

DAVIES WEALTH MANAGEMENT

The Complete Guide to **DROP** **Retirement** in Florida

What every FRS employee needs to know about the Deferred Retirement Option Program — timing, rollovers, taxes, and the decisions that can make or break your retirement.

Davies Wealth Management

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What's Inside This Guide

A clear, comprehensive resource for Florida public employees considering, entering, or exiting the Deferred Retirement Option Program — written by a fee-only fiduciary advisor with no products to sell.

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WHO THIS GUIDE IS FOR

FRS Pension Plan members approaching retirement eligibility, employees currently in DROP, and anyone who has recently exited DROP and needs a rollover strategy. Covers Regular Class, Special Risk Class (law enforcement, firefighters), and instructional personnel (teachers).

What Is DROP and How Does It Work?

The **Deferred Retirement Option Program (DROP)** is a benefit available to members of the Florida Retirement System (FRS) Pension Plan. It allows eligible public employees to "retire" on paper while continuing to work — and their monthly pension benefits accumulate in a tax-deferred DROP account instead of being paid out.

When you enter DROP, your retirement benefit is calculated and locked in based on your years of service, average final compensation, and membership class. Each month, that benefit is deposited into your DROP account where it earns interest. Meanwhile, you continue working, earning your regular salary, and building a significant lump sum.

At the end of your DROP period (or when you terminate employment), you receive the accumulated balance and begin receiving your monthly pension payments directly.

4.0%

ANNUAL INTEREST RATE

96 Mo.

MAXIMUM DROP PERIOD

\$0

COST TO PARTICIPATE

Eligibility Requirements

DROP is available only to FRS **Pension Plan** members who have reached normal retirement eligibility. Eligibility rules differ based on when you were first hired into an FRS-covered position.

CRITERIA	HIRED BEFORE JULY 1, 2011	HIRED ON OR AFTER JULY 1, 2011
Regular Class — Age + Service	Age 62 with 6+ years of service	Age 65 with 8+ years of service
Regular Class — Service Only	30 years of service (any age)	33 years of service (any age)
Special Risk — Age + Service	Age 55 with 6+ years of Special Risk service	Age 60 with 8+ years of Special Risk service
Special Risk — Service Only	25 years of Special Risk service (any age)	30 years of Special Risk service (any age)
Maximum DROP Period	96 months (8 years); 120 months for instructional personnel	96 months (8 years); 120 months for instructional personnel
Investment Plan Members	Not eligible for DROP — Pension Plan members only	

KEY INSIGHT

If you are approaching eligibility but your salary is still increasing, it may be worth waiting to enter DROP until your Average Final Compensation (AFC) is maximized. Once you enter DROP, your pension benefit is frozen — no additional service credit accrues, and salary increases no longer improve your pension calculation.

The DROP Interest Rate and Your Accumulation

Your DROP account earns interest each month on the accumulated balance. Understanding how this interest works — and how it compares to other options — is critical to making informed decisions.

Current DROP Interest Rate

As of July 1, 2023, the annual DROP interest rate is **4.0%**, compounded monthly. This rate was established by Florida legislation (SB7024) and represents a significant increase from the previous 1.3% rate that had been in effect since 2012.

How Your DROP Balance Grows

Your DROP accumulation consists of two components:

1. **Monthly pension deposits** — Your calculated pension benefit is deposited each month
2. **Interest earnings** — 4.0% annual interest compounded monthly on the growing balance

Example DROP Accumulation

The following table illustrates how a DROP balance grows for an employee with a \$4,000/month pension benefit:

YEAR IN DROP	PENSION DEPOSITS (CUMULATIVE)	INTEREST EARNED (CUMULATIVE)	TOTAL DROP BALANCE
Year 1	\$48,000	\$1,050	\$49,050
Year 2	\$96,000	\$4,030	\$100,030
Year 3	\$144,000	\$9,020	\$153,020
Year 5	\$240,000	\$25,340	\$265,340
Year 8 (max)	\$384,000	\$66,620	\$450,620

Illustrative example only. Actual accumulation depends on your pension benefit amount. Interest calculated at 4.0% compounded monthly.

THE 4.0% RATE IN CONTEXT

The DROP interest rate is guaranteed regardless of market conditions — you cannot lose principal. In periods of market volatility, this guarantee is valuable. However, in strong equity markets, 4.0% may underperform a diversified portfolio. Consider: the S&P 500 has averaged roughly 10% annually over the long term, but with significant year-to-year variability and drawdown risk that a guaranteed 4.0% avoids entirely.

