THE BUCKEYE INSTITUTE
for PUBLIC POLICY SOLUTIONS
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Dipped *in* Gold

Upper-Management Police and Fire Retirees Become Public-Service Millionaires

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By
MARY McCLEARY

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Why This Report Matters to You

Of all our civilian government workers, none are more critical to our safety than the men and women who serve as police officers and firefighters. On a daily basis, they risk their lives to protect us. Therefore, we must make sure our police officers and firefighters are paid decent wages and, when injured or killed in the line of duty, done right by. Honoring that commitment, however, does not mean that upper management employees should be made millionaires.

Making public servants millionaires when they retire is not a bargain you agreed to as a taxpayer. The secretive Deferred Retirement Option Plan (DROP), which allows public safety officials to double dip, is yet another program created by our governmental leaders that is totally disconnected from the economic realities facing most Ohioans.

In 2009, over 70 percent of Columbus's operating budget was allocated to police and fire, with the average expenditure per public safety employee totaling $128,977.[1] With few police officers and firefighters earning salaries this high, it begs the question: Where is all this money going? Quite simply, the money goes toward funding the gold-plated pension packages of public safety officials.

As a taxpayer, you are on the hook to contribute 19.5 to 29.5 percent of each police officer's salary and 24 to 34 percent of each firefighter's salary to the Ohio Police & Fire Pension Fund (OP&F). Your contribution is so high because of costly programs like DROP.

With DROP, after officers reach age 48 and have worked for 25 years, they can retire on paper yet still continue to work while their pensions accumulate in untouchable accounts. When they exit DROP after working another eight years, many in upper management receive lump sum payments of nearly one million dollars. And make no mistake, the officers who receive large lump sums also collect yearly pensions over $100,000 for the rest of their lives.

While police officers and firefighters can retire as public service millionaires in their 50s, you are not so fortunate. Private-sector employers typically only contribute a 4 to 5 percent match to your retirement fund. Additionally, most Ohioans cannot collect Social Security until age 67. Even then, the maximum amount you can collect annually is approximately $28,152.[2]

With this being the single worst decade for investors since the 1830s, we cannot afford to pay for the gold-plated DROP program, especially at a time when Ohioans bear the seventh-highest state and local tax burden in the country.

1 The City of Columbus, "Financial Overview," at *http://finance.columbus.gov/uploadedFiles/Finance_and_Management/Financial_Management_Group/Budget_Management/2010_Budget/03%20Financial%20Overview%20-%20Narrative.pdf* (accessed on July 19, 2010).

2 Social Security Online, "The Maximum Social Security Retirement Benefit," at *http://ssa-custhelp.ssa.gov/app/answers/detail/a_id/5/~/the-maximum-social-security-retirement-benefit* (accessed on July 21, 2010).

How the DROP Program Makes Public-Service Millionaires

Retirement is a day all Ohioans look forward to and dream about. They think about passing their days reading, fishing, traveling, gardening, and spending time with grandchildren. Retirement is often seen as a reward for years of hard work and disciplined saving throughout one's lifetime.

For most Americans in their 50s and 60s, the ability to retire early remains a dream. They wonder, "Have I saved enough? Will I be a financial burden to my children? Will I run out of money before I run out of life?" For these folks, retirement is no sure thing. The future simply involves too much uncertainty. With the maximum Social Security annual payment only totaling $28,152—a mere pittance—and not available until age 67, very few can afford to retire on Social Security alone and maintain their standards of living.[3] Yet, for many Ohioans, Social Security *is* their retirement. Therefore, it is common to see average Ohioans working well into their late 60s and 70s before they can even think about calling it quits.

Upper management government workers can receive lump sums totaling over ***$1 million***

For the privileged class of government employees, however, early retirement is an entitlement. Retirement comes after reaching a certain age and working a fixed number of years. There is no measure of personal savings or productivity. Government workers are guaranteed large lifetime pensions through their defined-benefit retirement plans where there is no need for disciplined savings or working hard to get ahead.

