

# LAUDERHILL POLICE OFFICERS RETIREMENT PLAN PRE-RETIREMENT SEMINAR

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**ASK QUESTIONS!!!**



**There is no such thing  
As a Dumb Question**



# BACKGROUND ABOUT THE PLAN

- **WHAT TYPE OF PLAN IS THIS?**
- **Defined Benefit Plan**
- After completing the required **years of service** or reaching **normal retirement age**, you will be eligible to receive a **guaranteed** pension benefit based on a percentage of your salary multiplied by the number of years that you have been a member of the Plan.
- Money is contributed to the Plan by you (10% of pensionable earnings), the City, and the State of Florida pursuant to an insurance rebate program established under Chapter 185, F.S.



# WHAT IS THE PENSION BOARD?

- The Plan is administered by a five member Board of Trustees:
- Two active police officers are elected by the police membership (David Hennessy, Chair & Gary Celetti);
- Two Trustees are appointed by the City Commission and are legal residents of the City (Kennie Hobbs & Floyd Harris);
- Fifth Trustee is selected by a majority vote of the other four Trustees (Michael Lucas).



# BACKGROUND ABOUT THE PLAN

- Pension rights are protected by the Florida Constitution Art. 1, Section 10.
- Once you are eligible to retire your benefit cannot be retroactively diminished or impaired.
- Your Pension Benefit is guaranteed for your whole life once you retire (no matter how long you live).

**If you die early, Plan makes money. Your job is to get every penny you can.**

**(Don't take up mountain-climbing or parachuting w/o proper equipment)**



# BACKGROUND ABOUT THE PLAN

- Florida courts have held for over 70 years that pension rights are not a mere gratuity. Pensions are a contract right which cannot be retroactively reduced.
- Under Florida law, the City is ultimately responsible for making certain that the Plan is actuarially sound.
- The Plan is set forth in the City Code.



# BACKGROUND ABOUT THE PLAN

- Plan is not a Defined Contribution Plan
- Plan is not a 401(k) plan
- Members don't have a right to underlying pension assets (only monthly pension checks).
- Members cannot receive pension monies prior to retirement or separation from service
- Can't borrow against your pension assets
- Can't assign your pension rights to another



# SUMMARY OF PLAN PROVISIONS

## KEY TERMS

- Vesting
- Normal Retirement Date
- Credited Service
- Final Monthly Compensation
- Normal Retirement Benefit
- Normal Form of Payment
- Optional Forms of Payment
- DROP





# VESTING

- Tier 1 - you need 5 years of credited service to vest;  
Tier 2 - you need 7 years of credited service to vest.
- If you separate from service before vesting, only entitled to refund of your contributions (no interest).
- If you separate from service prior to vesting, you may be able to rollover your contributions to purchase service in another city's pension plan. You can also rollover your contributions to an IRA.
- **Plan makes money if you leave prior to vesting.**



# NORMAL RETIREMENT DATE

The first day of the month on or after:

- **Tier 1 = AGE 55** (or older) **with 5** or more years of service credit; or **20 YEARS** of service (regardless of age) otherwise known as “20 and out.”
- **Tier 2 = AGE 55** (or older) **with 10** or more years of service credit; or **25 YEARS** of service (regardless of age) otherwise known as “25 and out.”



# EARLY RETIREMENT DATE

- Early retirement at age **50 with 10** years of service.
- Subject to early retirement penalty (benefit is actuarially **reduced by 3 percent per year**).
- No early retirement penalty if you defer payment until normal retirement date.
- You must apply for retirement.
- Ask for application forms from Pension Administrator.



# CREDITED SERVICE

- Full time contributing service as a police officer;
- Also known as creditable service;
- Members contribute **10%** of pensionable earnings;
- **Tier 1** earnable compensation = total cash compensation);
- **Tier 2** earnable compensation = base pay, longevity pay, educational incentive pay, and up to 300 hours of overtime per year.



# FINAL MONTHLY COMPENSATION

- Final Monthly Compensation (FMC) equals average monthly rate of earnable compensation during the **5 best years** out of the last 10 years of employment.



