

LOS ANGELES FIRE & POLICE PENSIONS

The Deferred Retirement Option Plan



To Serve Those Who Protect

January 2018

The intent of this booklet is to provide you with information on the Deferred Retirement Option Plan (DROP) program. This document is intended to summarize the governing provisions found in the Los Angeles Administrative Code. If there is a difference between this document and the legal text outlined in the City Charter, the Los Angeles Administrative Code, the Internal Revenue Code or other laws, the legal text prevails.

If you have questions concerning the DROP program, contact Los Angeles Fire and Police Pensions, DROP/Service Pensions Section at (213) 279-3100, or (844) 88-LAFPP (5-2377), ext. 93100.

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WHAT IS DROP?

The Deferred Retirement Option Plan (DROP) is a voluntary program that allows you to have your monthly retirement benefit deposited in an interest-bearing account while you continue to work in your current department and receive your salary and benefits as an active employee. DROP was implemented effective May 1, 2002.

At the end of your DROP period, when you are officially required to terminate sworn employment with the Fire, Police, Harbor, or Airport Department, you will begin to receive your monthly pension payments based upon your years of service (YOS) and salary at the time you entered DROP, and any cost of living adjustments applied while in DROP. You will also receive your accumulated DROP account balance as either a lump-sum payment, a rollover to a tax-qualified plan or a combination of these.

Consider the age at which you plan to exit DROP, take distribution of your DROP account and the related tax consequences before making a decision to enroll. Keep in mind, your decision to participate in DROP is irrevocable. (You have through the day preceding your DROP entry effective date to change your mind after you apply for DROP. Thereafter, you *cannot* exit DROP without terminating employment.)

DROP ELIGIBILITY

You are eligible to enter DROP if you meet the following requirements:

<i>If you are an active member of this tier...</i>	<i>You may enter DROP when...</i>
Tier 2 or Tier 4	You have at least 25 years of service
Tier 3, Tier 5 or Tier 6	You have at least 25 years of service; <u>and</u> are at least age 50

ENROLLING IN DROP

Before You Enter... Purchase Prior Service!

If you decide to purchase any prior service time such as, Lost Service Time (Tier 2), Workers' Compensation State Rate Time, recruit training time (Tiers 3, 4, 5, and 6) or time under the Public Service Purchase (PSP) Program, the purchase **must** be completed prior to your enrollment/participation in DROP in order for that time to be counted toward your years of service. **Note: Only whole years of non-PSP service are counted for health subsidy purposes.**

Your DROP Entry Date

You must be on active duty status on your DROP entry date. For purposes of this DROP provision, active duty status includes working on light-duty status, but excludes sick, vacation, injured-on-duty, administrative leave and all other types of non-working status. A list of *Active* and *Not Active* payroll variation codes, as determined by the City Administrative Officer for DROP participants, is provided in the following tables:

ACTIVE			
AR – Adjustment in Rate	LD – Light Duty	OS – Overtime	PF - Overtime
DS – Military Leave*	LP – Leave with Pay	OT – Overtime	
HW – Hours Worked	ML – Military Leave*	PA – Overtime	
HY – Smoothing for HW (System Generated)	MP – Military Leave*	PB – Overtime	
<p>*The military leave codes may appear only as a lump sum for the week or payroll period, rather than on individual days. However, this is acceptable for DROP purposes.</p>			

NOT ACTIVE			
AW – Absent without Pay	FI – Family Illness	PM – Preventive Medicine	TO – Overtime Off
BL – Bereavement Leave	HO – Holiday	RP – Relieved from Duty	TS – Overtime Off
CU – Catastrophic Time Used	ID – Injury on Duty	SK – Sick Leave	VC – Vacation
DO – Day Off	JD – Jury Duty	SP – Suspension	
FH – Floating Holiday	LW – Leave without Pay	SS – Sick Leave	

You must have an active duty payroll code on your DROP entry date, as recorded by the City’s payroll system (PaySR). In the event your payroll status on your DROP entry date is defined as Not Active, your DROP entry date will automatically be advanced to the next qualifying entry date. You will be notified in writing of your approved DROP entry date.

How to Enter

Schedule your DROP entry appointment with the Los Angeles Fire and Police Pensions (LAFPP), DROP/Service Pensions Section no more than 60 days but no less than 3 days prior to your intended effective date of participation in DROP. You must submit your application to enroll in DROP in-person, **by appointment only**. Under extenuating circumstances, subject to LAFPP Management approval, you may enroll by mail. However, some of the forms will require a notarized signature if they are not completed in the presence of an LAFPP staff member.

Fire Personnel: Schedule your DROP entry appointment with the LAFPP DROP/Service Pensions Section by calling (213) 279-3100. You will receive counseling services to help you select an entry date as well as generate your Letter of Intent.

Airport Personnel: First make an appointment with Airport’s Human Resources Liaison by calling (424) 646-5906. At that appointment a retirement liaison will provide you with a Letter of Intent to enter DROP and other retirement information. After obtaining your Letter of Intent,

and in order to submit your application to enroll, you must schedule a DROP entry appointment with LAFPP's DROP/Service Pensions Section by calling (213) 279-3100. **You may submit an application to enroll in DROP only after obtaining a Letter of Intent from Airport's Retirement Unit.**

Harbor Personnel: First make an appointment with Harbor's Human Resources by calling (310) 732-3480. At that appointment a retirement liaison will provide you with a Letter of Intent to enter DROP and other retirement information. After obtaining your Letter of Intent, and in order to submit your application to enroll, you must schedule a DROP entry appointment with LAFPP's DROP/Service Pensions Section by calling (213) 279-3100. **You may submit an application to enroll in DROP only after obtaining a Letter of Intent from Harbor's Retirement Unit.**

Police Personnel: First make an appointment with LAPD's Retirement Unit by calling (213) 486-6610. At that appointment a retirement liaison will provide you with a Letter of Intent to enter DROP and other retirement information. After obtaining your Letter of Intent, and in order to submit your application to enroll, you must schedule a DROP entry appointment with LAFPP's DROP/Service Pensions Section by calling (213) 279-3100. **You may submit an application to enroll in DROP only after obtaining a Letter of Intent from LAPD's Retirement Unit.**

DROP PARTICIPATION PERIOD

You may participate in DROP for a maximum of 5 years/60 months. The participation period cannot be extended and you **must** retire from the Fire, Police, Harbor, or Airport Department at its conclusion. Sick time, vacation and overtime cannot be used beyond the end of your DROP participation period.

Status While in DROP

While you are in DROP, you are considered "retired" for pension purposes only. Therefore, you will no longer earn years of service credit and will no longer be eligible for a refund of contributions. However, you must continue to make pension contributions until you reach the maximum years of service for your tier.

For all other purposes, you are still considered "active" by your employing Department. Therefore your rights, privileges and benefits, including health benefits, will remain the same as they were before you entered DROP.

DROP ACCOUNT

Benefit Calculation and Accumulation

As a DROP participant, you will have your own DROP account in which your monthly service pension will be credited each month. Your monthly service pension is calculated on the day

you enter DROP. This means you stop accruing years of service credit, and any increases or decreases in salary will not affect your service pension. Every month that you are in DROP, your entire monthly service pension amount will be deposited into your DROP account, along with any cost of living adjustments you are eligible for (maximum of +/-3% while in DROP). In addition, your DROP account will earn interest at 5% per year. Interest earned will be credited to your account semi-annually, on June 30 and December 31.

Distribution and Basis Recovery

At the end of your DROP participation – anytime during the 5-year/60-month period – and upon retirement/termination of employment, you will soon begin receiving your monthly service pension based on service and pay at the time of entry into DROP, including any cost of living adjustments that had been credited. You will also receive the accumulation of monthly service pension deposits and interest applied to your DROP account as a lump-sum cash payment, a rollover to a tax-qualified plan or a combination lump-sum payment and rollover.

