Howard County Police and Fire Employees' Retirement Plan Deferred Retirement Option Plan Q & As

What is DROP?

DROP stands for Deferred Retirement Option Program. DROP is a voluntary program that provides an alternative way for participants to earn and receive their retirement benefits. A key feature of DROP is the individual account. When a participant enters the program, a DROP account is created. The account is credited with the monthly retirement benefits that would have been collected if he/she had retired instead of entering DROP. A participant will continue to pay their required contributions to the retirement plan while in DROP, but these contributions will also be added to the DROP account along with interest compounded monthly.

Who is eligible for DROP?

All active participants in the Howard County Police and Fire Employees' Retirement Plan who have at least 25 years of Creditable Service may elect to participate in DROP. Sick leave credit does not count toward eligibility to participate in DROP.

How do I apply for DROP?

Notify the Retirement Coordinator of your intent to enter DROP by completing the required application form. The application must be submitted at least 30 days, but not more than 90 days, before you want your participation to begin. Participation always begins on the first of a month. Return the application to the Office of Human Resources.

How long can I participate in DROP?

You may elect to participate in DROP for a minimum of two years and a maximum of five years. However, if you enter DROP after you have 30 years of Creditable Service, you must exit DROP by the date you attain 35 years of Creditable Service.

When you initially apply for DROP, you need not decide how long you will be in the program. However, you must notify the Retirement Coordinator and your department of the date you intend to exit DROP at least 18 months in advance. Failure to provide 18 months' notice will result in an interest penalty.

How does DROP work?

If you elect to participate in the DROP program, you:

- Continue working and keep collecting a paycheck;
- Remain eligible for County health insurance, life insurance, paid time off and all other County benefits as if you had never entered DROP;
- Continue making retirement plan contributions (until you have 30 years of Creditable Service); and
- Begin earning a DROP account in your name.

When you begin DROP participation, your retirement benefit will be calculated based on your Average Compensation and Creditable Service at DROP entry. This benefit is credited to your DROP account each month, along with your employee contributions and compounded monthly interest.

When you actually retire (i.e., end your County employment), you begin receiving the monthly retirement benefit you had earned up to your DROP entry date (adjusted for unused sick leave), plus the accumulated value of your DROP account.

How does DROP affect retirement benefits?

Creditable Service (except sick leave credit) and Average Compensation are frozen at DROP entry. Creditable months of service for unused sick leave will be added to your monthly retirement benefit at the end of the DROP period.

The annual COLA awarded to retirees is added to your benefit only after the DROP period ends and you begin collecting your monthly retirement benefit. The first COLA will be awarded on the July 1 coincident with or next following the one-year anniversary of the date you exit DROP.

What is in the DROP account?

During your participation in DROP, your DROP account will receive a deposit equal to:

- Your monthly retirement benefit, calculated as of your DROP entry date in the form of a single life annuity, PLUS
- Your employee contributions to the retirement plan, calculated by multiplying your monthly compensation by the contribution rate that applies to you (7.7% for fire employees and 11.6% for police employees).

Interest is added to the DROP account at the end of the month.

How is the DROP interest rate determined?

The interest rate credited to your DROP account will equal the assumed rate of return on the Plan's investments as established by the Retirement Plan Committee, minus 4%. If the Plan rate changes, the rate on your DROP account will change as well. However, the DROP interest rate will never be less than 1.5% annually.

For 2019, the Plan's investment rate is 7.45%; therefore, the DROP interest rate is 3.45%

How will the DROP benefit be paid to me?

You can receive your final DROP account as one of the following:

- A lump sum payable to you (with required taxes withheld), or
- A direct rollover, or
- Monthly payments in the form you elect for your basic retirement benefit.

For example, if you receive your monthly retirement benefit as a joint and 100% survivor annuity payment, you can increase your monthly payment by converting your DROP account to an annuity. The conversion is based on actuarially equivalent factors, so that the monthly payments have the same present value as the final DROP account.

Before you decide whether to take your DROP account as a lump sum, a rollover, or monthly payments, be sure to carefully consider the potential tax consequences. If you use the rollover option, you can defer payment of income tax on your lump-sum benefit by transferring it to an individual retirement account (IRA) or to another tax-qualified plan.

