

HANDBOOK

DEFERRED RETIREMENT OPTION PLAN



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 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, please contact Los Angeles Fire and Police Pensions, DROP/Service Pensions Section at (213) 279-3100 or (844) 88-LAFPP.

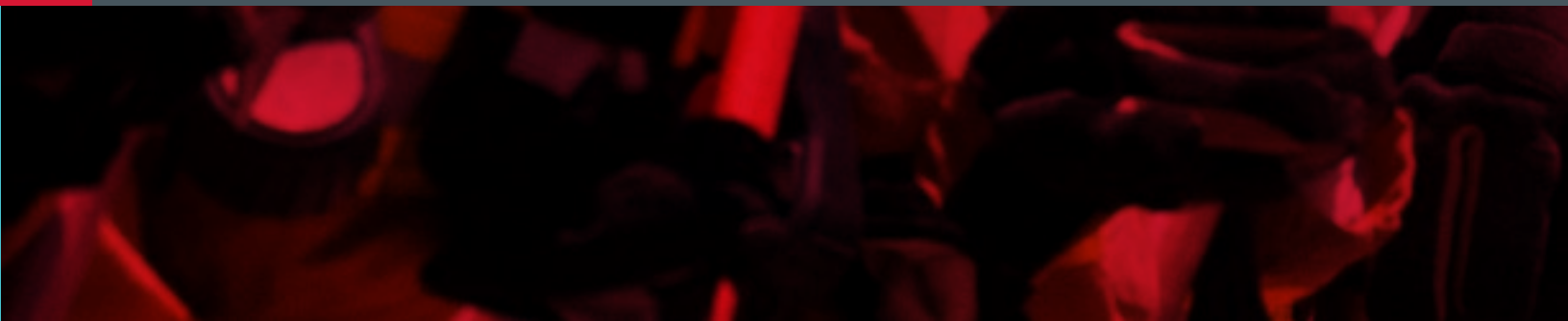


TABLE OF CONTENTS

WHAT IS DROP?	04	DEATH OF A DROP MEMBER	17
DROP ELIGIBILITY	04	Designation of Beneficiary	17
ENROLLING IN DROP	05	Nonservice-Connected Death	17
Before You Enter...		Service-Connected Death.....	17
Purchase Prior Service!.....	05	MISCELLANEOUS PROVISIONS	18
Your DROP Entry Date	05	Amendments to DROP.....	18
How to Enter	06	Dissolution of Marriage and DROP	18
DROP PARTICIPATION PERIOD	07	Compliance with Applicable Provisions of the Internal Revenue Code	19
Status While in DROP.....	08	DROP FREQUENTLY ASKED QUESTIONS .21	
DROP ACCOUNT	09	Entering DROP.....	21
Benefit Calculation and Accumulation... .09		Your DROP Account	23
Distribution and Basis Recovery	09	DROP Participation	23
Lump Sum Payment	10	Your Status in DROP	23
Rollover	10	Changes in Your Salary or Separation from Service	26
Combination Lump Sum Payment and Rollover	10	Injury, Disability or Death	27
Viewing Your DROP Account.....	11	Marriage and Domestic Partnerships ..	30
EXITING DROP	12	Exiting DROP	30
Before You Exit... Plan Ahead!.....	12	Taxes and Social Security.....	31
Steps to Exit.....	12	Additional FAQs for Members Entering DROP on or after February 1, 2019	32
DROP AND YOUR HEALTH/DENTAL SUBSIDY BENEFITS	15	APPENDICES	
INJURED OR DISABLED WHILE IN DROP ..16		Appendix A: Los Angeles Administrative Code, Division 4, Chapter 21 - DROP	34
Injury on Duty (IOD)	16	Appendix B: Special Tax Notice Regarding Your Rollover Options Under a Governmental 401(a) Plan	44
Disability Pension.....	16		

WHAT IS DROP?

The Deferred Retirement Option Plan (“DROP”) is a voluntary program that allows you to have your monthly pension 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 to your pension 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:

If you are an active member of this tier...

You may enter DROP when...

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;**
and 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.**

Please review the *How To: Purchase Military or Public Service* information on our website (www.LAFPP.com) for important details on the PSP Program.