To the contrary, most private-sector companies have eliminated defined benefit plans due to the massive liabilities attendant with those plans and now use defined-contribution retirement plans. Thus, unlike their public-sector neighbors, private employees must save on their own to ensure financial security.

Two groups of government employees that receive an even better retirement deal than the average government worker are upper-management police officers and firefighters. Not only can they retire at age 48 and collect 60 percent of their salaries as pensions, they have the option of working after they have technically retired.[4] Thus, through the Deferred Retirement Option Plan (DROP) program, they collect their salaries in addition to collecting their pensions.

It goes without saying that unlike other government workers, our police officers and firefighters put their lives on the line to keep us safe. We must make sure that those men and women are provided all of the proper equipment, training, and support they need to minimize injuries and fatalities. For those men and women who are injured or killed in the line of duty, we have a special obligation to provide for them and their families. The DROP program, however, is aimed at long-serving veterans who are likely past the point of patrolling dangerous areas or running into burning buildings to rescue families. With deficits as far as the eye can see, it is a luxury for

3 Social Security Online, "Retirement Planner," at *http://www.socialsecurity.gov/retire2/agereduction.htm* (accessed on July 16, 2010).

4 Ohio Police & Fire Pension Fund, "Member's Guide to: Deferred Retirement Option Plan (DROP)," at *http://www.op-f.org/downloads/Booklets/Members_Guide_to_Drop.pdf* (accessed on July 16, 2010).

higher management we simply cannot afford.

The DROP program is a back door way for upper management government workers to double dip. While the worker is enrolled in DROP, his yearly pension, complete with the cost of living allowance, accumulates in a high-interest-earning account that any private citizen would die to have. Consequently, when upper-management government workers exit the DROP program, they can receive lump sums over $1 million. Fundamentally, we are creating millionaires out of government workers and doing so during the single worst decade for equities in America since the 1830s and during what President Barack Obama has referred to as the worst economic crisis in America since the Great Depression.

The DROP program is an expensive burden for the taxpayers to bear even though the Ohio Police & Fire Pension Fund (OP&F) claims that the program is revenue neutral.[5] Ultimately, the taxpayers fund all pensions and any lump sum payments government employees receive. Is it any wonder taxpayers are on the hook to kick in 19.5 percent and 24 percent every year to the pensions of police and firefighters, respectively?[6] As a point of comparison, the average private-sector Ohioan only receives a 4 to 5 percent match into his retirement account from his employer. Ironically enough, the private-sector employees who often cannot afford retirement are the ones paying for the government employees' gold-plated pensions.

One crucial step to reforming the police and fire retirement system is eliminating the DROP program. The highly secretive DROP program does nothing to enhance public safety—it only enhances the bank accounts of its already well-compensated participants with taxpayers picking up the tab.

How does the DROP program work?

The DROP program was created under the Ohio Senate Bill 134 and signed into law by Governor Bob Taft in 2002. The DROP program gives police officers and firefighters the option of staying on the force after they have "retired" on paper. Although public safety officers collect their pensions while in DROP, they are not allowed to touch their pensions until they have retired permanently. Once an officer enrolls in DROP, he must continue to work for a minimum of three more years and a maximum of eight more years. When an officer reaches the end of the eighth year, he must either retire or lose all of the benefits he accrued in DROP. Officers are eligible to enter DROP any time after they have reached 48 years of age and have worked in public safety for 25 years.[7]

When an officer enters DROP, he permanently locks in his pension rate based on his years of service and salary up to that point. The years in DROP do not count towards his retirement package. The formula used to determine the base pension rate is as follows:

> (Average salary from three highest years) x
> [(20 years x 2.5%) + (5 years x 2.0%) +
> (all other years worked x 1.5%)] =
> Base Pension Rate

According to the formula and OP&F rules, each officer retires with a base pension rate between 60 percent and 72 percent of his average annual salary.[8]

In each year of their retirements, police officers and firefighters receive raises through their cost-of-living allowances (COLA). The COLA is equal to three percent of the base pension rate. For example, if an officer's base pension was $100,000, his COLA would be $3,000. Thus in the second year of retirement, he would collect $103,000 instead of simply $100,000. Every year the officer would collect $3,000 more than he did in the previous year. In this particular officer's eighth year in DROP, he would receive $121,000.

