



Pension Perspectives

OCTOBER 2002

What's the Difference Between Tier 5 and DROP?

The Deferred Retirement Option Program (DROP) and Tier 5 are being offered to eligible active sworn members of the Police and Fire Departments. Many members have expressed confusion over the differences between the two...

Tier 5 is one of four active tiers in the Fire and Police Pension System. Tier 5 is the current tier provided to members hired after January 1, 2002.

If you were an active member of Tiers 2, 3, or 4 on January 1, 2002 and are still an active member, you are eligible to transfer to Tier 5. **The Tier 5 transfer period ends December 31, 2002.** Members hired on or after January 1, 2002 are automatically members of Tier 5.

Some of the major provisions of Tier 5 are:

- A 90% pension at 33 years of service
- A 3% Cost of Living (COLA) cap and a COLA Bank (A COLA bank "stores" COLA amounts over the 3% cap.)
- You must complete at least 20 years of service and be at least age 50 to be eligible to retire on a service pension.
- Mandatory Contribution – 9% (although City will pick up 1% if pension system 100% funded)

The above provides a basic overview of DROP and Tier 5. For more detailed information, please see the following articles on *DROP Enrollment*, *The End is Near*, and *Tier 5 Myths and Misconceptions* also included in this newsletter. You can also visit our website at www.lacity.org/pen; or contact the Disability Section at (213) 978-4500 for DROP information, and Member Services at (213) 978-4522 for information on Tier 5.

DROP is an enhancement to your pension that can provide you with another way of saving for your retirement years. It is an *optional voluntary* program that allows you to work and receive pay and benefits as an active employee while accumulating service pension payments in a DROP account. You are considered "retired" for purposes of pension calculations only; for all other purposes you are considered an active member of your respective department.

While in DROP, your monthly pension payment is held in an account with a
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The Department of Fire and Police Pensions has some new phone numbers:

Disability Pension/DROP Section
(213) 978-4500

Retired Member Services
(Direct Deposit, Tax Withholding)
(213) 978-4495

Service Pension Section
(Pension Calculations, Address Changes)
(213) 978-4575

Active Member Services
(213) 978-4522

Communications Section
(213) 978-4523 or (213) 978-4524

Medical and Dental Section
(Retiree Subsidies)
(213) 978-4560

New Suite Number for above sections:
Suite 400

New FAX Number for above sections:
(213) 978-4450

Tier 5 – Myths & Misconceptions

GET THE FACTS!

All tiers in the Fire and Police Pension Plan offer benefits such as service pensions, disability pensions, and survivor pensions and all but Tier 4 provide for a refund of contributions. Specific provisions differ from tier to tier and affect areas such as eligibility, pension percentage amounts, etc. In evaluating the pros and cons of transferring to Tier 5, we have come across the following myths and misconceptions from our members.

MYTH: If I transfer to Tier 5 and die before I turn 50, my qualified survivor(s) will only be entitled to a refund of contributions plus interest.

FACT: If you transfer to Tier 5 and die as an active member, your *qualified survivor(s)** would be eligible for survivor benefits depending on the type of death: service-connected or nonservice-connected.

The confusion appears to be with a benefit called the Deferred Pension Option. In Tier 5, this option allows you the opportunity to stop working if you have at least 20 years of service and defer your pension until you turn age 50. From the time you stop working as an active sworn member of LAPD/LAFD until you start receiving your pension at age 50, you are technically resigned (you are not an active member and you are not a retiree). In this case, if you died before receiving your pension at age 50, your qualified survivors would only receive a refund of contributions plus interest.

*Definitions, eligibility requirements and survivor pension amounts vary according to the type of death or disability (service-connected or nonservice-connected). For information on qualified survivors and survivor benefits, please refer to the Summary Plan Descriptions available on the website at www.lacity.org/pen or contact Member Services at (213) 978-4522. Qualified survivors requirements are the same for Tiers 3, 4 and 5.

MYTH: I can wait until I'm closer to retirement to transfer to Tier 5.

FACT: The enrollment period for Tier 5 ends December 31, 2002. We will accept forms in our offices until 5:00 PM on that day. Election forms that are mailed must be postmarked no later than December 31, 2002. We cannot accept any Tier 5 transfer forms once the enrollment period ends.

MYTH: My death is nonservice-connected, and I am not age 50, my survivor(s) will not receive a survivor's pension.

FACT: If you are an active member and your death is nonservice connected, Tier 5 has a provision for a nonservice-connected death pension. As long as the member had 5 or more years of service, the *qualified survivors* would be eligible for a survivor's pension. For members who had completed less than 5 years of service, qualified survivors would receive a refund of contributions and a limited benefit. For members with less than one year of service, the qualified survivor(s) would be eligible for a refund of contributions plus interest only.