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 for determining DROP entry date eligibility, as defined by the City Administrative Officer, 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	UB - Union Business
HW – Hours Worked	ML – Military Leave*	PA – Overtime	
HY – Smoothing for HW <i>(System Generated)</i>	MP – Military Leave*	PB – Overtime	

***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**

NON-ACTIVE

AW – Absent without Pay	HO – Holiday	SK – Sick Leave
BL – Bereavement Leave	ID – Injury on Duty	SP – Suspension
CU – Catastrophic Time Used	JD – Jury Duty	SS – Sick Leave
DO – Day Off	LW – Leave without Pay	TO – Overtime Off
FH – Floating Holiday	PM – Preventive Medicine	TS – Overtime Off
FI – Family Illness	RP – Relieved from Duty	VC – Vacation

You must have an active duty payroll code on your DROP entry date, as recorded in the City's payroll system. 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 not less than 3 days prior to your intended effective date of participation in DROP. You must submit your application to enroll in DROP by appointment only.

Fire or Police Members:

Contact LAFPP's 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.

Harbor or Airport Members:

First make an appointment with your employing department's Human Resources Unit by calling (310) 732-3480 (Harbor) or (424) 646-5900 (Airport). 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 or Airports Human Resources or Retirement Liaison.**



- If your DROP participation is suspended, you are eligible to participate in DROP for up to 30 additional months beyond your original 5-year/60-month participation period. Your participation period can only be extended for as many months as your participation was suspended. No interest will accrue or be credited to your DROP account following the initial 5-year/60-month participation period, including any periods of participation suspension.
- A list of payroll variation codes for determining “active duty” status under this provision, as determined by the City Administrative Officer and labor organizations, is provided in the following table.

PAYROLL CODES THAT QUALIFY FOR “ACTIVE DUTY” STATUS FOR MONTHLY DROP PARTICIPATION / DEPOSIT ELIGIBILITY			
DS – Differential Pay	KT - Old Overtime Off at Time and One Half (Police)	PM – Preventive Medicine	VF – Platoon Duty Vacation
HO – Holiday Hours	LD – Light Duty	TO – Overtime Taken Off (1.5)	VS – Special Duty Vacation
HW – Actual Hours Worked	LP – Leave with Pay	TS – Overtime Taken Off (Straight)	
JD – Jury Duty	ML – Military Leave Without Pay	UB – Union Business	
KS – Old Overtime Off at Straight Time (Police)	MP – Military Leave With Pay	VC - Vacation	

- At the end of your DROP participation period, you must retire from the Fire, Police, Harbor, or Airport Department. Sick time, vacation and overtime cannot be used beyond the end of your DROP participation period.



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 participate 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 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 31, 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.

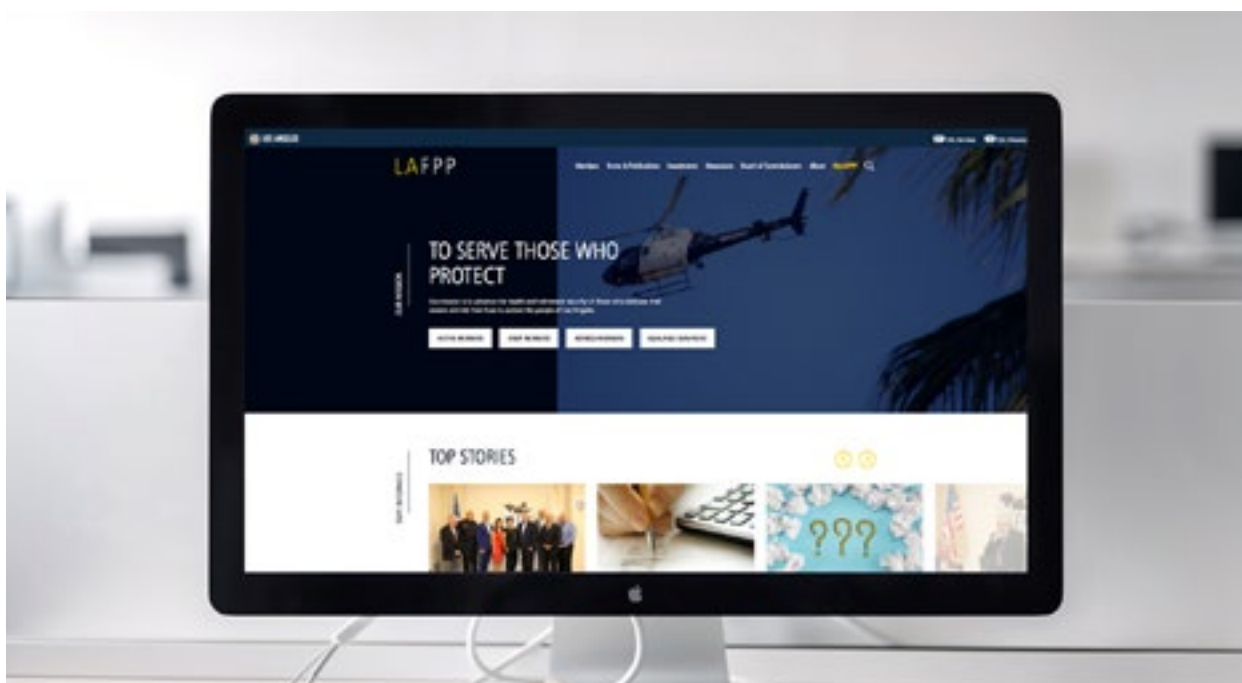
We urge you to consult with your tax and/or financial advisor prior to making your DROP distribution election so that you are aware of any financial consequences that could affect your distribution decision. We cannot advise you regarding your tax liability.