If an officer exits the DROP program after eight

5 Ibid.

6 Ohio Police & Fire Pension Fund, "Contribution Rates," at *http://www.op-f.org/employers/rates.asp* (accessed on July 16, 2010).

7 Ohio Police & Fire Pension Fund, "Member's Guide to: Deferred Retirement Option Plan (DROP)."

8 Ibid.

years, he is treated by OP&F as if he is in his ninth year of retirement. Therefore, the hypothetical officer above would collect $124,000 in his first year of true retirement although his base pension rate is only $100,000. Due to the COLA alone (lump sum payment aside), participating in DROP is advantageous. Officers who do not participate in DROP but still retire at the same time as the DROP participants will in most cases receive lower pensions even though their average annual salaries will be higher and their base pension rates will be calculated using higher percentages of their average annual salaries to reflect the additional years of service.

While an officer is in the DROP program, all of his retirement benefits are held in an untouchable account until he leaves DROP. The benefits included are his yearly pension complete with the yearly COLA increase, a portion of his employee contribution to OP&F, and 5 percent annually compounding interest. During the first two years of DROP, half of the employee contribution to OP&F is added to the officer's retirement account. During the third year, 75 percent of the employee contribution is added to the officer's retirement account. During years five through eight, 100 percent of the employee contribution to OP&F is added to the employee's retirement account.[9]

The employee contribution to OP&F is always equal to 10 percent of the employee's salary. Thus, police officers and firefighters bank significant amounts of money just from this small provision of DROP. To simplify the matter, assume a police officer earns a salary of $100,000 for every year he participates in DROP. When the officer leaves DROP after eight years, $67,500 of his lump sum, excluding interest, will be directly from his employee contribution. In some Ohio cities, police officers and firefighters are not required to pay the full employee contribution to OP&F. Instead, the cities (taxpayers) pick up the full tab or a portion of it.

When all the pieces of DROP are added together, the final result is public-service millionaires.

The following sections contain case studies of the Columbus Police Department and the Cincinnati Police Department. Each city has a present-day analysis based on the current collective bargaining agreements. The third case study is a comparison of the OP&F retirement system to the private-sector retirement system of Social Security. Lastly, there is a menu of reforms that details cost-saving options for taxpayers and that, if implemented, would be one step toward realigning the gold-plated pension packages to resemble those of private-sector neighbors.

Case Study One: The Columbus Police Department[10]

Entering DROP at 48. If a police commander "retires" and enters DROP at age 48 after 25 years of service, his base pension is $66,301, calculated from his average annual salary of $110,502. In his first year of DROP, his DROP account is credited with $71,828 from his pension and 50 percent of his employee contribution. By the end of the officer's DROP years, his DROP account lump sum totals $841,204. Of that money, $82,870 is from the officer's employee contribution and $162,600 is from the magic of 5 percent compounding interest.

Due to the yearly COLA increase, the officer's pension is already $84,976 by the time he retires. Had the officer not entered DROP and retired at age 55, his pension would only be $79,271, and he would have no lump sum, which shows that officers have an overwhelming incentive to participate in the DROP program.

If the officer lives to age 78, he will collect $3,249,956 from OP&F (DROP lump sum included) during his retirement. Since the City of Columbus contribution is 65 percent of the employee pick-up, officers contribute very little to their retirement plans. The particular officer in this example only contributes $74,258 in his 25 working years prior to DROP. Once

9 Ibid.

10 City of Columbus, "Agreement between City of Columbus and Fraternal Order of Police Capital City Lodge No. 9, December 9, 2008 – December 8, 2011," at *http://hr.ci.columbus.oh.us/PDF/LaborRelations/Final FOP 2008-2011 CBA_1-10.pdf* (accessed on July 16, 2010).

the officer is in DROP, he is entitled to keep 50 percent of his employee contribution in years one and two, 75 percent in year three, and 100 percent in years four through eight. This means he not only keeps his portion of the employee contribution, but is also allowed to keep part or all of the city's contribution on his behalf. All in all, this officer's return is well over 43 times more than his investment in OP&F.

