DARS (District Attorneys' Retirement System) has a maximum Back-DROP period of 36 months.
d. LSPRF (Louisiana Sheriffs' Pension & Relief Fund) has a maximum Back-DROP period of 36 months for those who retire with fewer than 30 years of service and 48 months for those who retire with at least 30 years of service.
e. LSPRS (Louisiana State Police Retirement System) has a maximum Back-DROP period of 36.

Instruction for the Study – Study a 36-month maximum Back-DROP period

Key Design Decision #2 - Do you refund employee contributions during the implied "Back-DROP period"

a. Currently, members do not make employee contributions during the DROP period.
b. Refunding employee contributions during the implied "Back-DROP period" would simulate a DROP done in reverse but it has a higher cost.
c. Not refunding employee contributions can help offset the cost of Back-DROP.
d. LARF and DARS do not refund employee contributions made during the implied "Back-DROP period"; LSPRF and LSPRS do refund such employee contributions.

Instruction for the Study – Study with no refund of employee contributions during the Back-DROP period.

Key Design Decision #3 - Do you allow current DROP members to rescind their DROP election and return to active membership with the right to retire under Back-DROP?

a. Allowing rescission adds cost (actuarial cost; software programming cost to update the retirement program; and administrative cost to re-calculate benefits and administer the changes).
b. The actuarial cost can be significant as those who made a poor decision to enter DROP will benefit from the ability to make a new election.
c. If rescission is allowed, do you allow a change in the optional selection made when the member elected to enter DROP? Allowing a new option selection without

charging the member for the change would ignore the cost of coverage. Had the member died, the beneficiary would be receiving a lifetime benefit.

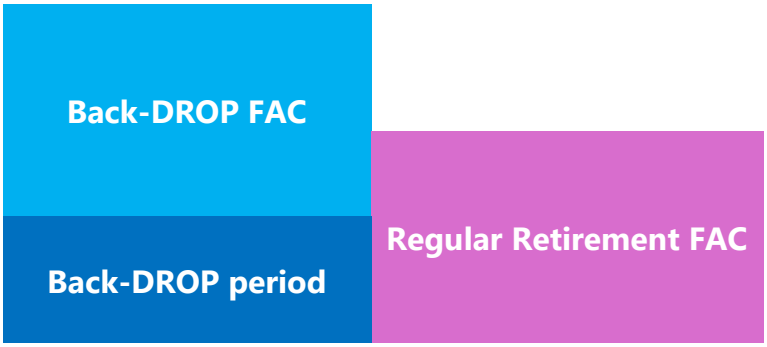
d. Rescission that allows a member to make a new option selection will lead to anti-selection where a member with new information on his/her health along with that of their chosen beneficiary can increase the cost of their benefits.
e. Allowing a change in optional beneficiary may diminish the benefits owed to the original beneficiary. This could lead to community property issues in case of divorce since that initial election. In such a case, the Board may need some protection in place where a former spouse is involved and does not consent to such a change.

Instruction for the Study – Study to include allowing members who are in DROP and members who completed DROP and remained employed to rescind DROP. Such members would be required to repay employee contributions (with or without interest) during their DROP period in the form of a lump sum. The study should assume no change in option or option beneficiary selected at DROP entry.

Back-DROP Illustration

The following is a very simplified comparison example assuming a date of retirement of January 1, 2025, with 20 years of service and the following salary history:

Year	Annual Salaries
2005	$ 36,000.00
2006	$ 38,000.00
2007	$ 39,950.00
2008	$ 41,500.00
2009	$ 43,000.00
2010	$ 45,000.00
2011	$ 48,000.00
2012	$ 50,000.00
2013	$ 51,000.00
2014	$ 53,000.00
2015	$ 55,000.00
2016	$ 58,000.00
2017	$ 60,500.00
2018	$ 62,400.00
2019	$ 65,000.00
2020	$ 67,000.00
2021	$ 69,000.00
2022	$ 71,750.00
2023	$ 75,000.00
2024	$ 78,000.00



With a maximum Back-DROP period of 36 months and a Final Average Compensation period of 60 months, under the 36-month Back-DROP the salaries for the most recent three years (or 36 months) are excluded from the calculation of monthly benefits. This generally results in lower Final Average Compensation under the Back-DROP than normal retirement. Additionally, the amount of service credit to be used in the Back-DROP calculation will be reduced by the specified Back-DROP period, also generally lowering the monthly benefit.