Important Notes About DROP Interest

- The interest rate is set by the Florida Legislature and can change for future DROP participants
- Interest accrues monthly but is typically credited to your account quarterly
- After you terminate employment, interest continues to accrue until your funds are distributed
- There is no cost-of-living adjustment (COLA) on your pension during the DROP period

Step-by-Step: What Happens When You Enter DROP

Entering DROP is an irrevocable decision. Once you elect to participate, you cannot reverse course. Here is what the process looks like from start to finish.

1 Verify Your Eligibility

Contact the Division of Retirement or check MyFRS.com to confirm you have reached normal retirement eligibility. Request an estimate of your monthly pension benefit.

2 Choose Your DROP Entry Date

Your DROP participation begins on the first day of the month following your election. You can elect a retroactive effective date (up to the date you first became eligible) to capture missed months — but there are tradeoffs to consider.

3 Select a Retirement Option (Form DP-11)

You must choose one of four retirement options that determine survivor benefits for your beneficiary. This choice is permanent and affects your monthly pension amount. Option 1 provides the maximum monthly benefit but no survivor pension. Options 2, 3, and 4 reduce your monthly amount but provide varying levels of survivor benefits.

4 Designate Your Beneficiary

Name the person(s) who will receive your DROP accumulation and any survivor pension benefits if you pass away. Review and update this designation regularly — it is separate from your will and life insurance beneficiaries.

5 Continue Working Normally

During DROP, you continue working in your FRS-covered position, earning your regular salary and benefits. Your monthly pension benefit is deposited into your DROP account rather than paid to you. You no longer accrue additional service credit toward your pension.

6 Monitor Your DROP Account

You can track your DROP balance through your MyFRS.com account. Review your annual statement to verify deposits and interest credits are correct.

7 Terminate Employment

When your DROP period ends (or sooner if you choose), you must terminate all FRS-covered employment. You then have 60 days to elect how you want to receive your DROP accumulation.

You must elect your DROP distribution method within **60 days** of terminating employment. If you fail to make an election, the Division of Retirement may issue an automatic lump-sum payment, triggering 20% mandatory federal tax withholding and potentially pushing you into a higher tax bracket. Do not miss this deadline.

Lump Sum Options: What to Do With Your DROP Balance

The distribution decision is the single most consequential financial choice most DROP participants will make. You have three primary options — and you can combine them.

Option 1: Direct Rollover to an IRA or Qualified Plan

Roll your entire DROP balance (or a portion) directly into a Traditional IRA, Roth IRA, 401(k), 403(b), or 457(b) plan. A **direct rollover** (trustee-to-trustee transfer) avoids the 20% mandatory withholding that applies to lump-sum payments.

Best for: Most participants. Preserves tax-deferred growth, gives you full control over investment allocation and withdrawal timing, and avoids an immediate tax hit.

Rollover Sub-Options

- **Traditional IRA** — Tax-deferred; taxed as ordinary income on withdrawal
- **Roth IRA** — Pay taxes now on the conversion; future growth and withdrawals are tax-free
- **New employer's 401(k)/403(b)** — If you take a new job with an eligible plan
- **FRS Investment Plan** — Transfer to the FRS defined contribution plan

Option 2: Lump-Sum Distribution (Full or Partial)

Take some or all of your DROP balance as a cash payment. The FRS is required to withhold **20% for federal taxes** on the taxable portion. You may owe additional taxes (or receive a refund) when you file your return, depending on your total income for the year.

EARLY DISTRIBUTION PENALTY

If you are under age 59 1/2 when you receive a lump-sum distribution and do not roll it into an eligible plan, you may owe an additional **10% early distribution tax penalty** on top of regular income taxes. The "Rule of 55" exception may apply if you separated from service during or after the calendar year you turned 55.

Option 3: Leave Funds in FRS (Investment Plan Transfer)

You may transfer your DROP accumulation into the FRS Investment Plan, where it will be invested in your choice of FRS investment funds. This option keeps your money within the state retirement system but gives you more control over investment choices than the DROP account's fixed interest rate.

Combination Strategies

You are not limited to a single option. Many participants benefit from a **split distribution**:

EXAMPLE STRATEGY

Take a partial lump sum for immediate needs (paying off a mortgage, establishing an emergency fund), roll the remainder into a Traditional IRA for tax-deferred growth, and separately evaluate a partial Roth conversion strategy over multiple years to manage your tax bracket. This hybrid approach balances liquidity, tax efficiency, and long-term growth.

Tax Implications of DROP Distributions

DROP distributions are subject to federal income tax. Florida has no state income tax, which is one significant advantage for Florida retirees. However, the federal tax implications can be substantial and require careful planning.