All funds in the DROP account are likely to be taxable, in full, upon distribution. However, you may have some “basis recovery” due to the fact that employee pension contributions may have been made on an after-tax basis for the following reasons: pension contributions were collected after-taxes from July 1, 1982 to December 21, 1996; purchases of service credit made by lump sum payment or payroll deduction; and, the voluntary 2% “opt-in” pension contributions to vest future retiree health subsidy increases by some members of Tiers 2-5. “Basis recovery” is the process by which your after-tax employee pension contributions are returned to you, free of taxes, as part of your pension benefits. Based on an Internal Revenue Code provision, you may have the opportunity to accelerate recovery of a portion of your eligible after-tax pension contributions through payment as a tax-free lump sum distribution.

Lump Sum Payment

If you elect to receive a lump-sum payment of your DROP account balance, the taxable portion will be subject to a mandatory 20% federal tax. However, a portion of any after-tax pension contributions you made to the Plan may be distributed to you tax-free. Note for Tier 4 members: In addition to any applicable tax, if you are not age 50 or older in the year in which you exit DROP, you will be assessed an early withdrawal penalty by the IRS and the State of California when you receive your lump-sum payment.

Rollover

You may defer payment of taxes on the taxable portion of your DROP account balance by rolling it over to one qualified account, such as the City’s Deferred Compensation plan or an Individual Retirement Account (IRA). You will then be subject to the rules of such plan when you take distribution of your funds. **Note:** If your DROP account balance includes any non-taxable amount, you may elect to receive a partial lump-sum payment of that portion, tax free. Otherwise, if you elect to roll over your entire balance to a single plan/financial institution, the qualified account you designate must accept non-taxable funds – the City’s Deferred Compensation plan does not. If you roll over any non-taxable portion, you must also roll over your entire taxable portion.

Combination Lump Sum Payment & Rollover

You have the option to take a portion of your DROP account balance in a lump-sum payment and roll over the remaining balance to a qualified account.

Should you elect a full or partial lump-sum distribution of the taxable portion of your DROP account balance, LAFPP **must** withhold 20% for federal income taxes, but a 2% California state withholding is optional. Keep in mind that your tax liability for the year could be more. To avoid the mandatory 20% federal withholding, you must elect to rollover the full taxable amount of your DROP account to a tax-qualified plan.

We urge you to consult with your tax and/or financial advisor prior to making your DROP distribution election so that you are aware of any financial consequences that could affect your distribution decision. We cannot advise you regarding your tax liability.

LAFPP must receive completed distribution election forms and documentation requested by DROP/Service Pensions staff no later than 90 calendar days after the DROP exit date. In accordance with the "Special Tax Notice Regarding Your Rollover Options" (Appendix B), if you fail to meet the 90-day deadline, as a default, LAFPP will distribute your DROP account as a lump sum cash payment only, subject to a mandatory 20% federal tax withholding for the entire account balance. Any after-tax contributions will be recoverable solely from your monthly pension payments. **No interest will be applied to your DROP account once you have terminated your participation in DROP.**

Viewing Your DROP Account

As a DROP participant, semi-annual DROP account statements (June 30 and December 31) will be made available to you online through *MyLAFPP*, our Internet-based member information portal. To access *MyLAFPP*, visit our Web site at www.lafpp.com and click the "Log In" button in the *MyLAFPP* box. Once you are logged into *MyLAFPP*, you may review your DROP balance, view current and prior semi-annual statements, and calculate an estimate of the accumulated balance you will receive when you exit DROP.

EXITING DROP

Before You Exit... Plan Ahead!

You are encouraged to plan ahead **before you exit DROP**. There are some important decisions to make, people to contact and important paperwork to have on hand. You should give considerable thought to how you want your DROP account distributed **and** any applicable tax consequences and fees. You may also want to contact your health plan administrator about your retirement health and dental plan options and any special enrollment requirements at least one year prior to exiting DROP.

Steps to Exit

Reviewing the following steps in advance will help simplify your transition into retirement:

1. **Schedule an appointment with your Department's retirement/human resources liaison** at least 90 days prior to your desired DROP exit date. Your liaison will provide you with an Exit Letter of Intent.
 - Fire Personnel: (213) 978-3750
 - Police Personnel: (213) 486-6610
 - Harbor Personnel: (310) 732-3486
 - Airport Personnel: (424) 646-5906

2. **Schedule an "Exit Consultation" with the LAFPP DROP/Service Pensions Section** at least 45 days prior to your desired DROP exit date by calling (213) 279-3100. Once your appointment is scheduled, you will be mailed a DROP Exit Package. This package includes:
 - Special Tax Notice Regarding Your Rollover Options Under a Governmental 401(a) Plan – See Appendix B

 - Deferred Retirement Option Plan (DROP), DROP Distribution Summary
 - DROP Distribution Election Request
 - DROP Distribution Election and Rollover Form for the Taxable Portion (Not Yet Taxed) of the DROP Funds
 - Financial Institution Rollover Information for Taxable Portion of DROP Funds
 - DROP Distribution Election and Rollover Form for the Non-Taxable Portion (Basis Recovery) of the DROP Funds
 - Financial Institution Rollover Information for Non-Taxable Portion of DROP Funds
 - LAFPP Direct Deposit Authorization for Deferred Retirement Option Plan (DROP)
 - Service Pension Information for Members Exiting DROP (See FAQ's – page 15)
 - Direct Deposit Information
 - Direct Deposit Form
 - Federal and California State Tax Withholding Information
 - Income Tax Withholding Form

3. **Prepare for your Exit Consultation**
 - Decide how you wish to receive your DROP account balance. We encourage you to consult with your tax and/or financial advisor, so you are aware of any tax or financial consequences that could affect your distribution decision.
 - Prepare to receive your monthly pension plan payments by completing the Income Tax Withholding Form and Direct Deposit Form.
 - Be prepared to submit your proof of the termination of any prior marriages or State-Registered domestic partnerships, if not submitted when you entered DROP.
 - Bring your California Driver's License or Department Picture ID.

Note: DROP distribution election documents must be submitted to the LAFPP DROP/Service Pensions Section no later than the first business day of the month of your DROP exit date in order to receive payment the last business day of your exit month.

4. Meet with an LAFPP DROP/Service Pensions Counselor to review, submit and receive the following checklist items:

- Submit your Exit Letter of Intent (LOI)
- Submit your DROP Distribution Election Request
- Submit completed Distribution Election and Rollover Forms (Taxable and Non-Taxable Portions of the DROP Funds)
- Submit Financial Institution Rollover Information (Taxable and Non-Taxable Portions of the DROP Funds)
- Submit completed LAFPP Direct Deposit Authorization For Deferred Retirement Option Plan (DROP)
- Submit completed Direct Deposit Form for your monthly pension payments
- Submit completed Income Tax Withholding Form
- Receive an estimate of your DROP balance at exit and monthly service pension benefit, including any community property division(s)
- Review pension roll deadlines

In addition, an LAFPP Medical and Dental Benefits Counselor will meet with you to discuss:

- Medical plans available to retirees
- Health Subsidy – Medicare and Non-Medicare
- Dental Subsidy
- Health Insurance Premium Reimbursement Program

5. Take Distribution of Your DROP Account – Your DROP account distribution will be mailed to you, directly deposited to your bank account and/or rolled over to an IRA or tax-qualified plan of your choice on the last business day of the month that your DROP exit date is effective.

Note: Late submission and/or changes to your DROP exit date or distribution election(s) will delay distribution of your DROP account for an additional month. DROP balances do not accrue interest once you have exited DROP.

DROP AND YOUR HEALTH/DENTAL SUBSIDY BENEFITS

While participating in DROP, your health and dental benefits are administered the same as they were before you entered DROP. Once you exit DROP and terminate employment, your health and dental premiums become your responsibility. However, to minimize your out-of-pocket expense, you may be eligible to receive a health and/or dental subsidy benefit as long as you are at least age 55 at the time of your DROP exit.