While the officer only contributes $74,258 to OP&F during his career, the city taxpayers are on the hook to pick up the rest of the officer's employee contribution and the entire employer contribution. In Columbus, the employee contribution pick-up is currently 6.5 percent of the officer's salary while the employer contribution is 19.5 percent of the officer's salary. In total, the City of Columbus must contribute to OP&F an amount of money equal to 26 percent of each officer's salary. In this example, the city contributes $803,027 to OP&F on the officer's behalf over the course of his working years.[11]

CASE STUDY 1: COLUMBUS

Age When Enrolled in DROP	*Total Retirement Money Received if Living to Age 78*
48	**$3.25 million**
52	**$3.20 million**
55	**$3.19 million**

Entering DROP at age 52. If a deputy police chief enters DROP at age 52 after 30 years of service, his base pension is $79,271, calculated from an average annual salary of $116,057. After eight years, the officer exits the DROP program with a lump sum of $988,464. Of that money, $707,702 comes from the actual yearly pension and COLA. The interest payment alone amounts to $192,215, and the employee contribution to OP&F is $88,547.

When the deputy police chief leaves the DROP program, he is treated as if he were in his ninth year of retirement. Due to the yearly COLA increase, the officer's pension would be $100,281 in his first year out of DROP. Had the officer not participated in DROP and retired at age 60 (the age when the hypothetical officer exits DROP), his first year pension would only be $94,434, and he would not receive any lump sum payment.

If the deputy police chief lives until age 78, he will collect a total of $3,195,321 between ages 60 and 78. Due to the city pick-up, the officer only "invests" $94,328 in OP&F during his 30 working years prior to DROP. As was the case with the officer in the previous example, once the officer enters DROP, part and eventually all of his employee contribution is credited to his lump sum account. In addition to keeping his own contribution, he also gets to keep the city's pick-up portion of the employee contribution. During the officer's 18 years of true retirement, he collects nearly 34 times the amount of money he contributed to OP&F during his working life.

Even though the officer contributes a relatively small amount to OP&F considering his return on investment, the city of Columbus taxpayers do not get off so easily. For this officer alone, the city must give OP&F an amount of money equivalent to 26 percent of his earnings due to the employer contribution and the employee contribution pick-up. Over the course of the officer's career, the city must contribute $973,571 to OP&F.[12]

Entering DROP at 55. If a deputy police chief enters DROP at age 55 after 33 years of service, his base pension is $94,434, calculated from an average annual salary of $131,188. When he exits the DROP program, he collects a lump of $1,146,195. Of this money, $223,738 is from the annually compounding 5 percent interest rate, and $88,552 is from the employee contribution.

11 Ohio Police & Fire Pension Fund, "Member's Guide to: Deferred Retirement Option Plan (DROP)."

12 Ibid.

After the officer exits DROP and collects his lump sum, he is treated by OP&F as if he were in his ninth year of retirement. In his first year out of DROP, the deputy police chief collects a pension $116,844. If the officer lives to age 78, his total pension payout over a 15-year period will be $3,192,985. Over the course of his working years, the officer only pays $108,100 into the OP&F retirement system, but the City of Columbus must contribute $1,075,898 to OP&F on the officer's behalf. Although this officer does not receive quite as good of a return on his "investment" as the two officers above, he still collects nearly 30 times the amount he paid into OP&F.[13]

CASE STUDY 2: CINCINNATI

Age When Enrolled in DROP	*Total Retirement Money Received if Living to Age 78*
48	**$2.69 million**
52	**$2.81 million**
55	**$2.81 million**

Case Study Two: The Cincinnati Police Department[14]

Entering DROP at 48. If a police commander "retires" and enters DROP at age 48 after 25 years of service, his base pension is $59,943, calculated from his average annual salary of $99,905. When the officer exits DROP after eight years, he will receive a lump sum payment of $750,627. Of that money, $75,012 is from the officer's employee contribution and $145,718 is from the annually compounding 5 percent interest rate.

