

# CavMac CHRONICLE

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## Deferred Retirement Option Plans

The first Deferred Retirement Option Plan (DROP) started in East Baton Rouge Parish in 1981, and it covered public safety and general employees. DROP popularity increased in the mid-1990s with early adopters including Louisiana, Oklahoma, Dallas, Texas and Hollywood, Florida.

Under a typical DROP, eligible members who elect to participate will continue to work while their monthly benefits are credited to nominal accounts (i.e., DROP accounts) and accrue with interest. At the end of their DROP participation (typically three to five years), the members retire and receive the accumulated value of their DROP accounts in a lump sum and begin receiving their monthly retirement benefits. The monthly retirement benefits are calculated based on when the members entered DROP rather than when they retired.

Each DROP design contains several elements which can be changed to achieve different goals. Such goals include attracting and retaining employees, rewarding career employees, or providing members with an additional option. The design elements address participation requirements, length of participation, what percentage of the accrued benefit should be credited to DROP accounts, treatment of cost-of-living adjustments (COLAs), interest crediting rates, DROP account payout options, and required contributions.

There is another option which allows members to retire immediately and retroactively elect to participate in the DROP for a specified duration, which is commonly known as a BackDROP. BackDROPs present additional risk to the System because members have more complete information to optimize their retirement income. (continue on next page)...

## Disability Provisions



We recently were asked by one of our clients to review how public-sector disability retirement benefits compare to Social Security Disability Insurance (SSDI), particularly in non-Social Security states? According to the report, ***How Do DI Benefits for Uncovered Public Workers Compare to SSDI?*** by Anek Belbase and Laura D. Quinby, published by the Center for Retirement Research at Boston College, public-sector disability benefits generally appear to be more valuable. While the report was published in 2020, we found it very useful when comparing SSDI calculations with public-sector disability retirement offerings in non-Social Security states. The study found that these plans are especially beneficial for longer-tenured employees—those who are more likely to become disabled.

Due to the SSDI benefit calculation formula, shorter-tenured workers tend to fare better under SSDI, while longer-tenured workers generally receive greater benefits from public-sector disability retirement plans. Not only are longer-tenured workers older and (continued on next page)...



## Deferred Retirement Option Plans

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The cost impact of a DROP is difficult to assess, and it depends on two factors: (i) the DROP's design and (ii) its impact on member behavior. Potential sources of cost savings include additional contributions due to longer careers, delayed COLAs, and interest crediting rates below investment returns. Potential sources of additional cost include earlier benefit commencement, interest crediting rates above investment returns, and higher administrative expenses.

### Disability Provisions (continued from previous page)...

therefore more likely to become disabled, but they are also the career employees whom retirement systems are designed to protect. Finally, the report notes that SSDI has stringent qualification standards, including the requirement that applicants be unable to perform any occupation, rather than their own. In contrast, many public-sector retirement systems use an "own occupation" standard, which is particularly valuable for public safety workers.

## New CavMac Consulting Actuaries



CavMac is honored to announce that Aaron Chochon and Ryan Gundersen were recently named Consulting Actuaries at CavMac. Both have recently been presenters at NCPERS Conference.

Aaron works out of our Bellevue, Nebraska office and started his actuarial career here at CavMac in 2011 after attending Hastings College in Nebraska. He has proven year after year his commitment and dedication to his clients and team members. This is his 4<sup>th</sup> promotion and we are so proud of his continued growth at CavMac.

Ryan works out of his home in Plainfield, Illinois and was hired at CavMac in 2019, after a 13-year career at two other actuarial firms. His former military training has molded Ryan into an incredible actuary; a hard worker who is up early and eager to start every day. His passion for learning new things is amazing.



### CavMac Comedy

Can actuaries tell how long you'll live? Yes, but they won't spoil it.

Everyone is guessing the future, however, the actuary is charging for it.



## But Did You Know?

### 1 New Hires at CavMac

Join us in welcoming our recent hires!

- Eduardo Ramirez – Bellevue, NE Actuarial Analyst
- Sarah Tuzzolo – Kennesaw, GA Actuarial Analyst
- Tim Ryor – West Hartford, CT Consulting Actuary
- Brooke Roth – Tampa, FL Actuarial Analyst

### 2 New Baby at CavMac

- Megan Skiles and her husband Ben welcomed their 3<sup>rd</sup> son, Cameron William, on October 1, 2025. Congrats Megan!!

### 3 CavMac at Conferences

- Larry Langer and Ed Koebel, at the National Association of State Retirement Administrators (NASRA) Winter System Roundtable and Joint Legislative Conference and National Institute on Retirement Security (NIRS) Annual Retirement Policy Conference in DC from February 28<sup>th</sup> through March 3<sup>rd</sup>
- Ed Koebel, at the GAPPT 17<sup>th</sup> Annual Conference from March 22 – 26 in Jekyll Island, Georgia