Los Angeles Fire and Police Pensions administers the health and dental subsidy benefits. For information on subsidy eligibility requirements, please contact the Medical and Dental Benefits Section at (213) 279-3115. Please note, your health and dental plans will continue to be administered by the appropriate employee associations, e.g., LAFRA, LAPRA, UFLAC and LAPPL. *Los Angeles Fire and Police Pensions will only administer health and dental plans for Harbor Port Police Retirees.*

INJURED OR DISABLED WHILE IN DROP

Injury on Duty

If you are injured on duty (IOD) while in DROP and you remain on IOD status at the conclusion of your DROP period, you must exit DROP at that time. However, you are permitted to continue on IOD status with your employing Department, but you will not be eligible to receive distribution of your DROP account until your retirement status is determined. **Keep in mind that interest will not be applied to your DROP account once you have exited the program.**

If you subsequently decide to take a disability retirement, you are required to forfeit your DROP account. However, if you elect to take a service retirement and distribution of your DROP account, you will be required to repay any IOD pay earned after the last day of your participation in DROP.

Disability Pension

If you apply for and receive a disability pension while participating in DROP, your length of service and pay adjustments, etc., are restored and brought current as if you never entered DROP. However, you **must** forfeit your entire DROP account should you receive the disability pension. **Once you have taken distribution of your DROP account, you are no longer eligible to apply for or receive a disability pension.**

DEATH OF A DROP MEMBER

Designation of Beneficiary

We encourage you to name a beneficiary for your DROP account should you die prior to actual retirement and not leave a surviving spouse/domestic partner. If you do not designate a beneficiary and you are married, your spouse will automatically be the beneficiary. If you are not married and do not designate a beneficiary, your DROP account shall be distributed as a lump-sum to your estate.

Nonservice-Connected Death

Should you die of nonservice-connected causes, the normal post-retirement survivor pension benefits provided by your tier will be paid to your qualified survivor(s), in addition to the proceeds of your DROP account.

Service-Connected Death

If your death is determined to be service-connected, in lieu of the survivor benefits described above, your qualified surviving spouse/domestic partner may choose to forfeit your DROP account and collect a "Service-Connected" survivor pension based on your salary and years of service as if you never entered DROP.

MISCELLANEOUS PROVISIONS

Amendments to DROP

Per the Los Angeles Administrative Code, the City must conduct an actuarial study at least every five years to determine whether DROP is maintaining cost neutrality and/or meeting the City's goal of retaining sworn personnel. **However, any changes to the provisions of DROP after you have entered will not apply to you.** Your agreement to enter DROP will be subject to the provisions in effect on the day you entered.

Dissolution of Marriage and DROP

Some or all of your DROP account and/or subsequent monthly pension benefit may be subject to division of community property pursuant to your dissolution judgment or order. This means your former spouse may have a claim to a portion of your DROP account and may be entitled to a share at the time the proceeds from your DROP account are distributed. You may wish to check with your attorney regarding this issue. **Your DROP account will not be distributed until your dissolution(s) is(are) on file with LAFPP.**

Recent court orders are more likely to address the community property division of a member's service pension entitlement and his/her DROP account. While most orders issued in the past only address the division of the member's service pension entitlement, the Retirement Benefits Division of the City Attorney's Office has advised Los Angeles Fire and Police Pensions that such a division would likewise apply to the member's DROP account (since the funds contained in the DROP account consist of the member's service pension entitlement). However, the City Attorney will need to review the language in *your* court order.

You are encouraged to submit a copy of your court order (signed by the attending judge) to us before you decide to enter DROP or, if issued while in DROP, upon receipt. The City Attorney's Office will review the order and prepare a memorandum for us, indicating how your DROP account should be divided.

If you are currently paying your former spouse his/her share of your pension from your paycheck while you continue to work ("Gillmore order"), the DROP account may well be your separate property. However, a copy of the order should still be submitted to us so that the City Attorney can review it and make the final determination. Also, if you believe you were awarded all of the interest in your pension and thus should get all of your DROP account, the order will still need to be reviewed.

Some members who are paying spousal support to a former spouse believe that this payment exempts their DROP account from community property division. Again, this will depend upon the wording of the order, which must be reviewed by the City Attorney. If you will be returning to court to look at this issue, we recommend that you have any proposed order reviewed by the City Attorney's Office prior to entry.

If you are going through dissolution of marriage now – or should you go through one in the future – it is recommended that the order specifically address who gets the DROP account or how it is to be divided. Sample provisions provided by the Retirement Benefits Division of the City Attorney's Office make reference to the DROP account.

If for any reason the City Attorney's Office advises that your court order is not sufficiently clear to determine how your DROP account is to be divided, you may have to go back to court.

The Retirement Benefits Division of the City Attorney's Office can be contacted at (213) 978-6800 should your attorney have any questions.

Compliance with Applicable Provisions of the Internal Revenue Code

DROP must comply with the requirements of the Internal Revenue Code. As such, the guidelines for DROP balance rollovers and applicable tax deferrals that are detailed in this booklet meet the provisions of the Code. In addition, Section 415 of the Code limits the amount of benefits a defined benefit plan, such as LAFPP, can pay its members. The limit for each individual is determined by the limit established by the IRS and in effect during the calendar year in which he/she retires. In the case of DROP members, the determination is based on the year in which the member enters DROP. This annual benefit limit may be adjusted by the IRS annually for cost of living adjustments.

Not all LAFPP DROP participants, retirees or survivors are affected by the Section 415 limit. However, determination of whether your pension benefit will be subject to this limit can only be made when you get ready to exit DROP. If it is determined that your pension benefit is limited under Section 415, **you are still entitled to and will receive your full benefit.** However, your monthly pension benefit will be distributed to you in two separate payments. The portion of your monthly pension benefit that exceeds your Section 415 limit will be issued in a separate payment through the City's Excess Benefit Plan.

DROP Frequently Asked Questions

This information is designed to provide a quick reference tool for information about DROP, and is intended to assist you in making the decision whether or not to participate in the program. It should be used as a supplemental document and not a replacement for the provisions outlined in the Los Angeles Administrative Code (LAAC). Should any discrepancy between this information and the LAAC arise, the provisions in the LAAC shall prevail.

Entering DROP

- 1. Why do I have to sign the various releases, waivers and covenants that are contained in the DROP election application? What happens if I refuse to sign them?**

The various releases, waivers and covenants are designed to protect you, LAFPP and the City. We have done our best to disclose to you all of the advantages, as well as disadvantages, of DROP. You must sign all required forms in order to participate in DROP.
- 2. Can the provisions of DROP be changed?**

Yes, but if you are already in DROP, you will not be affected by any changes to the DROP ordinance.
- 3. What is the effective date of my DROP participation?**

The same date you elect to make your service pension effective. You must be on active duty status on your DROP entry date.
- 4. What constitutes “active duty status” for purposes of entering DROP?**

For purposes of entering DROP, active duty status includes light-duty status, but excludes sick, vacation, injured on duty, administrative leave and all other types of non-working status. (See charts on page 4 for more information.) If you are on a non-working status, your intended effective date of DROP participation will be adjusted to reflect the date which you return to active duty/working status. The City Administrative Officer has determined which payroll codes constitute active duty status for purposes of this provision.
- 5. What if I want to revoke my DROP election?**

To revoke your entry into DROP, you must **submit a DROP Revocation Notice no later than the day prior to your DROP entry effective date**: The Notice may be submitted **in-person**, during regular business hours, at 701 E. 3rd Street, Suite 200, Los Angeles, CA 90013, **by fax** directed to (213) 628-7716, or **by email** sent to Pensions@lafpp.com. It must be received before the close of business at 5:00 p.m., or if faxed or emailed, by 11:59 p.m. The effective date of revocation is established only upon receipt of the Notice prior to the DROP entry effective date and upon signature thereupon by LAFPP administrative staff. If you do not revoke your election before your DROP entry effective date, your decision to enter DROP and to terminate sworn employment at the end of the DROP period will be **irrevocable**. Consult with outside advisors (e.g., your own attorney,

accountant, tax advisor or other professional) prior to making your decision to enter DROP.