When the officer retires from DROP, he is treated as if he were in his ninth year of retirement. Thus, his yearly pension totals $72,149 when he quits working due to the cumulative effect of the yearly 3 percent COLA increase. Had the officer not entered DROP and retired at age 55, his pension would be $72,160 (nearly the same as if he had not participated in DROP), but he would not receive any lump sum payment.

If the officer lives to age 78, he will collect $2,690,346 from OP&F (lump sum included) during his retirement. Unlike the City of Columbus, the City of Cincinnati does not pick up a portion of the required employee contribution to DROP. Therefore, police officers and firefighters pay out-of-pocket 10 percent of their salaries to OP&F. The particular officer in this example contributes $205,206 to OP&F over the course of his working years while the city contributes $546,424 on his behalf. The officer's return is over 13 times the amount he personally "invested" in the system.[15]

Entering DROP at 52. If an assistant police chief enters the DROP program at age 52 after 30 years of service, his base pension rate is $72,160, calculated from an average annual salary of $106,904. When the assistant police chief exits DROP after completing his eight years in the program, he receives a lump sum payment of $893,137. Of that money, $79,801 is from the required employee contribution to OP&F, and $174,049 is purely from interest payments.

When the officer exits DROP at age 60, he begins collecting his yearly pension as if he were in his ninth year of retirement. In his first year out of DROP, the officer collects $88,868. If the officer retired at age 60 without participating in the DROP program, he would only collect $84,683 in his first year of retirement.

13 Ibid.

14 City of Cincinnati, "Labor Agreement by and between Queen City Lodge No. 69 Fraternal Order of Police and City of Cincinnati Non-Supervisors for the Years 2008 to 2011," at *http://www.ci.cincinnati.oh.us/cityhr/downloads/cityhr_pdf38794.pdf* (accessed on July 16, 2010); City of Cincinnati, "Labor Agreement by and between Queen City Lodge No. 69 Fraternal Order of Police and City of Cincinnati Supervisors for the Years 2008 to 2011," at *http://www.ci.cincinnati.oh.us/cityhr/downloads/cityhr_pdf38793.pdf* (accessed on July 16, 2010).

15 Ohio Police & Fire Pension Fund, "Member's Guide to: Deferred Retirement Option Plan (DROP)."

If the officer lives until he is 78 years old, he will collect $2,812,291 from OP&F between the ages of 60 and 78. During his years on the police force, he only contributes $259,615 to OP&F. Thus, he receives a return nearly 11 times greater than his "investment" into the pension fund. On the other hand, the City of Cincinnati must contribute $661,861 to the pension fund while the officer is employed.[16]

Entering DROP at age 55. If an assistant police chief enters the DROP program at age 55 after serving on the force for 33 years, his base pension rate is $84,683 calculated from an average annual salary of $116,833. When the policeman exits the DROP program after participating for eight years, he collects a lump sum payment of $1,029,392. The kept employee contribution is equal to $79,918, and the 5 percent compounding interest over the eight-year period is equal to $200,878.

When the officer begins collecting his pension in the first year after he exits the DROP program, he is treated as if he had already been retired for eight years. Consequently, his pension in the ninth year totals $102,764 due to the COLA increases he received while participating in DROP.

If the officer lives until 78 years old, he will collect $2,808,174 (lump sum included) from OP&F between the ages of 63 and 78. The policeman personally contributes $295,017 to OP&F, which gives him a return on his "investment" 9.5 times greater than the amount he contributed during his working years. The City of Cincinnati, however, is required to pay $731,123 to OP&F on the officer's behalf.[17]

Case Study 3: The Private-Sector Comparison

The private-sector neighbors of police officers and firefighters do not have gold-plated pension packages awaiting them as early as age 48. Instead, they must wait until age 67 to begin collecting Social Security.