What happens if I enter DROP but retire before the two-year minimum?

If you retire less than two years after entering DROP, you will receive plan benefits as if you never entered DROP (i.e., Average Compensation and Creditable Service will be calculated as of your date of termination and you will <u>not</u> receive a DROP account).

What is the penalty for not providing 18 months' written notice of my intention to exit DROP?

You will forfeit a portion of the interest credited to your DROP account. The number of months of interest forfeited is equal to the lesser of (a) 12 months; or (b) 18 minus the number of full calendar months you actually worked after giving the written notice. If no notice is given, the penalty will be 12 months of interest.

Participants in the original police DROP who transferred to the new DROP having already completed 3 years of the original DROP program are not subject to the penalty. Furthermore, no penalty will be assessed for participants who remain in DROP for the maximum participation period (5 years or 35 years total Creditable Service).

Can I change my mind about the exit date after giving written notice?

Yes, you have 60 days to withdraw your notice after it has been received by the Retirement Coordinator. After 60 days, your election is irrevocable.

Can I extend my DROP period after giving the 18 months' notice to exit DROP?

You can request a one-time extension of no more than 6 months. The extension must be approved by the County Executive. No extensions will be granted that extend the DROP period past the 5-year maximum.

Employee contributions to the Plan cease when a participant reaches 30 years of Creditable Service. What effect will this have on my DROP benefit?

Your employee contributions will still end once you have 30 years of Creditable Service. After 30 years, the DROP account will only be credited with your retirement benefit calculated upon entering DROP and the compounded monthly interest for the remaining duration of your DROP participation. If you begin DROP after you already have 30 years of Creditable Service, the DROP account will not include any employee contributions.

What if I become disabled during DROP or during a DROP extension?

You can elect one of the two benefits below:

A. The monthly disability retirement benefit you would have received if you had not entered DROP and **no** balance of the accumulated DROP account, or

B. The monthly disability retirement benefit calculated based on the date you entered DROP and the DROP account balance that has accumulated through the date of termination paid as a lump sum or rollover to a qualified plan.

What if I die during DROP or during a DROP extension?

The following rules apply if a DROP participant dies, whether in the line of duty or under other circumstances.

<u>If your beneficiary is eligible for a death benefit annuity:</u>

Your beneficiary will receive the balance in your DROP account plus the death benefit provided in the retirement plan (ordinary or line-of-duty) based on continuation of pay and Creditable Service from DROP entry to date of death.

<u>If your beneficiary is not eligible for a death benefit annuity:</u>

Your beneficiary will receive:

A. The balance in your DROP account, plus

B. The lump sum general death benefit

Is my DROP benefit taxable?

Taxable payments (i.e., anything other than your after-tax contributions or, possibly, disability benefits) are taxable when you receive them, not when they go into your account. To defer taxes, you can roll the taxable portion of your lump sum into an IRA or another tax qualified retirement plan. Under the provision of the Pension Protection Act of 2006, a 10% early distribution penalty will not apply to DROP payments or other lump sum distributions made to retired public safety employees who separate from service after age 50.

Taxes on disability payments may differ.

How will I know the balance of my DROP account?

You will be provided with an annual statement of your DROP account balance.

How does DROP affect the following other benefits, both during and after DROP?

- ***Group Insurance (Health, Life and LTD)***
- ***Annual/Sick/Personal leave***
- ***Social Security***
- ***Unemployment***

While you are in DROP, all other benefits will be the same as they are for active employees who do not participate in DROP. After you exit DROP through retirement, these benefits will be the same as for any other retiree.

You will continue to earn annual sick leave while in DROP at the same rate as any other active employee. At the end of DROP, any sick leave will be converted to Creditable Service and used to increase the post-DROP monthly retirement benefit.

How does DROP affect the 457 (deferred compensation) plan?

DROP has no effect on the 457 plan. Your actual retirement date (when you leave DROP) is your retirement date for 457 purposes. You cannot receive 457 benefits until you retire. You can continue to contribute to the 457 plan while in DROP. Your catch-up years do not change.

While every attempt has been made to make this summary as accurate as possible, should information contained herein differ from the Howard County Police and Fire Employees' Retirement Plan as it is stated in the Howard County Code (Sections 1.401A through 1.478A), the terms of the Code will prevail.

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