



# Pension Perspectives

January 2002

Deferred Retirement Option Plan

## Getting the Drop on DROP

**T**he City of Los Angeles Department of Fire and Police Pensions will be making a Deferred Retirement Option Plan (DROP) available to all eligible Pension Plan members. The targeted implementation date is on or before May 1, 2002. The key elements of DROP are outlined in a letter of agreement between the City and the Los Angeles Police Protective League, the Police Command Officers Association, the United Firefighters of Los Angeles City, and the Fire Chief Officers Association. The ordinance establishing DROP is currently being prepared.

The enrollment period for DROP will be five years (60 months) beginning on the implementation date. You can remain in DROP for five years after you enroll. As an example, assuming that DROP begins on the target implementation date of May 1, 2002, it will continue through April 30, 2007. If you enroll in 2007, you may remain in DROP until 2012.

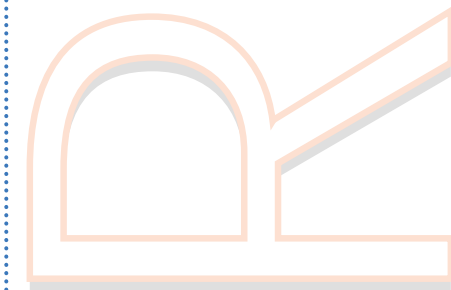
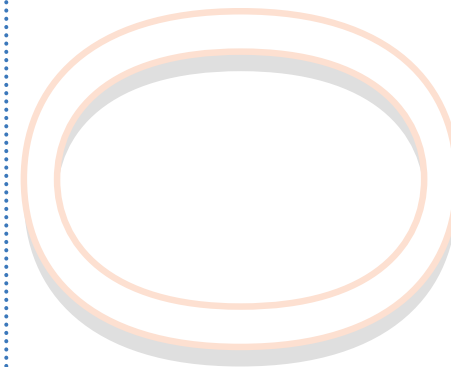
The following questions and answers highlight the key elements of the new program.

### What is DROP?

DROP is an enhancement to your Pension Plan that can provide you with another way of saving for your retirement years. It allows you to start your service pension payments while you continue to work and receive pay and benefits as an active employee.

While participating in DROP, your pension payments are credited to your DROP account. Your DROP account earns interest, and any applicable cost-of-living increases, on a tax-deferred basis. At the end of your DROP period, when you are officially required to retire, you begin receiving your monthly pension payments based upon your years of service (YOS) and salary at the time you entered DROP. You then can receive your accumulated DROP account balance in either a lump-sum payment or you can roll the proceeds over into a tax-qualified plan.

*Continued*



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## Getting the Drop on DROP (continued)

year after DROP begins. Members already in DROP will not be affected by those changes. For example, if DROP begins on May 1, 2002, changes may become effective on May 1, 2005. If a member enrolls in DROP in April 2005, or earlier, that member will not be affected by any changes to DROP.

### 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. Deferred compensation money comes out of your active salary, while DROP money is a retirement benefit.

### Do I have to keep making pension contributions while I'm in DROP?

Yes. To maintain the cost neutrality requirement in the Los Angeles City

Charter, both your contributions and City contributions will continue while you're in DROP at the rate and for the duration of time specified for your tier, as shown below. These contributions go into the Pension System general fund. They are not applied to your DROP account.

■ If you are in Tier 2, your pension contribution is 7% and your contributions stop after you complete 30 years of service.

■ If you are in Tier 3 or Tier 4, your pension contribution is 8% and your contributions stop after you complete 30 years of service.

■ If you are in Tier 5, your pension contribution is 8% or 9%\* and your contributions stop after you complete 33 years of service.

\*Members contribute 8% and the City contributes 1% as long as the Pension Plan is fully funded. If the plan's funding drops below 100%, Tier 5 members contribute 9%.

### Questions?

If you have any questions regarding the information contained in this newsletter, contact the Disability Pension/DROP Section of the Department of Fire and Police Pensions at (213) 978-4500 or via e-mail at [tzipper@fppen.lacity.org](mailto:tzipper@fppen.lacity.org).

# Getting the Drop on DROP

(continued)

## How long can I participate in DROP?

You can stay in DROP for a maximum of five years (60 months). You can voluntarily leave DROP and terminate City employment at any time prior to completing the five-year period.

## Can I change my mind after I enter DROP?

No. Your decisions to enter DROP and to terminate employment at the end of the DROP period are irrevocable. (Tier 2 members who participate in DROP are not eligible for reactivation.)

## What is my employment status while I participate in DROP?

If you elect to participate in DROP, you have all of the rights, privileges, and benefits, including health benefits, and are subject to all other terms and conditions of *active* employment in your Department.