The question for the member is whether a larger monthly benefit is more important (or perceived as more valuable) than a lump sum. In making the final decision about normal retirement or Back-DROP, members must consider the tax implications of a lump sum, must consider their age and service credit at the date of their desired retirement (which decides the maximum Back-DROP period), must consider their health expectations in deciding between lifetime benefits and lump sums, and must consider their monthly income needs versus the desire to have a lump sum for near term purchases.

Back-DROP Benefit

36- Month Back-DROP period: January 1, 2022-December 31, 2024

	Monthly FAC
2017	$ 60,500.00
2018	$ 62,400.00
2019	$ 65,000.00
2020	$ 67,000.00
2021	$ 69,000.00
Total Salary =	$ 323,900.00
Annual FAC =	$ 64,780.00
Monthly FAC =	$ 5,398.33

Maximum Benefit = 17 yrs of service * 3.33333% accrual rate * FAC = $ 3,059.05

Back DROP lump sum:
# of months of Back-DROP * maximum Back-DROP benefit = $ 110,125.80

Regular Retirement Benefit:

	Monthly FAC
2020	$ 67,000.00
2021	$ 69,000.00
2022	$ 71,750.00
2023	$ 75,000.00
2024	$ 78,000.00
Total Salary =	$ 360,750.00
Annual FAC =	$ 72,150.00
Monthly FAC =	$ 6,012.50

Maximum Benefit = 20 yrs of service × 3.33333% accrual rate × FAC = $ 4,008.33

No Back-DROP Lump Sum

Back-DROP Benefit

36- Month Back-DROP period: January 1, 2022-December 31, 2024

	Monthly FAC
2017	$ 60,500.00
2018	$ 62,400.00
2019	$ 65,000.00
2020	$ 67,000.00
2021	$ 69,000.00
Total Salary =	$ 323,900.00
Annual FAC =	$ 64,780.00
Monthly FAC =	$ 5,398.33

Maximum Benefit=30 yrs of service * 3.33333% accrual rate * FAC = $ 5,398.33

Back DROP lump sum:
# of months of Back-DROP * maximum Back-DROP benefit = $ 194,339.88

Regular Retirement Benefit:

	Monthly FAC
2020	$ 67,000.00
2021	$ 69,000.00
2022	$ 71,750.00
2023	$ 75,000.00
2024	$ 78,000.00
Total Salary =	$ 360,750.00
Annual FAC =	$ 72,150.00
Monthly FAC =	$ 6,012.50

Maximum Benefit = 33 yrs of service * 3.33333% accrual rate * FAC = $ 6,012.50
(capped at 100% of FAC)

No Back-DROP Lump Sum

Cost of a Prospective Back-DROP Change

A change from DROP to Back-DROP requires a change in the actuarial valuation model. The current model directly considers the probability of retiring under the DROP provisions separately from the probability of retiring under the normal retirement provisions. Those who elect DROP are valued based on the expected receipt of a deferred annuity benefit and the accumulation of a lump sum during their DROP participation period. Additionally, the current model assumes that some DROP participants will retire at the end of the maximum DROP period and others will continue to work (further deferring payments). Back-DROP will work differently. Because members will be presented with Back-DROP and normal retirement benefit calculations at the time they leave employment, members will be expected to compare all of their options and make the decision that provides them with the most valuable mix of lifetime benefit and lump sum. Therefore, Back-DROP would require an update to the actuarial valuation model to recognize that members will receive a choice regarding the form of their retirement. To account for this choice, our updated model would calculate the present value of future benefits for all applicable elections (from normal retirement, 1 year Back-DROP, 2 year Back-DROP, and 3 year Back-DROP) and select the most valuable form.

A change to Back-DROP would also require a change to the retirement rate assumption. The model would no longer rely on DROP entry rates, but the retirement rates would account for all retirements (normal and Back-DROP). At the time the statutes are changed to incorporate Back-DROP, the system will have no data on the impact of such a change on retirement patterns. For this reason, we would look to retirement and DROP entry rates to help us develop a single set of retirement rates.