# NORMAL RETIREMENT BENEFIT

- **Tier 1** - Normal retirement benefit is determined by multiplying three and five tenths percent (**3.5% multiplier**) of final monthly compensation by the number of years of credited service;
- Maximum benefit of **100%** of AMC;
- Example: 10 yrs of service x 3.5% = 35% benefit  
20 yrs of service x 3.5% = 70% benefit  
25 yrs of service x 3.5% = **87.5%** benefit



# NORMAL RETIREMENT BENEFIT

- **Tier 2** - Normal retirement benefit shall be determined by multiplying three percent (**3% multiplier**) of final monthly compensation by the number of years of credited service;
- Maximum benefit of **75%** of AMC;  
Example: 10 yrs of service x 3% = 30% benefit  
25 yrs of service x 3% = **75%** benefit



# EARLY RETIREMENT BENEFIT

- Computed the same way as normal retirement benefit (years x FMC x multiplier);
- **Immediate payment:** Actuarial reduction of 3% per year that precedes your normal retirement date; or
- **Deferred payment:** Payments start at the anniversary of when you would have attained 55 and 10 years of service. No early retirement penalties!





# SAMPLE RETIREMENT FORM

I hereby elect to receive distribution of my normal retirement benefit in the following manner: (Please check your choice.)

           10 Year Certain & Life in the amount of \$ 3,700

           Life Annuity in the amount of \$ 3,768.19

           100% Joint & Survivor in the amount of \$ 3,426.64

           75% Joint & Survivor in the amount of \$ 3,502.31

           50% Joint & Survivor in the amount of \$ 3,581.38

[These numbers are for illustration purposes only. Actual benefits will vary depending on a member's years of service and final monthly compensation.]



## NORMAL FORM OF PAYMENT

### Ten Year Certain and Life Annuity

- Monthly payment for your entire life;
- 120 guaranteed monthly payments;
- (if you die within ten years of retirement, balance of ten year benefit it paid to beneficiary);
- Anyone may be selected as beneficiary;
- Can select multiple beneficiaries.



# OPTIONAL FORMS OF PAYMENT

## LIFE ANNUITY

### (highest monthly benefit)

- Monthly payment for your entire life;
- At death all benefits cease;
- No survivorship protection for a joint annuitant;
- Some members purchase life insurance.



# OPTIONAL FORMS OF PAYMENT

- **Joint and Survivor Annuity**

100%, 75%, 66 2/3%, 50%

- Benefit continues after your death to your designated joint annuitant;
- Can select anyone as joint annuitant, but benefit is adjusted for age;
- Actuarially reduced benefit.



# EXAMPLE OF ACTUARIAL ADJUSTMENT BASED ON AGE

Member's Age	45		45
Spouse's Age	(40)	v.	(50)

<u>Form of Payment</u>	<u>Monthly Amount</u>	
10-Year Certain and Life	\$1,890	\$1,890
Life Only	\$1,910	\$1,910
100% J&S	\$1,729	\$1,785
75% J&S	\$1,770	\$1,814
50% J&S	\$1,815	\$1,845



## 13<sup>th</sup> CHECK (Variable COLA)

- Tier 1 retiring after October 1, 2004 are eligible to receive a “13<sup>th</sup> check” if the plan earns an actuarial gain for the year.
- No 13<sup>th</sup> checks are payable unless the plan has a “cumulative” net actuarial gain beginning with the 2004/2005 plan year.
- The COLA is ordinarily payable each year on or about the January 1<sup>st</sup> following the year of retirement or DROP entry.
- Tier 2 is not eligible for 13<sup>th</sup> check payments.



# POST RETIREMENT SUPPLEMENT

- All members employed on or after 4/25/2011 are paid a supplemental monthly stipend of **\$10 per month per year of service**
- Must have at least 20 years of credited service (or leave the City at age 55, or older, with more than 5 years of credited service);
- Payment begins on the 5<sup>th</sup> anniversary of termination and ceases upon reaching age 65;
- Examples: after 20 years = \$200 per month; after 15 years = \$150 per month.



# ENHANCED MULTIPLIER PURCHASES FOR TIER 2

- Tier 2 members have an option to purchase an increase in their multiplier from 3% **up to 3.5%**;
- The member bears the **full actuarial cost**;
- Enhanced multiplier purchases are not subject to the 75% of final monthly compensation cap under Tier 2, but may not exceed 100%.





# BUYBACK OF PRIOR SERVICE

- All members may purchase up to a total of five years of credited service with a duly constituted police department; or
- May purchase 5 years of prior military service;
- Prior service does not count for vesting purposes and cannot exceed 5 years total;
- The member pays the full actuarial cost;
- Installment purchases at 8% interest.



# DEFERRED RETIREMENT OPTION PLAN (DROP)

## ELIGIBILITY:

- Tier 1 (20 years or age 55 & 5);
- Tier 2 (25 years or age 55 and 10);

Member decides whether and when to enter DROP after eligibility for service retirement.