How DROP Distributions Are Taxed

DISTRIBUTION METHOD	FEDERAL TAX TREATMENT	WITHHOLDING
Direct rollover to Traditional IRA	No immediate tax; taxed when withdrawn from IRA	\$0 withheld
Direct rollover to Roth IRA	Full amount included in taxable income for conversion year	\$0 withheld (but taxes owed)
Lump-sum distribution	Full amount taxed as ordinary income	20% mandatory federal withholding
Partial lump sum + partial rollover	Lump portion taxed; rolled portion deferred	20% on lump portion only
Transfer to FRS Investment Plan	No immediate tax; taxed when distributed from Investment Plan	\$0 withheld

Tax Bracket Awareness

A large lump-sum distribution can push you into a significantly higher federal tax bracket. For context, the 2024 federal tax brackets for a married couple filing jointly:

TAX RATE	TAXABLE INCOME RANGE (MFJ)	IMPACT ON \$300K DROP LUMP SUM
10%	\$0 — \$23,200	
12%	\$23,201 — \$94,300	Lower brackets filled by pension + other income
22%	\$94,301 — \$201,050	
24%	\$201,051 — \$383,900	Much of the DROP lump sum may land here
32%	\$383,901 — \$487,450	Possible if combined with pension + Social Security
35%	\$487,451 — \$731,200	High earners or large DROP balances

Multi-Year Roth Conversion Strategy

Rather than converting your entire DROP rollover to a Roth IRA in one year (which could trigger a massive tax bill), many retirees benefit from converting a portion each year — staying within a target tax bracket. Over 5-10 years, you can convert the entire balance to tax-free Roth status while keeping your effective tax rate low.

FLORIDA ADVANTAGE

Florida has no state income tax. This means Roth conversions and DROP distributions are taxed only at the federal level — a significant advantage over states like California (13.3%), New York (10.9%), or New Jersey (10.75%). If you plan to stay in Florida, you have a built-in tax efficiency advantage that should factor into your distribution strategy.

Social Security Coordination With DROP

Many Florida public employees also qualify for Social Security benefits — either through their FRS-covered employment (most positions since 1984) or through other employment. Coordinating Social Security claiming with your DROP exit and pension start date can significantly impact your total lifetime retirement income.

Key Coordination Decisions

When to Claim Social Security

You can claim Social Security as early as age 62, at your Full Retirement Age (FRA, typically 67 for those born after 1960), or delay until age 70. Each year you delay past FRA increases your benefit by approximately 8%.

Strategy A: Claim Early, Preserve DROP

Claim Social Security at 62 and let your DROP balance continue to grow at 4.0% (while in DROP) or invest it for higher potential returns (after rollover). This works best if you have a shorter life expectancy or immediate income needs.

Strategy B: Delay SS, Spend DROP First

Use your DROP balance and pension to cover expenses from retirement through age 70, then claim the maximum Social Security benefit. This can increase your lifetime Social Security income by 24-32% compared to claiming at 62. Works best if you are in good health and can afford to wait.

The "Bridge Strategy"

Your DROP balance can serve as a powerful bridge between employment termination and full Social Security benefits:

AGE RANGE	INCOME SOURCES	STRATEGY NOTES
55-62	FRS Pension + DROP withdrawals	Bridge to Social Security eligibility; ideal window for Roth conversions while income is lower
62-67	FRS Pension + DROP withdrawals (reduce as needed)	Optional: claim reduced SS or continue bridge; depends on health and needs
67-70	FRS Pension + minimal DROP withdrawals	Delaying SS past FRA earns 8%/year — hard to beat risk-free
70+	FRS Pension + Maximum SS + IRA/Roth withdrawals	Three reliable income streams; DROP balance continues growing in IRA/Roth

SPOUSAL COORDINATION

If you and your spouse both have Social Security benefits, the claiming strategy becomes even more important. One spouse may benefit from claiming early while the other delays to maximize the higher earner's benefit — which also becomes the survivor benefit. A comprehensive analysis of both spouses' benefits alongside the DROP balance and FRS pension is essential for optimizing total household retirement income.

Windfall Elimination Provision (WEP) and Government Pension Offset (GPO)

Most FRS members who participated in Social Security are not affected by WEP or GPO. However, if you have years of employment where you did *not* pay into Social Security (such as certain pre-1984 government positions), your Social Security benefit may be reduced. Verify your situation at [SSA.gov](https://ssa.gov) or with a qualified advisor.

10-Point DROP Decision Checklist

Use this checklist to ensure you have addressed every critical factor before entering, during, and when exiting DROP.