Age of the member does not affect the eligibility requirements for a nonservice-connected survivor's pension.

*For definitions of qualified survivors, please refer to the Summary Plan Descriptions available on the website at www.lacity.org/pen. Qualified survivors requirements are the same for Tiers 3, 4 and 5.

MYTH: As a Tier 3/Tier 4 member, I will owe back contributions if I transfer to Tier 5.

FACT: You may or may not owe contributions based on the Tier you transfer from and your years of service.

As a Tier 2, 3, or 4 member, when you reach 30 years of service you stop making pension contributions. Tier 2 members contribute 7% to the pension system, while Tiers 3 and 4 contribute 8% to the pension system.

Any back contributions owed are collected from January 1, 2002 through the date of transfer to Tier 5.

These variables create quite a few different situations. To see what your situation is, review the bullet points below. If your specific situation is not covered below, please call Member Services at (213) 978-4522.

■ Tier 2 members with less than 30 years of service on January 1, 2002 – mandatory contributions will increase from 7% to 8%. The 1% difference of pensionable pay will be owed from January 1, 2002 through the date of transfer;

■ Tier 2 members who had between 30 and 33 years of service on January 1, 2002 - 8% of pensionable pay will be owed from January 1, 2002 through the date of transfer;

- Tiers 3 members who had who had between 30 and 33 years of service on January 1, 2002 - 8% of pensionable pay will be owed from January 1, 2002 through the date of transfer;
- Tier 4 members who had between 30 and 33 years of service on January 1, 2002 – you will owe 8% of pensionable pay from January 1, 2002 through the date of transfer.
- All members with 33 or more years of service on January 1, 2002 who transfer to Tier 5 – no retroactive or future pension contributions are required.

If you are transferring to Tier 5 and owe back contributions to the system, we encourage you to transfer to Tier 5 in person and to bring your checkbook with you. Pensions' staff can calculate the back contributions you owe, have you pay us the amount owed, give you a copy of your transfer form and receipt for your payment. You can complete the transfer process that day.

MYTH: I can enroll in DROP, and then transfer to Tier 5 at a later date.

FACT: If you wish to transfer to Tier 5, you must do so before enrolling in DROP, and before the enrollment period for Tier 5 closes on December 31, 2002. Active members can transfer to Tier 5 only during the designated enrollment period. Once you choose to participate in DROP, you are considered “retired” in terms of pension benefits.

MYTH: I am currently a Tier 3 member; so transferring to Tier 5 is a “no brainer”.

FACT: Although many of the provisions of Tier 5 are exactly the same as Tier 3, the decision to transfer to Tier 5 may not benefit every Tier 3 member.

Members of Tiers 3 are encouraged to consider the following factors when transferring to Tier 5.

- Mandatory contribution – 8% in Tier 3 vs. possible 9% in Tier 5
- Maximum pension percentage – 70% in Tier 3 vs. 90% in Tier 5
- COLA Bank in Tier 5 vs. no COLA Bank in Tier 3
- Age and Service Requirements – Age 50 and 20 Years of Service (Tier 5) vs. Age 50 and 10 Years of Service (Tier 3)
- Deferred Pension Option* – Available at 20 Years of Service for Tier 5 and at 10 Years of Service for Tier 3

Age and vesting are two concerns expressed by members of Tier 3. For example, members who started their career at a later age may be closer to reaching service pension eligibility requirements in Tier 3 (10 YOS and age 50) than in Tier 5 (20 YOS and age 50). Vesting at 10 Years of Service in Tier 3 rather than at 20 Years of Service in Tier 5 is important to some members.

*The Deferred Pension Option (not to be confused with DROP) allows members the opportunity to stop working with at least 20 years of service and defer the pension until the member turns 50. Please contact Member Services at (213) 978-4522 for all the specific provisions of the Deferred Pension Option.

MYTH: The money in my Tier 5 COLA bank will collect interest.

FACT: No. The yearly retiree COLA is based on the movement of the CPI. This COLA is capped at 3%. COLA percentages above the 3% cap are deposited into your Tier 5 COLA bank, for use in future years when the CPI dips below the 3% cap. No money is deposited into the COLA bank.

MYTH: Since I can pick any 12 consecutive months of pay for my Final Average Salary, I should pick the months I worked the most overtime.

FACT: Picking the months you worked the most overtime doesn't matter since overtime is not included in any pension base in any tier of the Fire and Police Pension Plan.

Transferring to Tier 5 will affect members differently based on personal circumstances in your life. What may benefit another member may not be beneficial to you. You may want to consider consulting a professional advisor or an attorney who specializes in estate planning. We have provided information in the decision guides, benefit comparison statements, on the website and through Tier 5 training classes so that a professional advisor can make an evaluation based on your specific goals.