# DROP LENGTH

## HOW LONG CAN I PARTICIPATE IN DROP?

- Maximum participation for **5 years**;
- Decision to enter DROP is **irrevocable**;
- Don't need to stay the full 60 months (can always leave earlier with advance notice);
- **Must separate** from service after 5 years!



# DROP PROCEDURE

## HOW DOES DROP WORK?

- Upon entering DROP you “retire” for pension purposes;
- Monthly pension benefit locks in based on current earnings and service;
- Pension benefit is paid into DROP account each month;
- Must terminate employment after 5 years;
- DROP earns interest at plan’s assumed rate (currently 7.75%);
- **Assumed rate may be adjusted prospectively, but not retroactively by the Pension Board.**



# DROP ACCOUNT DISTRIBUTION

## HOW IS DROP MONEY PAID OUT?

- Single lump sum; or
- Rollover to another qualified plan, IRA or 457.

**Can't touch DROP account until you separate from service.**

Payment shall be made within (90) days after separation.



# DROP

## TAX ISSUES:

- You can avoid current tax liability by rolling DROP balance over into another qualified plan, IRA or 457.
- Distributions from the DROP received **prior to age 59 ½** are subject to a **10% IRS penalty** plus regular income tax unless:
  - (a) you retire from the City in the year that you turn 50 (or older), or
  - (b) you elect substantially equal payments



# DROP

## ADVANTAGES OF DROP:

- Lump sum / “nest egg”
- Head-start on retirement
- Two incomes / accelerate your pension while still working
- Tax Deferred Growth (at the plan’s assumed rate of return – currently 7.75%)
- Tax deferral continues if rollover to an IRA
- No longer contribute 10% of salary



# DROP

## DISADVANTAGES OF DROP:

- Required to terminate employment in 5 years;
- If family circumstances change might not want to terminate employment – irrevocable;
- No disability benefits from the Plan since already retired;
- Don't get additional service or higher earnings;
- Lower monthly pension;
- If union negotiates a higher pension, assume enhancements would not be covered.





# DISABILITY BENEFITS

- Service Connected Disability:
  - greater of accrued benefit, but **not less than 42%** of pensionable earnings (special tax treatment);
  - day one coverage
- Non-service Connected Disability:
  - accrued benefit, but **not less than 25%** (no special tax treatment)
  - must be vested (ten years)
- Presumptive illness (heart-lung bill)



# CITY BENEFITS

- Worker's Compensation and funeral expenses;
- Statutory death benefits (§112.19 and §112.191)
  - \$64,801 if accidentally killed on duty;
  - \$129,603 if accidental death occurs responding to what is reasonably believed to be an emergency;
  - \$195,342 if unlawfully killed during arson/intentional act;
- Exempt from claims of creditors;
- Health insurance benefits if catastrophic injury;
- Florida college and graduate school tuition for children and spouse.



# ADDITIONAL INFORMATION

FORFEITURE – you lose your pension benefit if:

- Commit a specified criminal offense
- Florida Statute Section 112.3173
- Robbery example



# ADDITIONAL INFORMATION

1. Think ahead about your own future!
2. Do you have a personal financial plan? Life insurance? Long term care insurance?
3. What is your “tolerance” for investment risk?
4. Do family circumstances “compel” a certain approach? (i.e., disabled child? Elder Care responsibilities? Personal health problems or likelihood of them?)
5. How long will you live?
6. Young? Older? Married? Not?
7. Your “vision” of your own retirement? When? Under what conditions? Where?
8. Do your homework.



# ADDITIONAL INFORMATION

- See a financial professional
- Think about tax consequences
- Think about participating in the City's 457 plan (\$17,500 in 2013)
- Think about new "catch-up" provisions (3 years prior to retirement can contribute extra)
- Think about an IRA/ROTH IRA (\$5,500 in 2013; \$6,500 if 50 or older)
- Think about an Education (Coverdell) IRA (\$2,000)
- Think about a 529 College Savings Plan



# ADDITIONAL INFORMATION

- Make a will ! (inevitability of death and taxes)
- Update your will !
- Submit a beneficiary designation to the Board.
- Update your designation form.



# CONFLICTS

- The foregoing presentation has been designed to help answer some of your questions about how your Pension Plan is organized and managed.
- The final authority on interpretation of the Plan is the actual legislation which created the Plan.
- In the event of any conflict between this presentation and the City Code the provisions of the Pension Code control.