6. When do I choose a beneficiary for my DROP account?

We encourage you to designate your beneficiaries for your DROP account when you enter DROP. You may change your beneficiary designation at any time prior to exiting DROP. As your marital status or family circumstances change, it is advisable that you review your designations to ensure that the person(s) named as your DROP beneficiary(ies) is/are the person(s) you want named. Overlooking this matter may have very serious and undesirable consequences.

Note: Your choice of a beneficiary cannot defeat any community property interest awarded to a former spouse in a dissolution.

7. Can I receive a refund of my pension contributions?

No. Once you have enrolled in DROP, you are no longer eligible for a refund of pension contributions.

Your DROP Account

8. How much interest will my DROP account earn?

Interest is earned at an annual percentage rate of 5% and your account will be credited with interest earned semi-annually, on June 30 and December 31. No interest shall accrue after you terminate DROP participation.

9. Will I be able to take a loan from my DROP account?

No. The provisions of DROP do not allow you to take a loan from your DROP account.

10. Can I get an estimate of how much money my DROP account will accumulate?

Visit our website at www.lafpp.com and access *MyLAFPP*, our Internet-based member information portal. Click on the "Log In" button in the MyLAFPP box. Once you are logged into *MyLAFPP*, you can calculate an estimate of how much money will accumulate in your DROP account.

11. When can I see information on the balance in my DROP account?

Semi-annual DROP statements are available on our website the first week of January and July. Additionally, you can log in to *MyLAFPP* to view your balance at any time (See Item 10 for log-in instructions.)

DROP Participation

Your Status in DROP

12. Will I receive any service credit for retirement benefit calculation purposes for the time I am in DROP?

No. Service credit is determined as of the time you enter DROP and no additional credit will be given for any time while you are in DROP. Any prior service time such as, Lost Service Time (Tier 2), Workers' Compensation State Rate Time, recruit training time (Tiers 3, 4, 5 and 6) or time under the Public Service Purchase (PSP) Program, must be purchased prior to enrollment in DROP in order for that time to be counted toward your years of service credit. Also, you may want to consider working to the end of the payroll period immediately prior to your date of retirement if you wish to receive credit toward your years of service for that pay period.

13. Will I pay contributions into the retirement system while I'm in DROP?

Yes. To maintain the requirement in the LAAC that DROP be cost neutral, both your contributions and the City's contributions will continue while you are in DROP. Your contributions will continue at the rate and for the length of time specified for your tier, as shown in the chart below. Additionally, members of Tiers 2 - 5 who elected to pay the 2% "opt-in" contributions will continue to make these contributions until they have done so for 25 years. All member contributions go into the LAFPP Service Pension Fund and are not applied to your DROP account.

If you are in this tier ...	Your pension contribution percentage is ...	Your contributions stop after you complete ...
Tier 2	7%	30 years of service
Tier 3 or Tier 4	8%	30 years of service
Tier 5	8% or 9%*	33 years of service
Tier 6	9% 2%**	33 years of service 25 years of service

*Members will contribute 8% and the City will contribute 1% if the Pension Plan is at least 100% actuarially funded for pension benefits. If the Plan's funding for pension benefits is below 100%, Tier 5 members will contribute 9%.

**Additional contributions to support funding of retiree health benefits

14. While I'm in DROP, will my pension contributions cease when I reach the maximum years of service (YOS) for my tier?

Yes. Although you no longer earn YOS credit as a DROP participant, YOS does count toward the *maximum* number of years in which you must make pension contributions. For example, a Tier 3 member entering DROP upon completing 28 YOS would cease making contributions after two years of participation in DROP.

15. What happens to my sick, vacation and overtime accruals when I enter DROP?

While you are in DROP, you are still considered an active employee for purposes of sick, vacation and overtime accrual. Your operating Department will make payouts of unused sick, vacation and overtime when you terminate employment with the City. Sick, vacation and overtime cannot be used beyond the end of your DROP participation period.

16. Will I receive cost of living adjustments to my pension payments?

Yes. Cost of living adjustments (COLAs) for your tier will be applied to your monthly service pension while you are in DROP; however, the amount of the COLA is capped at +/-3% for all tiers, as shown below. Note that in the event of a negative COLA, your pension will never be adjusted to less than your original pension amount.

If you are in this tier ...	Your maximum COLA percentage while you are in DROP is ...
Tier 2*, Tier 3 or Tier 4	+/-3%
Tier 5 or Tier 6	+/-3% with a COLA bank**

*COLA is uncapped for retired Tier 2 members after they officially retire (no longer participate in DROP).

**Any increase in the local Consumer Price Index (CPI) above 3% is put in the "COLA bank". The COLA bank is drawn from in future years, whenever the CPI does not reach at least 3%. In such years, some or all of the COLA bank balance is added to increase the COLA up to the maximum of 3%.

17. Can I participate in both DROP and the City's Deferred Compensation program?

Yes. As long as you are an active employee receiving a salary you can contribute to Deferred Compensation, a retirement savings program administered by the City's Personnel Department. Deferred Compensation is a deduction taken from your active salary while your DROP account is a retirement benefit administered by LAFPP.

Changes in Your Salary or Separation from Service

18. What happens if I am promoted while in DROP?

The amount of your retirement benefit, both the amount credited to your DROP account and the amount you will eventually receive as a monthly pension when you terminate employment and retire, are frozen at the time of entry. Therefore, your DROP account and pension will not reflect the additional pay from your promotion. If you think a promotion may be forthcoming, you may want to consider delaying your entry into DROP. You may wish to also consider that your monthly pension entitlement, if in Tiers 3, 4 or 5, is based upon the calculation of a 12-month Final Average Salary, and if in Tier 6, upon a 24-month Final Average Salary.

19. What happens if I am demoted while in DROP?

The amount of your retirement benefit, both the amount credited to your DROP account and the amount you eventually receive as a monthly retirement allowance, will not be affected by any reduction in your salary that accompanies the demotion.

20. What happens if I am terminated while in DROP?

Being fired automatically terminates your participation in DROP. At your request, distribution of your DROP account will be withheld while the appeal of your discharge is pending. Should you be reinstated, you may continue to participate in DROP if the account has been withheld, and the original period of DROP participation will continue but cannot exceed the original 5-year/60-month limit. If the DROP funds have been distributed, you cannot return to sworn employment or continue in DROP even if your termination is overturned.

21. What happens if I resign while in DROP?

Resigning from sworn employment with the City will automatically terminate your participation in DROP and you will be deemed to have retired. You will begin receiving your monthly retirement benefit and will have to decide how you wish to have your DROP account distributed. (See Item 29 for more information.)

Injury, Disability or Death

22. What if I am on injured on duty (IOD) status while in DROP?

In the event you are injured on duty any time during your DROP participation period and you happen to remain on that pay status on your mandatory DROP exit date, you must still exit the program. However, you are allowed to continue on IOD status with your Department. If you continue on IOD status after exiting DROP, you will not become eligible to receive distribution of your DROP account until your retirement status is determined. **Once you have exited the program, interest will stop accruing in your DROP account.**

If you subsequently decide to take a disability retirement, you are required to **forfeit** your DROP account. However, if you elect to take a service retirement and distribution of your DROP account, you will be required to repay any IOD pay earned after the last day of your participation in DROP.

23. What happens if I join DROP and then become disabled?

If you apply for and receive a disability pension, your years of service credit and active pay adjustments, etc., are restored as if you never entered DROP. However, you must **forfeit** your entire DROP account should you receive the disability pension. Once you have received your DROP account funds, you are no longer eligible to apply for or receive a disability pension.

24. What happens if I die while in the DROP Program?

Nonservice-Connected Death: Should you die of nonservice-connected causes, the normal post-retirement survivor pension benefits provided by your tier will be paid to your qualified survivor(s), in addition to the proceeds of your DROP account.

Service-Connected Death: If your death is service-connected, in lieu of the survivor benefits described for a nonservice-connected death, your qualified surviving spouse/domestic partner may choose to forfeit your DROP account and collect a "Service-Connected" survivor pension based on your salary and years of service as if you never entered DROP.