The setting of initial retirement rate assumptions for a new benefit like Back-DROP requires the system's actuary to use his/her professional judgment. Because the most valuable point to retire as a member of a system with a Back-DROP is often at the point that a member first reaches eligibility for the maximum Back-DROP period, we have in part focused our testing on increasing non-DROP retirement rates by incorporating a DROP specific rate beginning at the point that members reach eligibility for the maximum Back-DROP period. To better understand this, please consider the following examples (based on the below chart of current rates):

Attained Age	Current DROP Entry Rate	Current Non-DROP Retirement Rate
55	0.35	0.05
56	0.15	0.05
57	0.15	0.05
58	0.15	0.05
59	0.15	0.05
60	0.15	0.05

To set the applicable total retirement rate for a member who will be first eligible to retire at age 55, we used the age 55 non-DROP retirement rate of 0.05 from the table above. When that individual reaches age 58 and is first eligible for the maximum Back-DROP period, we add the age 55 Current DROP Entry Rate to the age 58 Current Non-DROP Retirement Rate to set a total age 58 retirement rate of 0.40. This means that a 58 year old who was first eligible for retirement at 55 would have the 0.40 total retirement rate, but does not imply that every 58 year old would share that probability of retirement.

In contrast, a 58 year old who was first eligible to retire at age 57 would have a total retirement rate of 0.05 at age 58. They would reach their first eligibility for the maximum Back-DROP period at age 60 and their age 60 total retirement rate would equal the 0.05 Non-DROP Retirement Rate for age 60 plus the DROP Entry Rate of 0.15 applicable at age 57. Therefore, the total retirement rate at age 60 for this individual would equal 0.20.

Based on this approach to resetting the total retirement rates, we find that the employer's normal cost accrual rate would increase by approximately 5.3%. Following this modeling, additional tests were performed. The different tests surrounded alternative approaches to setting appropriate total retirement rate assumptions for this potential new form of benefit. In each alternative test, the potential impact was materially different. Cost estimates from alternative tests found cost increases as low as 3.9% and as high as 7.4%. These tests demonstrate how important the pattern of retirement will be in determining the long-term cost of providing a Back-DROP. For a small plan like ROVERS, a change in retirement patterns can have a more pronounced impact than in larger plans. Since Back-DROP provides members with a greater chance to maximize the value of the benefit package they receive, the Board must consider the possibility of costs toward the higher end of our estimates.

One extenuating circumstance that could be amplifying the cost of these benefits in ROVERS is the amount of leave available for conversion. Significant leave available for conversion to creditable service can lead more members to find a greater value benefit package with Back-DROP because Back-DROP will be most valuable in cases where a member accrues more than 100% of FAC. This occurs because the Back-DROP essentially allows members to overcome some of the system's capping rules. This phenomenon existed with DROP, but history shows that many members entered DROP at an inopportune point in their career. Those decisions helped offset the ultimate cost of DROP.

It will take the retirement system many years to collect sufficient data on actual retirement patterns to properly set retirement rates and determine the appropriate long-term costs. Until such time as sufficient data exists to properly realign the retirement rate assumption, the system can expect larger experience gains and losses arising from the potential of material differences between the initial assumptions and actual experience.

The mixture of a service only rule (30 years at any age) with age and service rules adds additional complication in setting retirement assumptions. For instance, under the 30 years at any age rule it might be highly likely that a member who has accumulated in excess of 30 years and is age 60 would elect to retire. In contrast, a member who joined ROVERS at age 50 will be eligible to retire at age 60 but may be significantly less likely to do so given their minimal accrual. This makes the current age-based rate setting approach more difficult, but small plans like ROVERS lack sufficient data to truly set age and service rates based directly on data. Any attempt to complicate the assumption to account for differences between the retirement patterns related to the different eligibility rules requires a significant amount of professional judgment. Only after many years of data collection (likely more than a couple of experience studies into the future) can the system truly test the initial set of assumptions.

Impact of Allowing Rescission of DROP

Discussions about the prospective legislation included the possibility of allowing current DROP participants and active former DROP participants to elect to rescind their prior DROP decision. Such a change is expected to increase plan costs since members who remain employed after completing DROP often fail to optimize their benefits. To frame the potential cost impact, we have made projections based on every DROP participant and active former DROP participant identified in mid-June. Although this group will not all elect to remain employed through the passage of a potential bill, we expect the group to provide a reasonable approximation to the impact of the group that will eventually be affected.

Our testing involved projecting the salaries and service credit for this sample group through December 31, 2026 based on a presumed effective date of potential legislation. Our approach tested the value of DROP and post-DROP benefit elections previously made by these members against the value of rescinding DROP and retiring under the most valuable form of benefit (out of a normal retirement, 1 year Back-DROP, 2 year Back-DROP, and 3 year Back-DROP) effective January 1, 2027. The requirement that members who rescind must pay back the employee contributions from their DROP period offset the overall cost.