It is the responsibility of the Department of Fire and Police Pensions to administer and communicate information on the pension benefits of the Fire and Police Pension Plan. If you have questions on any of your pension benefits, we strongly encourage you to contact us.

Member Services' staff is available Monday through Friday, 8:00 AM to 5:00 PM at (213) 978-4522, or visit us at 360 E 2nd Street, Suite 400. You can also email us at Tier5@fppen.lacity.org for specific Tier 5 questions or you can check our website at www.lacity.org/pen for information posted on Tiers 2, 3, 4 and 5.

What Is the Retired Fire and Police Association?

A Note from Lee Kebler, Director, LARFPA

The Los Angeles Retired Fire and Police Association (LARFPA) was founded in 1928. Its goal was “to improve the welfare of our retirees” and this is still our goal today.

LARFPA operates a social welfare and advocacy organization on a non-profit, non-sectarian, non-political basis for the pensioners of the Los Angeles Fire and Police Departments, their spouses, widows, widowers and dependent children and parents.

What do you get as a member of LARFPA? For starters the Association publishes a quarterly newsletter to keep the membership informed of current events. A roster book is published every other year and lists most of the names and addresses of our 11,000 members. The roster has a geographical section that helps locate old friends and coworkers while traveling. There is an important information section on how to seek assistance in time of financial need or bereavement and lists the addresses and phone numbers of related organizations i.e. Department of Fire and Police Pensions, Fire and Police Relief Associations, United Firefighters of Los Angeles, Police Protective League, etc.

We host general meetings the first Wednesday of the month at Grace Simons Lodge in Elysian Park featuring interesting guest speakers for our members. We sponsor a Bar-B-Q and a Christmas party with great food, entertainment, and a chance to meet old friends.

Some of the advocacy items the Association is involved in are the liaison committees with the Department of the Fire and Police Pensions, Council members, Fire and Police Relief Associations, Police Protective League

and United Firefighters of Los Angeles. Through activities and efforts with these various organizations we have achieved several important benefits in recent years. We now have a retired Firefighter and a retired Police Officer elected to the Fire and Police Pension Commission; widows and domestic partners receive medical subsidies; widows who remarried and lost their pensions have had their spouses pensions reinstated.

Our Board of Directors is composed of all volunteers and we have a full time staffed office for service to the membership. Any Director can be reached through the office. Now for the best news – What does all of this cost? A “BUCK” a month dues are paid by payroll deduction and have been in existence at this rate for over 25 years. To be eligible for all of this, you must be a retired Firefighter or Police Officer or an **active member of either Department with at least 20 years of service.**

Applications and/or information may be requested from the Association office by writing, phoning, E-mail or our web site.

Los Angeles Retired Fire and Police Association
9521 Las Tunas Dr. Suite 4
Temple City, CA 91780
(626) 285-5138, (626) 283-4441,
(888) 288-5073
E-mail: larfpa @pacbel.net
website: www.larfpa.org



A NOTE ABOUT HEALTH AND DENTAL COVERAGE

IF YOU ARE GETTING READY TO RETIRE you should be aware that the City of Los Angeles Personnel Department does not provide health and dental insurance coverage to sworn retirees. If you are an active employee and currently have coverage through the City, you will not be able to continue with that coverage in your retirement.

Below is a listing of City associated organizations that provide retiree (and active) health and dental insurance. If you are near retirement, we highly recommend you call one of the following associations to obtain information on the plans available, open enrollment periods, and eligibility requirements.

Health and Dental Coverage

Los Angeles Police Relief
(800) 252-7721

United Firefighters of Los Angeles
(213) 895-4990

Health Insurance Only

Los Angeles Firemen's Relief
(800) 244-3439

Dental Insurance Only

Police Protective League
(800) 535-2775

For information on the retired health subsidy, please contact the Medical and Dental Plans Section of the Department of Fire and Police Pensions at (213) 978-4560.

DROP Enrollment

HOW TO ENROLL

If you are eligible and elect to participate in DROP, you must first schedule an appointment with your Department's Retirement Counselor to determine your service pension effective date and DROP enrollment date. Your Counselor will give you an original "Letter of Intent" to retire and enter DROP.

Next, you must schedule an appointment with the Department of Fire & Police Pensions to come in and sign up for DROP and fill out the necessary service pension forms. (You must enroll in DROP in person.) So we may process your application in a timely fashion, your appointment should be scheduled at least 30 to 45 days prior to your intended effective date of participation in DROP.

Your DROP effective date can be no earlier than the 1st day of the month you enroll in DROP. You may select any day of the month as your effective date to enter DROP; it does not have to be the 1st of the month.