Please note: If you were not married or did not file a Declaration of Domestic Partnership one year prior to entering DROP, your surviving spouse/domestic partner would not be considered a “qualified survivor”. However, if your death is service-connected, your surviving spouse/domestic partner could become “qualified” by electing to forfeit your DROP account and collect a “Service-Connected” survivor pension based on your salary and years of service. *(In order to qualify for a survivor pension in the event you die in the line-of-duty, your spouse must be married to you or your domestic partner must be declared with the Plan as of the date of your service-connected death.)*

Marriage and Domestic Partnerships

25. What happens if I marry while I’m in DROP?

Your marriage will be deemed to be a marriage occurring post-retirement, and your spouse will not be eligible for survivor benefits. To qualify your surviving spouse for pension benefits, you must be married to him/her at least **one year prior** to entering DROP.

If you have a domestic partner and would like for him/her to qualify for pension benefits, you must file a confidential affidavit with LAFPP or register your partnership with the State of California at least **one year prior** to entering DROP. Please note that there are special requirements to register a domestic partnership with the State of California. Further information may be obtained from any county clerk or at the Office of the Secretary of State.

26. Will my post retirement spouse/domestic partner be entitled to any survivor benefits?

Under the Survivor Benefit Purchase Program, a Retired Plan Member may elect to provide a survivor benefit to a spouse or domestic partner by reducing his/her monthly pension benefit. The continuance percentage choices range from 30% to 100% in 5% increments. The benefits do not vest until one year from the date of the member’s election, and the election is irrevocable. **Since DROP members are Active employees, you cannot participate in this program until you are retired and have exited DROP.** For more information regarding this program, please call our Retirement Services Section at (213) 279-3125.

27. What happens if my marriage gets dissolved prior to or while I’m in DROP?

Some or all of your DROP account may be community property depending on your dissolution judgment or order. Your former spouse may have a claim to a portion of the DROP account and may be entitled to a share when you exit DROP and the DROP account is distributed. Whether this applies in your case depends on the Court’s orders and judgment. You may wish to check with your own lawyer regarding this issue.

Note: Until you actually terminate sworn employment with the City of Los Angeles and become eligible to receive a monthly pension benefit, no monies shall be paid from your DROP account. There are no provisions within the Fire and Police Pension Plan to permit payment of any retirement benefit until you terminate sworn City employment.

Exiting DROP

28. When I terminate participation in DROP, do I have to retire at that time?

Yes. DROP requires that when you terminate participation in the program, you also terminate sworn City employment. You must schedule an appointment with your Department's retirement/human resources liaison to start the service pension process:

- **Fire:** (213) 978-3750
- **Police:** (213) 486-6610
- **Port Police:** (310) 732-3486
- **Airport:** (424) 646-5906

You must also schedule an "Exit Consultation" with the DROP/Service Pensions Section by calling (213) 279-3100. At your consultation you will submit completed distribution election forms, direct deposit and tax forms, in order to receive distribution of your DROP account and your monthly service retirement allowance. It is suggested that you schedule your exit consultation at least 45 days prior to your intended exit date to ensure adequate time for processing your account.

29. What are my distribution options when I exit DROP?

At the time you leave DROP, you must choose between (1) a lump sum cash payment of your DROP account balance, (2) a rollover of the balance in your DROP account to an IRA or other tax-qualified retirement plan, or (3) a combination of a partial rollover to an IRA or tax-qualified retirement plan and a lump sum cash distribution of the balance. When you are approaching the end of your DROP participation period, you will need to contact LAFPP administrative staff for further information and to select your distribution option. There may be significant income tax ramifications to your election, so you may wish to contact your personal financial or tax advisor.

30. Will my Medical and Dental benefits be affected when I exit DROP?

Retiree health and dental subsidy benefits are maximized with 25 years of service. Since you must have 25 years of service to enter DROP, you will not be affected. However, you must be **at least 55 years of age at the time you exit DROP** and be enrolled in an approved health and/or dental plan in order to receive a subsidy. Please contact our Medical and Dental Benefits Section at (213) 279-3115 for more information regarding health and dental subsidies.

Taxes and Social Security

31. Are there any income tax consequences to my entering DROP?

Yes. The distribution of your DROP account is subject to federal and state tax laws in effect at the time you receive your distribution. You may defer income taxes by rolling over 100 percent of your taxable DROP account proceeds into a tax-qualified plan or to

an IRA. We encourage you to consult with your personal tax advisor both before you enter DROP and before you exit DROP.

32. What is the Windfall Elimination Provision?

If you are eligible to receive a Social Security benefit, it may be reduced by your service pension benefit due to the Windfall Elimination Provision. The amount of the reduction depends on your earnings and number of years in jobs in which you paid Social Security taxes, and the year you are age 62 or become disabled. Please contact the Social Security Administration at (800) 772-1213 or visit their Web site at www.ssa.gov if you have questions.

APPENDIX A

**Los Angeles Administrative Code
Division 4, Chapter 21
Deferred Retirement Option Plan**

CHAPTER 21

DEFERRED RETIREMENT OPTION PLAN

Section

- [4.2100](#) Purpose and Duration.
- [4.2101](#) Eligibility, Duration of DROP Participation, and Waiver.
- [4.2102](#) DROP Benefits and Accounts.
- [4.2103](#) Additional DROP Provisions.
- [4.2104](#) Designation of Beneficiary.
- [4.2105](#) Termination of DROP Participation.
- [4.2106](#) Payment of Benefits.
- [4.2107](#) Compliance with Applicable Provisions of the Internal Revenue Code.
- [4.2108](#) Employment Status During DROP Participation.
- [4.2109](#) Authority of the Board.

 **Sec. 4.2100. Purpose and Duration.**

(a) Pursuant to Charter Section [1218](#), a deferred retirement option plan (DROP) is created and offered to members of the Fire and Police Pension Plan on a voluntary basis. DROP is an alternative method of benefit accrual in the Retirement System as set forth in this chapter.

(b) DROP is created to add flexibility to the Fire and Police Pension Plan. It provides members who elect to participate in the program access to a lump sum benefit in addition to their normal monthly retirement allowance at their actual retirement, which occurs when employment as a sworn member with the City is terminated. DROP is intended to be cost neutral regarding plan funding.

(c) The City reserves the right to suspend the right of members to enter the DROP program and to modify the program for future entrants as necessary to maintain cost neutrality and/or to meet the City's DROP goals of retaining and lengthening the careers of sworn personnel with the Police Department, Fire Department, Harbor Department, and Department of Airports. Any amendments to DROP enacted in accordance with this subsection will only affect those persons who enter DROP after the date the changes become effective.

The City has the right to complete an actuarial study of DROP in order to evaluate whether DROP continues to be cost neutral and to review DROP to determine whether DROP is meeting the City's DROP goals. An actuarial study and review of the City's DROP goals shall be completed by the City at least every five years or more often. If the City determines changes to DROP are needed based on this review, the appropriate labor organizations shall meet and confer with the City immediately upon demand. Once the City and the labor organizations reach agreement, DROP shall forthwith be amended in accord with that agreement unless no changes to DROP are required.

If the City and the labor organizations do not agree upon changes to DROP within 180 days of the date of the City's demand, then the City Administrative Officer shall so notify the Fire and Police Pension Plan in writing. However, if the City and the involved labor organizations mutually agree to extend negotiations for an additional period of time, not to exceed 180 days, then the City Administrative Officer shall not provide this notice to the Fire and Police Pension Plan until the additional time has expired without the parties reaching agreement. Upon receipt of this written notice from the City Administrative Officer, the Fire and Police Pension Plan shall no longer allow members to enter DROP until the effective date of an ordinance enacted by the City Council amending DROP to maintain cost neutrality and otherwise meet the City's DROP goals or until the City Administrative Officer notifies the Fire and Police Pension Plan in writing that the City has determined that no modifications to DROP are necessary at that time.