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*, your member self-service web portal.

MyLAFPP, which is available from the homepage of our website (www.LAFPP.com), provides access to review your DROP balance, view semi-annual statements, beneficiary information, service purchases 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) 646-5900

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 emailed a DROP Exit Package. This package includes:


- Special Tax Notice Regarding Your Rollover Options Under a Governmental 401(a) Plan – See Appendix B
- 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 30)
- 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 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:** For members who entered DROP prior to February 1, 2019, 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.

For members who enter DROP on or after February 1, 2019, your DROP account cannot be distributed until after LAFPP has reviewed your last active payroll period in the City's payroll system and confirmed your active duty status for that final month. Depending upon your DROP exit date, this may delay the distribution of your DROP account for a minimum of one month after your exit date.

4. Meet with a 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:

- Health 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 (see the Note on item #3 above regarding the timing of distributions).

 **Note:** Late submission and/or changes to your DROP exit date will delay distribution of your DROP account. 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 if 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, in order to receive a health or dental insurance subsidy, you must be enrolled in an LAFPP Board-approved plan (i.e., a plan offered by LAFRA, LAPRA, UFLAC and/or LAPPL) or participate in the Health Insurance Premium Reimbursement Program.

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.

Additional IOD provisions for participants who enter on or after February 1, 2019:

While in DROP, if you should incur a serious injury on duty and are admitted to the hospital for a minimum of three (3) consecutive days or longer as a direct result of that injury, your participation will not be suspended during the first twelve (12) calendar months following the date of injury and you will continue to receive your DROP monthly deposit. Upon conclusion of the twelfth month following the date of injury you must spend at least 112 hours on active duty status in order to receive the DROP monthly deposit.

Your participation in DROP will be suspended for any calendar month in which you do not spend at least 112 hours on active duty status. You will be eligible to participate in DROP for a maximum of thirty (30) additional months beyond your original 60-month participation period. Your participation can only be extended for as many months as your participation is suspended. **No interest will accrue nor be credited to your DROP Account after completion of the sixtieth (60) month following your DROP entry date.**

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 goals 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 Public Pensions General Counsel 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 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 receives the DROP account or how it is to be divided. Sample provisions provided by the Public Pensions General



Counsel 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 Public Pensions General Counsel 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 handbook 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 if you are a member of Tiers 2, 3, 4 or 5.** However, your monthly pension benefit will be distributed to you in two separate payments. The portion of your monthly pension benefit that exceeds the Section 415 limit will be issued in a separate payment through the City's Excess Benefit Plan. (Tier 6 members are not covered by the City's Excess Benefit Plan. Los Angeles City Charter Section 1720 restricts benefits payable to Tier 6 members to the Internal Revenue Code Section 415 limitations.)

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 5 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 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 dropsp@lafpp.com. It must be received before the close of business at 4:30 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 DROPP ACCOUNT

8. How much interest will my DROPP 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 DROPP participation.

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

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

10. Can I get an estimate of how much money my DROPP 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 DROPP account.