- ☐ **Verify your eligibility and optimal entry date** — Have you confirmed your normal retirement date and modeled whether waiting to enter DROP would increase your Average Final Compensation?
- ☐ **Understand your pension calculation** — Do you know your years of service, AFC, and benefit multiplier? Have you requested an official estimate from the Division of Retirement?
- ☐ **Choose the right retirement option** — Have you evaluated all four options (maximum benefit vs. survivor benefit tradeoffs) with your spouse/family?
- ☐ **Review and update your beneficiary designations** — Are your DROP beneficiaries current? Do they align with your will, life insurance, and other accounts?
- ☐ **Plan your distribution strategy before termination** — Do you have a written plan for how you will handle your DROP balance (rollover, lump sum, or combination)?
- ☐ **Evaluate your tax exposure** — Have you projected your federal tax liability under different distribution scenarios? Have you considered a multi-year Roth conversion strategy?
- ☐ **Coordinate Social Security claiming** — Have you modeled when to claim Social Security relative to your DROP exit to maximize lifetime income?
- ☐ **Establish an investment plan for your rollover** — Do you have a diversified, fee-conscious investment strategy ready for your IRA? Is it aligned with your income needs and risk tolerance?
- ☐ **Address health insurance coverage** — Do you have a plan for health insurance after termination? Will you use COBRA, a new employer's plan, the Health Insurance Subsidy, or the ACA marketplace until Medicare eligibility?
- ☐ **Consult a fee-only fiduciary advisor** — Have you worked with an advisor who has no financial incentive other than helping you make the best decisions? One who specializes in FRS and DROP?

Common Mistakes to Avoid

1. Missing the 60-Day Deadline

Failing to elect your distribution method triggers automatic lump-sum payment with 20% withholding.

2. Taking a Full Lump Sum Without Tax Planning

A \$300,000+ lump sum on top of your pension can push you into the 32%+ federal tax bracket.

3. Ignoring the Roth Conversion Opportunity

The gap years between DROP exit and full Social Security claiming are often your lowest-income years — ideal for tax-efficient Roth conversions.

4. Choosing the Wrong Retirement Option

Selecting maximum benefit (Option 1) without survivor protection can leave a surviving spouse without pension income.

5. Investing Too Aggressively (or Too Conservatively)

Your DROP balance may need to last 30+ years. 100% stocks is too volatile; 100% bonds may not keep pace with inflation.

6. Not Coordinating Social Security

Claiming Social Security at 62 when delaying to 70 would have increased your lifetime benefit by hundreds of thousands of dollars.

7. Paying High Advisory Fees on the Rollover

A 1.5% annual fee on a \$400,000 rollover costs \$6,000/year. Over 20 years with compounding, that is over \$150,000 in fees. Use a fee-only advisor.

8. Entering DROP Too Early

If your salary is still increasing significantly, delaying DROP entry could yield a higher pension calculation than the interest earned in DROP.

How a Fee-Only Fiduciary Advisor Helps With DROP

The decisions surrounding DROP are complex and interdependent. A mistake in one area — timing, taxes, distribution method, investment allocation, or Social Security coordination — can cascade into tens of thousands of dollars in lost retirement income. Working with the right advisor can make a meaningful difference.

Why "Fee-Only" and "Fiduciary" Matter

Fee-Only

A fee-only advisor is compensated solely by client fees — not commissions, referral fees, or product sales incentives. When your DROP balance represents \$200,000 to \$500,000 or more, you need to know your advisor has zero incentive to recommend a product that pays them a commission.

Fiduciary

A fiduciary is legally obligated to act in your best interest — not merely recommend "suitable" investments. This is the highest standard of care in the financial industry, and it means your advisor must put your interests ahead of their own in every recommendation.

What Davies Wealth Management Provides DROP Participants

1

DROP Timing Analysis

We model multiple entry and exit scenarios to identify your optimal DROP timeline based on salary trajectory, service years, and personal goals.

2

Distribution Strategy Design

Full rollover, partial lump sum, Roth conversion laddering, or FRS Investment Plan transfer — we analyze every combination to minimize taxes and maximize flexibility.

3

Tax Bracket Optimization

Multi-year tax projections that account for your pension, Social Security, DROP distributions, and other income to keep you in the lowest possible bracket each year.

4

Investment Portfolio Design

Evidence-based, diversified portfolios designed to generate sustainable retirement income from your DROP rollover while managing downside risk.

5

Social Security Coordination

Comprehensive claiming strategy analysis for you and your spouse that integrates with your pension and DROP balance to maximize lifetime household income.

DAVIES WEALTH MANAGEMENT

Ready to Make the Most of Your DROP Benefits?

Schedule a complimentary DROP analysis with a fee-only fiduciary advisor who specializes in Florida public employee retirement. No sales pitch. No commission pressure. Just clear, actionable guidance.

[Schedule Your Free DROP Analysis](#)

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