SECTION HISTORY

Chapter and Section Added by Ord. No. 174,540, Eff. 5-8-02.

Amended by: Subsec. (d) added, Ord. No. 177,900, Eff. 9-28-06; Subsec. (d), Ord. No. 179,750, Eff. 3-25-08; Subsec. (c) amended and Subsec. (d) deleted, Ord. No. 180,322, Eff. 11-7-08; Subsec. (c), Ord. No. 184,853, Eff. 4-6-17.

Sec. 4.2101. Eligibility, Duration of DROP Participation, and Waiver.

(a) All members of the Fire and Police Pension Plan, including the Chief of Police, Chief Engineer of the Fire Department and Port Warden if they are members of the Plan, are eligible to enter DROP no later than April 30, 2007, if they meet all other requirements. As of May 1, 2007, all members of the Fire and Police Pension Plan, except for the Chief of Police and the Chief Engineer of the Fire Department, are eligible to enter DROP if they meet all other requirements.

(b) In order to enter DROP, members must be eligible for an unreduced retirement in one of the pension tiers and meet the following minimum criteria:

[Tier 2](#): 25 years of service

[Tier 3](#): 25 years of service and age 50

[Tier 4](#): 25 years of service

[Tier 5](#): 25 years of service and age 50.

[Tier 6](#): 25 years of service and age 50.

Effective November 1, 2008, a member must also be on active duty status on the DROP entry date. For purposes of this provision active duty status shall include members working on light-duty status, but exclude members on sick, vacation, injured-on-duty, administrative leave, and all other types of non-working status. The City Administrative Officer shall have the authority to determine which payroll codes constitute active duty status for purposes of this provision and shall notify the Board accordingly. Pursuant to Section [4.2109](#) of this Chapter, the Board has the authority to adopt rules and regulations to verify duty status for purposes of this provision.

(c) Any member who elects to participate in DROP shall voluntarily and irrevocably:

(1) Determine a beginning date upon which to enter DROP, consistent with the rules set forth by the Board of Fire and Police Pension Commissioners ("Board") and agree to terminate employment as a sworn member with the City of Los Angeles on the last day of their participation in DROP. DROP participation however may not be backdated. Members may stay in DROP for a maximum of 5 years (60 months) regardless of when they enter DROP. In no event shall a member be permitted to stay in DROP more than 60 months after the first day of participation in DROP.

(2) Cease, from and after the date the member begins participating in DROP, to accrue additional retirement benefits, either through service accruals, future pay increases, active cost of living adjustments or promotions.

(3) Agree the member's service retirement formula, including years of service and pension base, and all other eligibility conditions, including eligibility for survivor benefits, will be frozen at the time the member enters DROP.

(a) [Tier 2](#) Members shall purchase Lost Service Time prior to entering DROP in order for that time to be counted toward the service pension.

(b) [Tier 3](#), [4](#), [5](#) and [6](#) Members shall purchase eligible State Rate Workers' Compensation Time, Prior Service Time, and Academy Time prior to entering DROP in order for that time to be counted toward the service pension.

(4) Have an amount equal to 100% of the service retirement benefit the member would have received if he/she had retired at the time of entering DROP placed in a nominal account ("DROP account").

(5) Receive benefits from the Fire and Police Pension Plan upon termination of City employment as a sworn member of the Fire or Police Department at the time and in the manner provided in this Chapter.

(6) Execute such waivers with respect to age and other discrimination in employment laws as are required by the City and the Fire and Police Pension Plan.

(d) Notwithstanding any other provision of this chapter, a member who has elected to participate in DROP and subsequently, while still participating in DROP, is appointed to the position of Chief Engineer of the Fire Department or Chief of Police shall be allowed to rescind that election in writing subject to the following:

(1) The member shall forfeit his or her entire DROP account.

(2) The member shall not be eligible to participate in DROP in the future.

(3) The member's service and benefits under the Plan shall be determined the same as if the member had never elected to participate in DROP.

(4) The member shall not have the right to elect to become a member of the Los Angeles City Employees' Retirement System pursuant to Section [4.2000](#) (j), or otherwise, but shall remain a member of the Plan for so long as the member is employed as Chief Engineer of the Fire Department or Chief of Police.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Amended by: Subsec. (a), Ord. No. 177,900, Eff. 9-28-06; Subsec. (a), Ord. No. 178,656, Eff. 5-4-07; Subsec. (d) added, Ord. No. 179,987, Eff. 7-3-08; Last Para. of Subsec. (b) added, Ord. No. 180,322, Eff. 11-7-08; Subsecs. (b) and (c), Ord. No. 183,163, Eff. 8-8-14.

Sec. 4.2102. DROP Benefits and Accounts.

(a) A DROP account is a “nominal” account established within the Fire and Police Pension Plan on behalf of each DROP participant. All benefits accrued pursuant to this Chapter shall be accounted for in the DROP account. A DROP participant shall not have a claim on the assets of the Fire and Police Pension Plan with respect to his or her DROP account, nor shall there be any assets set aside for any DROP participant, which are separate from all other Pension Plan assets.

(b) All amounts credited to the member’s DROP account shall be fully vested.

(c) A member’s DROP account shall be credited with:

(1) an amount, credited monthly, which is equal to the monthly service pension to which the member would be entitled using the formula in the Tier in which the member is enrolled on the effective date of the member’s entry into DROP.

(2) a cost of living adjustment (COLA) each year equal to the amount prescribed in the Charter for the Tier to which the member belongs, but not to exceed three percent (3%). [Tier 5](#) and [6](#) members are eligible to use their COLA banks while in DROP.

(3) interest in the amount of five percent (5%) annually. Interest will be credited to member DROP accounts semi-annually on the dates specified by the Board. No interest shall accrue after a member terminates DROP participation.

(d) Until a member actually terminates employment as a sworn member of the City of Los Angeles Fire Department or Police Department or Harbor Department or Department of Airports, no money shall be paid to any persons from the DROP account. After the member terminates employment, the DROP account shall be subject to court orders in the same manner as the monthly service pension entitlement and according to the terms of the court order.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Amended by: Subsec. (d), Ord. No. 177,214, Eff. 1-4-06; Subsec. (c)(2), Ord. No. 183,163, Eff. 8-8-14; Subsec. (d), Ord. No. 184,853, Eff. 4-6-17.

Sec. 4.2103. Additional DROP Provisions.

(a) Member contributions shall continue as usual while the member participates in DROP at the rates specified as follows: [Tier 2](#) = 6% or 7%, as specified in Charter Section [1420\(b\)](#); [Tier 3](#) = 8%; [Tier 4](#) = 8%; [Tier 5](#) = 8% or 9%, as specified in Charter Section [1222\(b\)\(3\)](#) and Administrative Code Section [4.2014](#); [Tier 6](#) = 9% or 11%, as specified in Charter Section [1714\(a\)](#). Member contributions, however, shall cease when the member would have become eligible for the maximum service retirement formula established by the member's Tier, except that members who have agreed to make Additional Contributions as provided in Administrative Code Section [4.1167](#) shall continue to make Additional Contributions as provided therein.

(b) Member contributions will be deposited into and become part of the general assets of the Fire and Police Pension Plan. Member contributions will not be deposited into nor become part of the member's DROP account.

(c) The City will continue to make the annual contributions to the Plan under the Charter. These contributions will be deposited into and become part of the general assets of the Pension Plan. No City contributions will be credited to the member's DROP account.

(d) After a member retires and simultaneously leaves DROP, the member will thereafter receive a monthly service pension benefit based upon the years of service and pension base at the time of entry into DROP and COLAs granted while in DROP, plus future COLAs according to the member's Tier.

(e) A member who participates in DROP and who elects to apply for and is granted a disability pension after entering DROP shall forfeit his or her entire DROP account and receive his or her disability pension benefits as if the member had never entered DROP. Members waive any right to apply for or be granted a disability pension once they have taken distribution of their DROP account.