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

Semi-annual DROPP statements are available on our website the first week of January and July in MyLAFPP. Additionally, you can log in to MyLAFPP to view your balance at any time.

DROPP PARTICIPATION

YOUR STATUS IN DROPP

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

No. Service credit is determined as of the time you enter DROPP and no additional credit will be given for any time while you are in DROPP. 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 DROPP 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/DROP entry date 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% plus 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 drawn upon 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 may 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 (plus any additional months where your DROP participation was suspended, applicable to members who enter DROP on or after February 1, 2019 – up to 30 additional months). 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 Question 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 IOD status on your mandatory DROP exit date, you must still exit the program, unless you entered DROP on or after February 1, 2019. 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 to your DROP account.**

If you entered DROP on or after February 1, 2019, and your DROP participation was suspended due to an on-duty injury (or you otherwise did not meet the 112-hour minimum for active duty status in one or more calendar months), you will be eligible to participate in DROP for as many months as your participation is suspended for a maximum of thirty (30) additional months beyond

your original 60-month participation period.

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 with LAFPP one year prior to entering DROP, your surviving spouse/domestic partner would not be considered a “qualified survivor”. However, if your death is deemed service-connected by the LAFPP Board, 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 elect this program until you are retired and have exited DROP.** For more information regarding this program, please call the Retirement Services Section at (213) 279-3125 or visit our website, www.LAFPP.com.

27. What happens if my marriage is 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 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	Port Police	(310) 732-3486
Police	(213) 486-6610	Airport	(424) 646-5900

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 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.

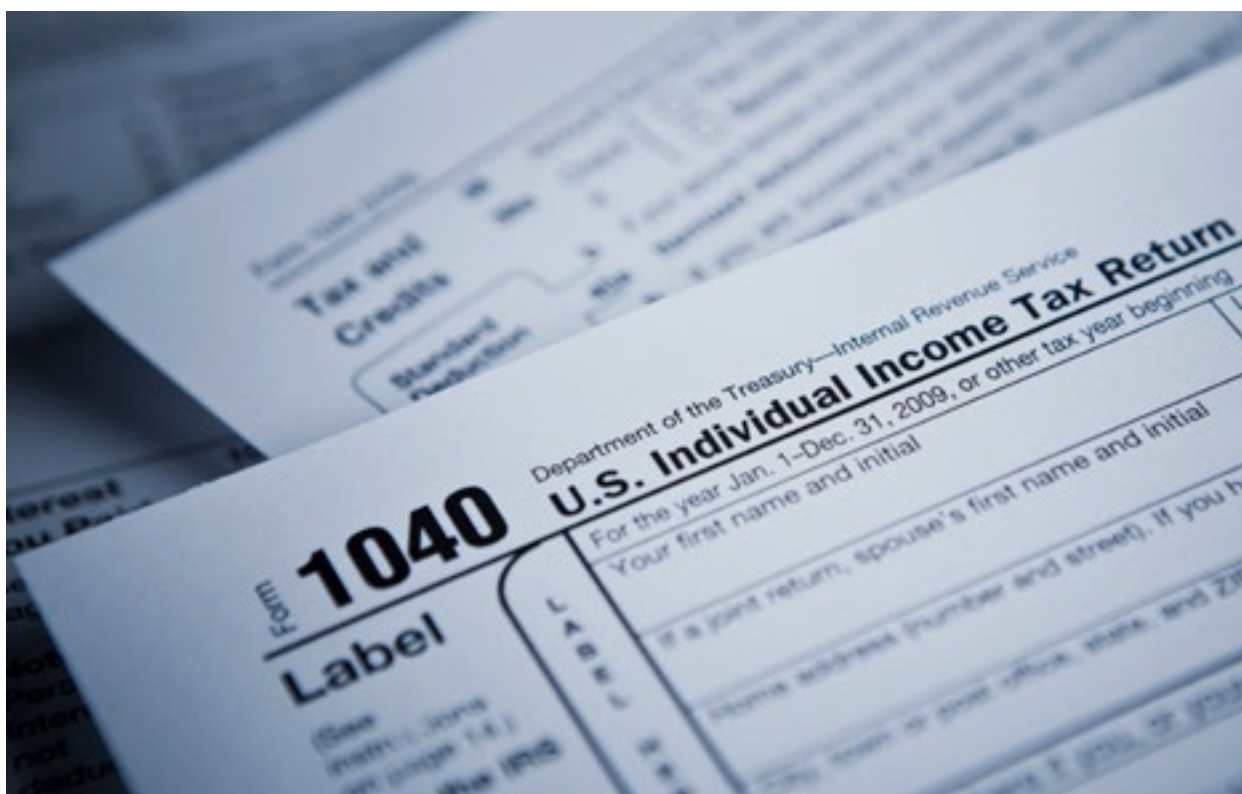
30. Will my Health and Dental benefits be affected when I exit DROP?