Out of the 19 individuals tested, we found that 14 would experience an increase in value after rescinding DROP and electing to retire based on their most valuable tested form of benefits. Within this group of 14, the impact is heavily skewed. The 3 individuals with the highest potential cost impact represent approximately 70% of the total for all 14. Not surprisingly, these 3 individuals have remained employed for many years after completing DROP. The sum of the estimated costs associated with these 14 cases is $956,146. By not offsetting this total cost for the estimated savings from the other 5, we are presuming that such members for whom rescission may not be an optimal choice will not elect to rescind DROP.

If all members who elect to rescind DROP do so in a single fiscal year, the $956,146 in one time additional cost will result in an experience loss and would be expected to increase the system's employer normal cost accrual rate by approximately 0.7%.

This study presumes that members who rescind DROP will not be allowed to change their option beneficiary or the optional form of benefit originally elected at DROP entry when they finally elect to retire. Allowing such a change would increase the potential cost impact.

We find that the system's current statutes on post-DROP final average compensation can have a material impact on these comparisons. ROVERS is the only state or statewide retirement system that allows a recomputation of final average compensation in cases where a member remains employed after DROP for less than the FAC averaging period. This can result in a significant increase in the cap on the post-DROP benefit which will not exist under Back-DROP and can amplify the value of the post-DROP benefit. The combination of this and large leave balances can cause particular situations where the mixture of DROP and post-DROP exceed the value of a Back-DROP.

Administrative Cost of Back-DROP

Changing from a prospective DROP to a Back-DROP will also require significant administrative costs. Some of these costs are one-time amounts and others will occur on a continuing basis. Based on the amounts described below, we estimate approximately $50,000 in one-time costs (or approximately 0.33% of payroll) and an additional $3,000 per year (or 0.02% of payroll) in benefit calculation services within the actuarial contract. The ultimate cost could certainly exceed these rough estimates.

Expected one-time costs:

- Legal costs for bill design and working with legislative staff – We don't have the ability to properly determine these costs, but for the purpose of this study have used $5,000 as an estimate)
- Actuarial study of the costs of the potential change - $15,000
- Software update to allow proper processing of Back-DROP and rescission of past DROP decisions. The cost of making the many updates to the system's database software package will be determined based on the actuarial contract's hourly rates. We have included a list of known updates at the end of this section and have attempted to estimate the time needed to complete these changes. Our best estimate is around $20,000 given the complexity of the redesign.
- Administrative costs of recalculating benefits for those who rescind DROP and elect a new retirement with or without Back-DROP. (Estimated at $10,000 in total)

Expected ongoing costs:

- Increased administrative costs for the computation of future benefits where members may request multiple Back-DROP scenarios in addition to the normal retirement calculation. With Back-DROP, every future benefit calculation will be significantly more complicated. Many will request multiple Back-DROP scenarios along with their normal retirement calculation. The computation of retirement benefits is contained within the actuarial contract. The annual cost will increase under Back-DROP. We estimate an increase of approximately $3,000 per year.

Summary of software update to allow future retirees to elect Back-DROP:

1. Remove the ability to select DROP as the form of benefit in the future
2. Add a new status for use in the status history section of the member's record for those who elect Back-DROP
3. Update the retirement batch processing program to include members who elect Back-DROP
4. Remove the DROP Accrual Batch from the main menu options
5. Update standard reports to allow for Back-DROP
6. Update Change Member Status program to show Back-DROP in Status History on main page
7. Update program to allow Back-DROP accrual for the lump sum amount to be added to the member's transactions
8. Update program to show the Back-DROP balance on the main summary screen
9. Update the Retirement Information section of the program to allow for Back-DROP and to not allow DROP after the date of the statutory change
10. Update the annual export program for actuarial valuation to provide a retirement record for anyone coded as Back-DROP
11. Update program to allow rollover or payment of Back-DROP lump sum by adjusting the Create Posting program which allows individual transactions.

Software updates needed to allow rescission of DROP:

1. Add a new status to record the rescission of DROP in the status history section of the member's record for those who rescind DROP
2. Update programs to allow posting of employee contributions during DROP period for those rescinding DROP if payment is required. Create a new Transaction Type showing the retro payment.

3. Update programs to remove benefit selection information in Retirement Information section, Benefit Breakdown section, and Payee Information section of record if rescission is selected.
4. Create program to remove DROP Accruals on records where rescission is selected. Offset DROP Lump Sum Payment in Member's Transactions.
5. Update Change Log if rescission is selected, including noting all above changes by date.