(f) Members on IOD status at the conclusion of the DROP period must leave DROP at the end of their DROP period but are permitted to continue on IOD status with their Department. Those members are not eligible to receive distribution of their DROP account until their retirement status is determined. If the member takes a disability retirement, the member shall forfeit his or her DROP account. If the member elects to take a service retirement and distribution of his or her DROP account, the member shall be required to repay any IOD pay earned after the last day of the member's participation in DROP.

(g) In the event of a member's service connected death during the period of his or her DROP participation, the member's surviving spouse or domestic partner shall have the right to elect to forfeit the member's DROP account and collect survivorship benefits as if the member had never entered DROP, provided that the election must be made no later than 180 days following the member's death. For all

other deaths occurring while a member is participating in DROP, the normal post-retirement continuance benefits of the member's Tier will be available plus the proceeds of the member's DROP account.

(h) A member must be married or have a domestic partnership affidavit on file with the Fire and Police Pension Plan for at least one year prior to his or her entrance into DROP for his or her surviving spouse to be eligible for qualified surviving spouse/qualified domestic partner pension benefits.

(i) Members, by entering DROP, are not eligible to be returned to active duty (as reactivated members) as provided in Charter Section [1410](#)(a), Los Angeles Administrative Code Sections [4.2026](#)(f) and [4.2200](#), or any other provision authorizing retired members to return to active duty as reactivated members.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Amended by: Subsec. (i), Ord. No. 177,900, Eff. 9-28-06; Subsecs. (a) and (i), Ord. No. 183,163, Eff. 8-8-14.

Sec. 4.2104. Designation of Beneficiary.

(a) Subject to Subsection (c) and Section [4.2103](#)(h), a member who elects to participate in DROP shall designate in writing, at the time of entry into DROP, a beneficiary for the DROP account. The member may change the designation at any time prior to taking the distribution of the DROP account. The member's beneficiary designation shall be applicable only to the distribution pursuant to provisions of this chapter.

(b) If the designated beneficiary predeceases a DROP participant who then dies before designating a new beneficiary, all distributions pursuant to this chapter shall be made to the estate of the DROP participant.

(c) Notwithstanding the above provisions, a member's community property obligations under applicable California law will not be affected by the beneficiary designation.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Sec. 4.2105. Termination of DROP Participation.

(a) DROP participation shall be terminated by the first occurrence of any one of the following events:

(1) upon the member's completion of the DROP participation period. The member may choose to leave DROP at any time during the 60 month period.

(2) involuntary termination of employment. At the member's request, distribution of the DROP account will be withheld while the appeal of the member's discharge is pending. Should the member be reinstated, the member may continue to participate in DROP if the account has been withheld. The period of DROP participation will continue under the terms of the original application.

(3) death of the member.

(4) approval of disability retirement benefits under the terms of this chapter.

(5) voluntary termination of employment prior to the completion of the DROP participation period.

(b) No interest shall accrue after any one of the events set forth in Subsection (a) terminating DROP.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Amended by: Subsec (a)(5) added, Ord. No. 183,163, Eff. 8-8-14.

Sec. 4.2106. Payment of Benefits.

(a) Upon the simultaneous termination of DROP participation and employment as a sworn member of the City's Fire Department or Police Department or Harbor Department or Department of Airports, a member shall be entitled to receive:

(1) a monthly retirement allowance in the amount determined under the Charter that was credited monthly to the member's DROP account at the date of termination of DROP participation, including any applicable COLA; and

(2) all amounts credited to the member's DROP account on the effective date of termination of DROP participation, subject to applicable taxes and any domestic relations court orders regarding community property distributions.

(b) The form of payment from the DROP account shall be a lump sum distribution. Members may also elect a direct rollover of the proceeds in their DROP account to an eligible retirement plan pursuant to Section [4.2107\(b\)\(4\)](#). The Board shall set forth the rules regulating the distribution of the DROP account, including the time period within which the distribution must be taken.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Amended by: First Para. of Subsec. (a), Ord. No. 177,214, Eff. 1-4-06; Subsec. (a), Ord. No. 184,853, Eff. 4-6-17.

 **Sec. 4.2107. Compliance with Applicable Provisions of the Internal Revenue Code.**

(a) It is intended that DROP shall not jeopardize in any way the tax qualified status of the Fire and Police Pension Plan under the rules and regulations of the Internal Revenue Service. The Board shall have the authority pursuant to Section [4.2109](#) to adopt rules and regulations to the extent necessary or appropriate for DROP to maintain compliance with applicable Federal laws and regulations. These rules shall be adopted upon the advice and with the concurrence of the City Attorney.

(b) Notwithstanding any other provision in this chapter, benefits provided pursuant to this chapter shall be subject to the requirements of the Internal Revenue Code (Code) and regulations issued thereunder as necessary for the Retirement System to remain a tax qualified retirement plan, including, but not limited to, the following:

- (1) The limitations of Section 415 of the Code relating to the amount of benefits that can be paid.
- (2) The limitations of Section 401(a)(17) of the Code relating to the amount of compensation that can be taken into account for benefit accrual.
- (3) The limitations of Section 401(a)(9) relating to the time that benefit payments must begin.
- (4) The limitations of Section 401(a)(31) relating to the rollover of benefits.
- (5) The limitations of Section 401(a)(25) relating to “definitely determinable” benefits.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

 **Sec. 4.2108. Employment Status during DROP Participation.**

For all other purposes, a member who elects to participate in DROP shall have all of the rights, privileges, and benefits, including health benefits, and be subject to all other terms and conditions of active employment in their respective Department.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

 **Sec. 4.2109. Authority of the Board.**

In addition to the authority granted elsewhere in this chapter, the Board shall have the authority to adopt rules and regulations to the extent necessary or appropriate to administer DROP in accordance with the provisions of this chapter.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

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APPENDIX B

Special Tax Notice Regarding Your Rollover Options Under a Governmental 401(a) Plan

REV. 6/24/2014

You are receiving this notice because all or a portion of a payment you are receiving from the Los Angeles Fire & Police Pension Plan (the "Plan") is eligible to be rolled over to an IRA or an employer plan. This notice is intended to help you decide whether to do such a rollover. You may request a paper copy of this Notice from the plan administrator at no charge to you.

Rules that apply to most payments from a plan are described in the "General Information About Rollovers" section. Special rules that only apply in certain circumstances are described in the "Special Rules and Options" section.

GENERAL INFORMATION ABOUT ROLLOVERS

How can a rollover affect my taxes?

You will be taxed on a payment from the Plan if you do not roll it over. If you are under age 59 ½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (unless an exception applies). NOTE: See exception for public safety officers, page 3.

If you do a rollover to a traditional IRA or an eligible employer plan, you will not have to pay tax until you receive payments later from the IRA or plan, and the 10% additional income tax will not apply if those payments are made after you are age 59 ½ (or if an exception applies).

If you do a rollover to a Roth IRA, you will be taxed on the amount rolled over (reduced by any after-tax amount). However, if you are under age 59 ½ at the time of the rollover, the 10% additional income tax will not apply. See the section below titled "If you roll over your payment to a Roth IRA" for more details.

Where may I roll over the payment?

You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an employer plan (a tax-qualified section 401(a) plan, section 403(b) plan, or governmental section 457(b) deferred compensation plan) that will accept the rollover. The rules of the IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment of the rolled over amount in the future. Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan.

How do I do a rollover?

There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover.

If you do a direct rollover, the Plan will make the payment directly to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover.

If you do not do a direct rollover, the Plan is required to withhold 20% of the payment for federal income taxes. If you do not do a direct rollover, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. You will have 60 days after you receive the payment to make the deposit. This means that, in order to roll over the entire payment in a 60-day rollover, you must use

other funds to make up for the 20% withheld. If you do not roll over the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59 ½ (unless an exception applies).

How much may I roll over?