To enroll in DROP, you need an original Letter of Intent from your retirement counselor, your California Driver's License or Department picture ID card and Social Security numbers for your spouse and any minor children, as well as their birth dates. We request that you also submit any marriage/dissolution of marriage documents if not already on file with the Department of Fire & Police Pensions.

IMPORTANT REMINDERS: You are considered "retired" for purposes of pension calculations only; no further service credit is earned during your DROP participation period. Your service accrual and all of your eligibility conditions are frozen on the date you

enter DROP. Prior Service Time, Lost Service Time (Tier 2) or Workers' Compensation State Rate Time or Academy Time (Tiers 3, 4, 5) **must** be purchased prior to enrollment in DROP for that time to be counted toward your length of service.

If you plan to transfer to Tier 5, you must do so prior to enrolling in DROP. All back contributions must be paid in full for your DROP application to be processed.

HOW TO EXIT DROP

When you are ready to leave DROP and at the same time terminate sworn City service, you must contact your Department's Retirement Counselor to determine your exit date and to get an "exit" Letter of Intent with your original signature. Although an appointment with the Department of Fire & Police Pensions is not required for the exit process, it is suggested that you call ahead to ensure that staff can accommodate your desired arrival time. You will need to present your completed Distribution Election Form. When you have made a decision to exit, you have 90 days following your exit date to decide how to receive your DROP funds and complete the regular service pension process. Again, we request you complete the exit process 30 to 45 days prior to your planned exit date for processing purposes.

HOW TO CONTACT US

You may enroll in DROP at the Department of Fire & Police Pensions, located at 360 E. 2nd Street, Suite 400, Los Angeles, CA 90012 between the hours of 8:00am to 4:00pm. Please call (213) 978-4500 for DROP information or to schedule an appointment.

THE END IS NEAR!

*Tier 5 Enrollment Period
Ends December 31, 2002!*

The decision to transfer to Tier 5 is yours, but you only have until 5:00 p.m. on December 31, 2002 to make your decision. We cannot accept any applications after the deadline. If you are undecided or are waiting until the end of the enrollment period to transfer, we encourage you to file at least a couple of weeks prior to December 31, 2002 to avoid any delays in processing your transfer form.

If you mail in your Tier 5 application form, it must be postmarked no later than December 31, 2002.

If you are planning to transfer to Tier 5 in person, please bring your checkbook. You may owe back contributions if you are in Tier 2 and have less than 33 years of service; or if you are in Tiers 3 or 4 and have between 30 and 33 years of service.

Deciding if Tier 5 is right for you is a personal decision but one you must make before December 31, 2002.

To assist you in making an informed decision we are conducting numerous Tier 5 information presentations. You can check our website for upcoming Tier 5 presentations, to get a Tier 5 pension estimate using our pension calculator or for other Tier 5 information at www.lacity.org/pen. Member Services staff is also available from 8:00 a.m. to 5:00 p.m. to answer any questions over the telephone or in person.



RETURN SERVICE REQUESTED

Los Angeles, CA 90012
Suite 600
360 East Second Street
Mail Stop #399

Department of Fire and Police Pensions



FIRST CLASS MAIL
US POSTAGE PAID
LOS ANGELES CA
PERMIT NO. 12932

Difference Between Tier 5 and DROP

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guaranteed interest rate of 5% per annum. When you decide to leave the DROP program (after 1 day or up to 5 years maximum) you are required to terminate sworn employment with the Fire or Police Department. You will then begin to receive your monthly pension benefits and your accumulated DROP account balance in either a lump sum or you may roll the full amount into another tax-qualified account.

- DROP is currently available for a 5-year period (DROP window), which began May 1, 2002. The window ends April 30, 2007 but may be extended if the City Council decides to do so;
- You can participate in DROP up to a maximum of 60 months (5 years) regardless of when you sign up during the 5-year window;

- You are eligible to join DROP if you are:
 - ◆ an active Tier 2 or Tier 4 member with at least 25 years of service;
 - ◆ an active Tier 3 or Tier 5 member with at least 25 years of service and you are at least 50 years of age;
- Your decision to participate in DROP is irrevocable. (You have 7 days after you apply to change your mind. After the end of the 7-day period, you cannot exit DROP without terminating employment.)

For more information on enrolling and exiting DROP see "DROP Enrollment" on Page 5. ■

Still To Come...

...Benefit Information Follow-up!

The Department of Fire and Police Pensions sends information directly to the address you have on file with the City payroll system. If your address is not current in the City payroll system, information may be delayed or may not reach you at all. It is very important for you to keep your address current with the personnel division of your department. Contact the personnel division of your respective department to obtain the necessary forms. ■