

# **CITY OF LAUDERHILL POLICE OFFICERS' RETIREMENT PLAN**

**DEFERRED RETIREMENT OPTION PLAN  
(DROP)**

**FREQUENTLY ASKED QUESTIONS**

**December 2015**

## **WHAT IS THE DEFERRED RETIREMENT OPTION PLAN (DROP)?**

The DROP plan is a form of retirement benefit that allows an employee to continue working while accumulating a savings account consisting of the benefits that would have been received had the employee actually retired and separated from service. In other words, it is a chance to earn two incomes at the same time, with one of them being saved and invested without current tax liability.

## **HOW DOES THE DROP PLAN WORK?**

The DROP plan is found in Sections 2-87.1 of the Lauderhill City Code. In order to be eligible for the DROP, an employee must have reached the necessary years of service and age to receive early or normal retirement.

Once an employee elects DROP participation, the retirement benefits are calculated as if the employee had actually retired. Average final compensation is determined based on the DROP date as if it was the last day of employment. The benefit is calculated using the credited service earned as of the DROP date.

Beginning on the first day of the month following the DROP date, the employee will receive credit into his or her DROP account for the amount of the monthly retirement benefit. For the purpose of determining benefits for a Tier Once DROP participant, the value of a member's pensionable accrued holiday/incentive, vacation and sick time, as of April 28, 2014, will be included based on the member's rate of pay as of the earlier of the date he/she enters the DROP or September 30, 2014, provided that he/she maintains said leave at the time he/she enters the DROP.

Members who are eligible to enter the DROP before April 28, 2014 shall earn interest

based on the actuarially assumed rate of the pension plan (which is currently 7.75% per year). The assumed rate may be adjusted prospectively by the Pension Board from time to time, but cannot be decreased retroactively. Members who are eligible to enter the DROP on or after April 28, 2014, shall be credited (if applicable) at the monthly actual rate of return achieved by the Trust Fund, positive or negative, net of investment and other direct administrative expenses (the "Actual Rate of Return"). Any member who is eligible to enter the DROP before April 28, 2014 shall have the option to earn interest based either upon the actuarially assumed rate of the pension plan or at the monthly Actual Rate of Return achieved by the Trust Fund, but the member had to have notified the City of his/her election between the options within 30 days of the ratification of the collective bargaining agreement between the City and the Fraternal Order of Police, Lodge #161, covering 2013-2016. Upon exiting the DROP, a participant's account cannot be less than the sum of their monthly payments into the DROP during their DROP period. Members shall not have the option of receiving a fixed amount in their DROP account for any period after April 28, 2014.

### **HOW DO I GET MY MONEY AT THE END OF THE DROP PERIOD?**

At the end of the DROP period, an employee must leave the service of the City. At that time, the DROP money is available in a number of ways. It can be taken as a lump sum or rolled over to another retirement plan such as an individual retirement account (IRA). If taken as a lump sum, the DROP money will be immediately taxable. This means that a significant portion of the money will be paid in taxes and early distribution penalties.

A rollover is a direct transfer from the Retirement Plan to another retirement plan, such as an IRA. This permits an employee to avoid paying taxes on the money until a later date. This

option is good for employees who do not have a present need for the DROP assets and wish to delay receipt until a later time. Be aware, if a rollover is selected, the money will not be available tax-free until age 59-1/2. If the money is withdrawn at an earlier age, there is a 10% penalty on top of the ordinary income taxes.

**DUE TO THE POTENTIALLY SIGNIFICANT TAX QUESTIONS, MEMBERS ARE ENCOURAGED TO SEEK A COMPETENT TAX ADVISOR.**

**WHAT IF I BECOME DISABLED WHILE I AM IN THE DROP PLAN?**

If you elect to enter the DROP, **YOU ARE RETIRED FROM THE PLAN.** This means that **disability benefits under the pension plan are no longer available.** If you become disabled and are not able to continue working for the City, you will receive a regular service retirement and a payout of any accumulated DROP monies. The DROP has no effect on your rights under the state Workers' Compensation laws.

**WHAT ABOUT SURVIVORSHIP BENEFITS WHILE IN THE DROP PLAN?**

Remember, while in the DROP, you are considered retired from the Plan. If you die and have elected a survivorship benefit, your survivor will begin receiving the monthly survivorship benefit. The DROP account will be distributed to the person you designate in writing. If no written designation has been made, the DROP assets become part of your estate. It is **extremely important** that the Retirement Administrator be informed of your designated beneficiary, in writing, or your DROP benefits may end up going to someone other than the person you want to receive them.