If you wish to do a rollover, you may roll over all or part of the amount eligible for rollover. Any payment from the Plan is eligible for rollover, except:

- Certain payments spread over a period of at least 10 years or over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary). This means that your lifetime monthly benefits are not eligible for rollover.
- Required minimum distributions after age 70 ½ (or after death)
- Corrective distributions of contributions that exceed tax law limitations

The Plan administrator or the payor can tell you what portion of a payment is eligible for rollover.

If any portion of your payment is taxable but cannot be rolled over, the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. If you do nothing, an amount will be taken out of this portion of your payment for federal income tax withholding. To elect out of withholding, ask the Plan administrator for the election form and related information.

If I don't do a rollover, will I have to pay the 10% additional income tax on early distributions?

If you are under age 59 ½, you will have to pay the 10% additional income tax on early distributions for any payment from the Plan (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax is in addition to the regular income tax on the payment not rolled over.

The 10% additional income tax does not apply to the following payments from the Plan:

- Payments made after you separate from service if you will be at least age 55 in the year of the separation
- Payments that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary)
- **Payments from a governmental defined benefit pension plan made after you separate from service if you are a public safety employee and you are at least age 50 in the year of the separation**
- Payments made due to disability
- Payments after your death
- Corrective distributions of contributions that exceed tax law limitations
- Payments made directly to the government to satisfy a federal tax levy
- Payments made under a qualified domestic relations order (QDRO)
- Payments up to the amount of your deductible medical expenses

If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?

If you receive a payment from an IRA when you are under age 59 ½, you will have to pay the 10% additional income tax on early distributions from the IRA, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from a plan. However, there are a few differences for payments from an IRA, including:

- There is no exception for payments after separation from service that are made after age 55.
- The exception for qualified domestic relations orders (QDROs) does not apply (although a special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse).
- The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.
- There are additional exceptions for (1) payments for qualified higher education expenses, (2) payments up to \$10,000 used in a qualified first-time home purchase, and (3) payments after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

Will I owe State income taxes?

This notice does not describe any State or local income tax rules (including withholding rules).

SPECIAL RULES AND OPTIONS

If your payment includes after-tax contributions

After-tax contributions included in a payment are not taxed. If a payment is only part of your benefit, an allocable portion of your after-tax contributions is generally included in the payment. If you have pre-1987 after-tax contributions maintained in a separate account, a special rule may apply to determine whether the after-tax contributions are included in a payment.

You may roll over to an IRA a payment that includes after-tax contributions through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs). If you do a direct rollover of only a portion of the amount paid from the Plan and a portion is paid to you, each of the payments will include an allocable portion of the after-tax contributions. If you do a 60-day rollover to an IRA of only a portion of the payment made to you, the after-tax contributions are treated as rolled over last. For example, assume you are receiving a complete distribution of your benefit which totals \$12,000, of which \$2,000 is after-tax contributions. In this case, if you roll over \$10,000 to an IRA in a 60-day rollover, no amount is taxable because the \$2,000 amount not rolled over is treated as being after-tax contributions.

You may roll over to an employer plan all of a payment that includes after-tax contributions, but only through a direct rollover (and only if the receiving plan separately accounts for after-tax contributions and

is not a governmental section 457(b) plan). You can do a 60-day rollover to an employer plan of part of a payment that includes after-tax contributions, but only up to the amount of the payment that would be taxable if not rolled over.

If you miss the 60-day rollover deadline

Generally, the 60-day rollover deadline cannot be extended. However, the IRS has the limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. To apply for a waiver, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

If you were born on or before January 1, 1936

If you were born on or before January 1, 1936 and receive a lump sum distribution that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, Pension and Annuity Income.

If you roll over your payment to a Roth IRA

If you roll over a payment from the Plan to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. However, the 10% additional income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within 5 years, counting from January 1 of the year of the rollover).

If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59 ½ (or after your death or disability, or as a qualified first-time homebuyer distribution of up to \$10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime.

You cannot roll over a payment from the Plan to a designated Roth account in an employer plan.

For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs). You should consult your tax advisor if you are interested in rolling over your distribution to a Roth IRA.

If you are an eligible retired public safety officer and your pension payment is used to pay for health coverage or qualified long-term care insurance

If you retired as a public safety officer and your retirement was by reason of disability or was after normal retirement age, you can exclude from your taxable income plan payments paid directly as premiums to

an accident or health plan (or a qualified long-term care insurance contract) that your employer maintains for you, your spouse, or your dependents, up to a maximum of \$3,000 annually. For this purpose, a public safety officer is a law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew.

The Form 1099-R that you receive from the Plan administrator will report the deducted insurance premium as taxable. If you want to take advantage of this \$3,000 exclusion, you must report the amount claimed on Form 1040. The instructions to Form 1040 explain that the taxable amount received from the Plan, reduced by the amount of qualified premiums deducted and paid by the Plan (not to exceed \$3,000), must be entered on line 16b of the Form 1040. Next to the entry, in the margin, you must write the letters "PSO." This is an annual election—you will need to report the exclusion for each year in which you want to claim the exclusion.

If you are not a plan member

Payments after death of the member. If you receive a distribution after the member's death that you do not roll over, the distribution will generally be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions (prior to age 59 ½) and the special rules for public safety officers (regarding payments used for health coverage described above) do not apply, and the special rule described under the section "If you were born on or before January 1, 1936" applies only if the member was born on or before January 1, 1936.

If you are a surviving spouse¹. If you receive a payment from the Plan as the surviving spouse of a deceased member, you have the same rollover options that the member would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA.

An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59 ½ will be subject to the 10% additional income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 70 ½.

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the member had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the member had not started taking required minimum distributions from the Plan, you will not have to start receiving required minimum distributions from the inherited IRA until the year the member would have been age 70 ½.

If you are a surviving beneficiary other than a spouse¹. If you receive a payment from the Plan because of the member's death and you are a designated beneficiary other than a surviving spouse, the only rollover option you have is to do a direct rollover to an

¹ A spouse is an individual recognized under a marriage validly entered into in any state or foreign jurisdiction, whether opposite-sex or same-sex and regardless of whether those married individuals reside in the state or foreign jurisdiction in which such marriage occurred. A domestic partner is not treated as a spouse under federal law.

inherited IRA. If you do not do a direct rollover to an inherited IRA, the Plan must withhold 20% of the payment for federal income tax. Payments from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

Payments under a qualified domestic relations order. If you are the spouse or former spouse¹ of the member who receives a payment from the Plan under a qualified domestic relations order (QDRO), you generally have the same options the member would have (for example, you may roll over the payment to your own IRA or an eligible employer plan that will accept it). If you are an alternate payee other than the spouse or former spouse¹ of the member and the member has died, you generally have the same options as a surviving beneficiary other than the spouse, so that the only rollover option you have is to do a direct rollover to an inherited IRA. Payments under the QDRO will not be subject to the 10% additional income tax on early distributions.

If you are a nonresident alien

If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, the Plan is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

Other special rules

If a payment is one in a series of payments for less than 10 years, your choice whether to make a direct rollover will apply to all later payments in the series (unless you make a different choice for later payments).

If your payments for the year are less than \$200, the Plan is not required to allow you to do a direct rollover and is not required to withhold for federal income taxes. However, you may do a 60-day rollover.

You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information, see IRS Publication 3, Armed Forces' Tax Guide.

NOTICE PERIOD

Generally, payment cannot be made from the Plan until at least 30 days after you receive this notice. Thus, you have at least 30 days to consider whether or not to have your payment rolled over. If you do not wish to wait until this 30-day notice period ends before your election is processed, you may waive the notice period by making an affirmative election indicating whether or not you wish to make a direct rollover. Your payment will then be processed in accordance with your election as soon as practical after it is received by the Plan administrator.

FOR MORE INFORMATION

Los Angeles Fire and Police Pensions cannot give you tax advice. We urge you to consult with a professional tax advisor before taking a payment from the Plan. Also, you can find more detailed information on the federal tax treatment of payments from employer plans in: IRS Publication 575, Pension and Annuity Income; IRS Publication 590, Individual Retirement Arrangements (IRAs); and, IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans). These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORM.

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