Without DROP, police officers and firefighters can retire nearly 20 years before their private-sector neighbors can collect Social Security. With DROP participation, public safety officials can retire 12 years before private-sector folks can collect Social Security and 3.5 years before they can access their IRAs and 401(k)s.

Many police officers and firefighters can retire ***12 to 20 years earlier*** *than private-sector workers.*

In addition to a much later retirement age, private-sector workers can only collect a maximum of $28,152 per year from Social Security. Therefore, between the time they start collecting Social Security to the time they die, private-sector workers are paid a maximum of $309,672 over their 11 years of retirement.

While private-sector workers do have the option of saving for retirement in IRAs and in 401(k)s, they are prohibited from touching these investments until they reach age 59.5. If they withdraw from these accounts early, they face severe income tax penalties.[18]

Since it is difficult to compare the average police officer with the average private-sector worker in terms of retirement, the best way to put the DROP figures in perspective is comparing a police officer under the current retirement system to the same police officer if he were subject to the constraints of Social Security.

If a Columbus police officer retired at age 48 after working for 25 years, he and the City of Columbus would have paid a total of $266,840 into Social Security.[19] Even if the officer retired at age 48, he would not be able to collect Social Security for nearly 20 more years. When the officer finally reached age 67, he

16 Ibid.

17 Ibid.

18 Nashville Business Journal, "With 401(k)s, the Devil's in the Details," at *http://www.bizjournals.com/nashville/stories/2002/05/20/focus1.html* (accessed on July 16, 2010).

19 Social Security Online, "Electronic Fact Sheet: Update 2010," at *http://www.ssa.gov/pubs/10003.html* (accessed on July 16, 2010).

would collect a maximum annual pension of $28,152 and $309,672 total if he lived to age 78. Under the OP&F system, this officer would collect $110,654 at age 67 after retiring at age 48 for a pension totaling $3,249,956.

If a Columbus police officer retired at age 52 after 30 years on the force, he and the City of Columbus would have each contributed $166,528 ($333,056 total) to Social Security over the course of the officer's working years.[20] The officer would still not be eligible to collect Social Security for another 15 years, and he would only receive a maximum of $28,152 each year or $309,672 total before dying at age 78. Under the OP&F retirement system, the officer retires at age 52 and collects a pension of $118,664 at age 67 for a pension totaling $3,195,321.

If a Columbus police officer retired at age 55 after 33 years of service, he and the City of Columbus each would have contributed $171,704 ($343,408 total) to Social Security during the officer's working years.[21] He would not be eligible to collect Social Security for another 12 years. When the officer reaches age 67, he would begin collecting a maximum of $28,152 annually. Over the next 11 years, he and the city would not break even on their Social Security investment. However, under OP&F, this officer will collect a pension of $3,192,985.

If police officers and firefighters were dependent upon Social Security for their retirements, they would have to work until age 67. The City of Columbus and the individual would each pay $265,852 ($531,704 total) into Social Security over the officer's working life. Likewise, for a Cincinnati police officer, the city and the individual each contribute $257,785 ($515,569 total) to Social Security. Since the officer can only collect a maximum of $309,672 between ages 67 and 78 through Social Security, he and the city (either Columbus or Cincinnati) experience a negative return on their investments—as do many of their private-sector neighbors.

Reforming Police and Fire Pension Plans

1. Increase transparency.

Given the secrecy surrounding the DROP program, it is impossible to give an accurate estimate of what this program is costing taxpayers. While OP&F will admit to having approximately 3,500 police officers and firefighters enrolled, the pension fund will not release the names, ranks, salaries, or pension information of those who participate in the program.