## **WHAT HAPPENS IF I DROP AT EARLY RETIREMENT AGE?**

The DROP works exactly the same way at early retirement that it does at regular retirement age. When an employee takes early retirement, however, the monthly benefit is reduced on an actuarial basis to account for the fact that you will be receiving benefits over a longer period of time.

## **WHEN DO I SELECT MY RETIREMENT OPTION?**

At the time you enter the DROP, you must elect the form of benefit you want, as if you were separating from service. Under the terms of the Plan, you can take benefits as a life annuity, a joint and last survivor option, or a 10-year certain and life thereafter option.

A life annuity means a monthly benefit payment made for the life of the member only. This yields the most money of any benefit because the benefit is enhanced due to the absence of any minimum guaranteed payment. If the member dies, the benefit ends. There is no payment to any survivors. A joint and last survivor option lets a member take a smaller payment during his or her life and leaves a percentage of benefits for a survivor. Any person may be named as survivor; it need not be the member's spouse. The payment to the member is smaller because the Plan is providing payments to two people instead of one. If the survivor dies before the benefits begin, the election is cancelled and as if the election had never been made. At that time, the member may elect an unreduced life annuity or a 10-year certain and life thereafter benefit.

A ten year certain benefit guarantees that the Plan will pay 120 monthly payments. If the member dies before the 120<sup>th</sup> payment, the remaining unpaid amount is paid to a designated survivor, or if no one is designated, then to the member's estate. If the member is still alive after 120 payments, the benefits continue as a life annuity with no survivorship benefit. This is the

“normal” form of retirement.

### **WHEN SHOULD I ENTER THE DROP?**

**This is a very personal decision.** You may enter the DROP upon attaining eligibility for a service retirement. However, no one knows better than you when to begin taking retirement benefits. Once you enter the DROP, you cannot accumulate any more service credit in the Plan.

If you get a raise or a promotion after you enter the DROP, that salary increase will not count toward your pension. **Once you enter the DROP, you are retired under the Plan and your benefits are fixed.**

### **WHAT EFFECT DOES DROP HAVE ON MY OTHER RIGHTS AS AN EMPLOYEE?**

While in the DROP, you continue to enjoy all other City employee rights. The DROP only affects your status in the Retirement Plan. In all other respects, you are still an active City employee.

### **HOW IS MY DROP ACCOUNT INVESTED?**

Your DROP money stays as part of the Retirement Plan assets until it is paid to you. The assets of the Retirement Plan are invested by professional investment managers in a variety of corporate stocks and corporate and government bonds. The Retirement Plan has a consistent history of steady growth in its investments. A DROP participant’s account earns interest at the same rate as the investment earnings assumption for the plan (currently 7.75 percent per year,

compounded annually). The investment earning assumption may be adjusted up or down during participation in the DROP, which would result in a change in the prospective interest rate credit on the individual's DROP account.

**CAN I GET MY DROP MONEY BEFORE I STOP WORKING FOR THE CITY?**

No. In order to receive any payment from the Plan, including the DROP money, you must actually separate from service. It would violate both state and federal tax law to receive a distribution while still an active employee. There is no minimum time you must stay in the DROP. You may leave City service at any time and receive the DROP money.

**ONCE I ENTER THE DROP,  
MUST I RETIRE AT THE END OF THE DROP PERIOD?**

Yes. DROP participation is retirement from the Plan. Once you enter the DROP, you agree to leave the City workforce as a police officer no later than 5 years after your DROP participation begins. After retirement, if you are re-hired by the City as a full-time Civil Service employee, in a position covered by this Plan (police officer), your pension payments stop (including any undistributed DROP money) and you must once again join the Plan.

**DO I MAKE CONTRIBUTIONS WHILE IN THE DROP?**

No. Once you enter the DROP neither you nor the City makes any further contributions on your behalf to the Plan.

### **CAN A DIVORCE AFFECT MY RIGHTS IN THE DROP?**

Yes. All retirement benefits, including DROP assets are considered marital property subject to division in a divorce proceeding. No payment can be made from the DROP until a member separates from the City, but a court can determine that upon distribution, a certain percentage be awarded to a former spouse.

### **HOW CAN I GET MORE INFORMATION?**

Entering the DROP is a big decision. Once made, it is **FINAL**. Before entering the DROP, you are encouraged to attend a meeting of the Plan's Board of Trustees or to submit written questions to the Board. The DROP is a valuable benefit, but like anything, it does not meet everyone's needs in the same way. Before you decide to participate in the DROP, be sure of your rights and make careful plans for your future. For more information, you may contact the Plan Administrator.