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 LAFPP Board-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 DROF?

Yes. The distribution of your DROF 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 DROF 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 DROF and before you exit DROF.



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.

ADDITIONAL FAQs FOR MEMBERS ENTERING DROP ON OR AFTER FEBRUARY 1, 2019

33. Is the 112-hours of active duty status counted in calendar or work hours?

Work hours.

34. What time counts as “active duty status”?

You can use actual hours worked (HW), vacation (VC), preventive medicine (PM) and overtime taken off (TO) as part of the 112 hours. A complete list of payroll codes that qualify for “active duty status” is shown on page 8.

35. What time does not count as “active duty status”?

Sick time (SK), family illness (FI) and Injury on Duty/Workers’ Comp time will not count toward your 112 hours on active duty status. There is an exception, however, if you are hospitalized for 3 or more days as a direct result of an on-duty injury.

36. Does overtime count toward my “active duty status” hours?

You cannot use overtime toward your active duty status hours, but if you bank your hours and take them as TO, those hours will count.

37. If I don’t meet the monthly 112-hour active duty status requirement, will I be immediately terminated from the DROP Program?

No. A participant can work up to the full 5 years of DROP. Within the 5 years, any month with less than 112 active duty status hours is not eligible for DROP pension accrual (i.e., your participation is suspended for that month). The months ineligible for pension accrual can be made up at the end of the 5-year original DROP period, for up to a maximum of 30 additional months beyond the original participation period.



38. Where does my money go if I fail to meet the 112-hour active duty requirement?

While it is common to refer to DROP credit being earned in the form of a payment or check, it is not, in fact, a payment or a check. While in DROP, you get credit in your individual DROP account once you have earned the credit; but the actual money stays in the LAFPP trust fund. If you fail to meet the 112-hour requirement during a calendar month, your DROP account will not receive pension credit for that month. However, the funds remain in the LAFPP trust fund.

39. Will the months I make up be subject to the 5% interest?

No. The 5% interest is only for the first five years in DROP. Any extension beyond the original five-year DROP period would not earn the 5% interest. Extensions beyond the five-year DROP period would receive cost of living adjustments to your pension.

40. Will my DROP account from the initial 5-year period continue to accrue interest while I'm making up any months?

No. Your DROP balance from the initial 5-year period will be frozen and not collect interest during your extended make-up time.

41. What if I enter DROP in the middle of the month or exit DROP in the middle of the month?

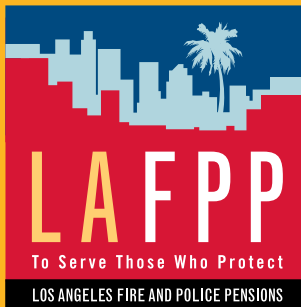
You must be on "active duty status" for a minimum of 112 hours in a calendar month to be credited with a DROP deposit for that month, regardless if it is at the beginning or end of your DROP participation period.

42. Will the timing of DROP payouts be impacted by these new provisions?

Yes, under the new DROP provisions LAFPP must confirm with the City's payroll system that you met the 112-hour active duty status threshold in your final pay period. Depending upon your DROP exit date, this may delay the payout of your DROP lump sum for a minimum of 1 month beyond your exit date.

43. Will I earn interest on my DROP balance while the final pay period is being verified?

No. The terms for crediting interest remain unchanged. No interest accrues after a member's DROP exit effective date.






701 E 3rd St
Los Angeles, CA 90013
lafpp.com
dropsp@lafpp.com



844-88-LAFPP
213-279-3000



 @lafirepolicpensons
 @LosAngelesFireandPolicePensions
 @lafpp