Our DROP analysis does not reflect the whole picture, but merely pieces of the puzzle based on the information available to the general public. Because complete information is not available, all estimates err on the conservative side. It is more than likely that the average officer moves through the ranks more quickly than he does for this analysis. Therefore, his DROP lump sum and pension payments will likely be higher than displayed in this analysis.

Fundamentally, the taxpayers have a right to know what they are paying for. Year after year, they contribute 19.5 percent of each police officer's salary and 24 percent of each firefighter's salary to OP&F, yet they have no idea how OP&F operates or what its participants are paid upon retirement. With an $8 billion budget deficit, Ohioans have a right to know all details about public-sector pensions.

2. Remove the 5 percent fixed interest rate or tie it to the market interest rate.

Reality is that 5 percent fixed interest rates are rare given the current economic situation. Most savings accounts do not even yield 1 percent annually compounding interest at this time.

By removing the compounding interest rate, OP&F would save $145,717 on the Cincinnati police officer who entered DROP at 48, and it would save $223,738 on the Columbus police officer who entered DROP at age 55.

Since we do not know who is in DROP, it is impossible to know how much would be saved by eliminating

20 Ibid.

21 Ibid.

the 5 percent annually compounding interest rate or replacing it with a rate that reflects the current market. If all 3,500 officers in DROP received the same pension package as the Cincinnati police officer who retires at age 48, then the taxpayers would save over half a billion dollars ($510,009,500) over an eight-year period by eliminating the 5 percent interest rate. If all police officers and firefighters received the same pension as the Columbus officer who enters DROP at age 55, then the taxpayers would save $783,083,000 over an eight-year period by eliminating the 5 percent interest rate.

3. Remove the COLA increase while the officer is in DROP.

While the officer is participating in the DROP program, he does not need a cost of living allowance because he is collecting a paycheck. The COLA has no purpose for DROP participants because they are not living on their pensions. By eliminating COLA increases while the officer is in DROP, taxpayers would save a significant amount of money. If all 3,500 DROP participants received the compensation package given to the Columbus police officer who enters DROP at age 55, taxpayers would save $274,498,000 over an eight-year period by eliminating the COLA during DROP. If the average DROP participant more closely resembles the Cincinnati officer who enters DROP at age 48, the taxpayers would save $176,204,000 over an eight-year period by eliminating the COLA increase officers receive while in DROP.

If officers did not receive a COLA while they were in DROP, the taxpayers would save a significant amount of money even after the officers exit DROP. Due to the COLA, officers are treated as if they are in the ninth year of retirement when they finish the DROP program. Eliminating the COLA would essentially keep officers at year one of retirement while they are in DROP. Once they exit the DROP program and are theoretically dependent upon their pensions, then the yearly COLA could be applied.

If the average officer received the same compensation package as the Cincinnati police officer who entered DROP at age 48, the taxpayers would save $1,089,364,500 over a 30-year period by eliminating the COLA for officers while they participate in DROP. However, if the average police officer receives the same compensation package as the Columbus police officer who enters DROP at age 55, the taxpayers would save $1,529,489,500 over a 23-year period by eliminating the COLA for officers during their DROP years.

4. Remove the employee contribution piece.

The way DROP is currently structured, police officers and firefighters keep 50 percent of their employee contributions during years one and two of DROP, 75 percent during year three, and 100 percent during years four through eight. If police officers and firefighters did not keep this money, OP&F would have additional revenue available to cover liabilities.

If all DROP participants were compensated at the level of the Cincinnati police officer who enters DROP at age 48, OP&F would save $262,542,000 over an eight-year period by not allowing police officers and firefighters to keep portions of their employee contributions. Similarly, if all DROP participants were compensated the same as the Columbus police officer who enters DROP at age 55, OP&F would save $309,932,000 over an eight-year period by eliminating the employee contribution piece. For those individuals in DROP where the city is paying part or all of their contributions, it should be a "no brainer" to eliminate those payments from the DROP payout.

5. Eliminate the DROP program altogether.

No matter how you look at it, the DROP program is one expensive burden for the taxpayers to bear. If DROP were eliminated and public safety officials could still retire at age 48, taxpayers would save $799,263,500 over a 30 year period if all DROP participants were compensated at the same level as the Cincinnati police officer who entered DROP at age 48. If all those in DROP were compensated at the level of the Columbus police officer who retired at age 55, taxpayers would save $1,093,015,000 over a 23-year period by eliminating the DROP program.

If the DROP program were eliminated altogether, and the retirement age were raised to 55 years of age, OP&F would significantly raise its revenues and lower its liabilities through keeping officers in the workforce longer. Likewise, the taxpayers would save an overwhelming amount of money.

If a Columbus officer who would have retired in DROP at age 48 is forced to wait until age 55 with no DROP program, Columbus taxpayers would save $335,397 on one individual over the course of his retirement. If this individual is the average DROP participant, then taxpayers would save $1,173,889,500 by eliminating DROP and raising the retirement age to 55. If the average police officer was from Cincinnati, eliminating the DROP program and raising the retirement age to 55 would save taxpayers $474,026,000.[22]

In addition to saving taxpayers money, eliminating the DROP program and raising the retirement age also solves the issue of how to keep experienced officers and firefighters in the workforce. Proponents of the DROP program say the double-dipping incentivizes experienced public safety officials to stay in the workforce longer.

Typically, the retiring officer would be replaced with someone of the next lower rank. The replacement presumably would have quite a bit of experience. Thus, the experience element can be boiled down to the marginal difference between the experience of the retiring officer and someone ranking directly below him. The real question is: what price do we place on that marginal experience? Is the marginal experience worth allowing upper-management police officers and firefighters to double dip by collecting both salaries and pensions at the same time? Is it worth making millionaires out of government workers?

By raising the minimum retirement age to 55 (or not allowing access to the pensions until the individual reaches age 67 like Social Security) and terminating DROP, all "experienced" police officers and firefighters would be required to stay on the force longer before collecting their pensions (or move on to other work). The taxpayers would benefit from both retaining experience and from saving millions of dollars in pension obligations.

Conclusion

The DROP program turns public servants into millionaires overnight when they retire. That kind of enrichment is simply not part of the "grand bargain" agreed to by taxpayers and public servants when taxpayers thought they were giving public servants job security and decent pensions in exchange for lower compensation. The people shouldering the burden to pay for the 3,500 DROP enrollees are their private-sector neighbors who are only guaranteed, at most, roughly $28,152 per year after reaching age 67.

Private-sector workers cannot receive retirement compensation until 12 years after policemen and firefighters are eligible to exit DROP. Even then, many of them cannot afford to retire because they want to achieve a standard of living higher than what $28,152 per year will buy them. The private-sector worker does not have the luxury of a set retirement date with a set gold-plated pension. He can only retire when he has earned it through disciplined saving.

This is not to say that private-sector workers deserve to retire at age 55 without any future financial worries. Such a system would be highly unsustainable, as is Social Security already. Instead, police and fire pension packages should be more closely aligned with private-sector pension packages. After all, with no private sector, there would be no funding for government operations or pensions.

Paying police officers and firefighters decent wages is one thing, but allowing them to double dip is patently unfair to the taxpayers who pay for the high cost of government. The DROP program is wasteful and unnecessary, especially in these difficult economic times. Eliminating it is the first step toward true government pension reform.

22 The savings would be even greater if the pension formula were adjusted to reflect a later retirement age. An officer retiring at age 48 will have a lower salary and will be allowed to keep a lesser percentage of it than an officer retiring at age 55.

About the Author

Mary McCleary is a Policy Analyst at the Buckeye Institute. McCleary graduated *magna cum laude* from Hillsdale College in May 2009, with a major in Economics and a minor in Mathematics. She received Departmental Honors from the economics faculty for her outstanding work as an undergraduate. During college, McCleary was awarded a prestigious Koch Foundation Fellowship that provided her the opportunity to engage in economic research beyond the classroom.

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