## What happens to my pension benefit when I enter DROP?

Your service accrual and all of your eligibility conditions are frozen on the date you enter DROP. This means that your pension benefits, including survivor benefits, no longer increase due to any additional service and pay increases you receive while you are in DROP. Retiree medical and dental benefits are maximized with 25 YOS. Since you must have 25 YOS to enter DROP, these benefits will not be affected by a decision to enter DROP. (Once you enter DROP, you must remain in the tier you are in when you enter DROP and will not be permitted to transfer to another tier while in

DROP.)

Your monthly service pension is calculated when you enter DROP, and your DROP account is set up like a savings account within the Pension System. Every month while you are in DROP, your entire monthly service pension amount is deposited into your DROP account.

## What happens to my sick and vacation time accruals when I enter DROP?

While you are in DROP, you are still considered active for purposes of sick and vacation time accrual. Your operating Department will make payouts of unused sick and vacation time when you terminate from DROP.

## How much interest will my DROP account earn?

Your DROP account will earn interest at 5% per year. Interest payments will be credited to your account semi-annually on dates specified by the Board of Fire and Police Pension Commissioners.

## After I'm in DROP, will my pension contributions cease when I reach the maximum YOS for my tier?

Yes. Although YOS while you are in DROP do not count toward your service pension benefits, they do count toward the maximum number of years in which you must make pension contributions. For example, a Tier 3 member entering DROP after completing 28 YOS would stop making contributions after two years of participation in DROP.

## Who is eligible to enter DROP?

You are eligible to enter DROP after the implementation date (targeted to be on or before May 1, 2002) if...

- You are in Tier 2 or Tier 4, you may enter DROP when you have at least 25 years of service, or
- You are in Tier 3 or Tier 5\*, you may enter DROP when you have at least 25 years of service and you are at least age 50

\*Tier 5 takes effect on January 1, 2002. Members of Tiers 2, 3, and 4 may transfer to Tier 5 from January 2, 2002 to December 31, 2002.

## What happens if I join DROP and then become disabled?

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

## What if I'm on injured-on-duty (IOD) status while I'm in DROP?

If you are on IOD status at the conclusion of the DROP period, you must exit DROP at the end of your DROP period but are permitted to continue on IOD status with your Department. You are not eligible to receive distribution of your DROP account until your retirement status is determined. If you take a disability retirement, you are required to forfeit your DROP account. 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.

## What if I am terminated while I'm in DROP?

If you request it, 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 remain unchanged.

## What if I die while I'm in DROP?

**Service-Connected Death:** Your qualified surviving spouse or qualified domestic partner has the option of forfeiting the DROP money and acting as if you never entered DROP or taking the DROP money along with the survivor benefits he/she would be entitled to based on your tier when you entered DROP.

**Non-service Connected Death:** The normal post-retirement continuance benefits of the tier in which the member belongs will be available plus the proceeds of the member's DROP account.

## Can I receive my DROP account funds in monthly installments?

No. The proceeds from a DROP account are either paid out in a lump sum or rolled over to another tax-qualified plan, such as an individual retirement account (IRA). A rollover account can continue to earn interest on a tax-deferred basis. At this time, we are looking into whether members can roll their DROP account proceeds over

into their City 457 deferred compensation plan.

## Is my DROP account payment subject to income taxes?

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

## If my marriage gets dissolved prior to or while I'm in DROP, can my ex-spouse's community property monthly pension benefit be paid out to him or her before or while the money is deposited into my DROP account?

No. Until you actually terminate employment with the City of Los Angeles and become eligible to receive a monthly pension benefit, no monies shall be paid to anyone from your DROP account. (There are no provisions in the Fire and Police Pension Plan to permit payment of any retirement benefit until the member terminates City employment.)

## If I get married while I'm in DROP, will my spouse/domestic partner be eligible for survivor benefits?

No. You must be married or be in a recognized domestic partnership for one year prior to entering DROP for your qualified surviving spouse/qualified domestic partner to be eligible for pension benefits. Note: You must file a specific Fire and Police Declaration of Domestic Partnership with Fire and Police Pensions to establish a domestic partnership. No other forms will be accepted to establish a domestic partnership that qualifies for survivor benefits.

## Will I still receive cost-of-living adjustments to my pension payments?

Cost-of-living adjustments (COLAs) under your tier will be applied to your monthly service pension while you are in DROP; however, the COLA is capped at 3% for all tiers, as shown below. Note that for Tier 5, the COLA bank can be used.

■ If you are in Tier 2\*, Tier 3, or Tier 4, your maximum COLA while you are in DROP is 3%.

■ If you are in Tier 5, your maximum COLA while you are in DROP is 3% with a COLA bank\*\*.

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

\*\*Any increase in the Consumer Price Index (CPI) above 3% is put in the "COLA bank." The COLA bank is drawn from in years when the local CPI doesn't increase by at least 3%. In such years, some or all of the COLA bank balance is added to the change in the CPI to increase the COLA up to a maximum of 3%. The year's CPI percentage plus the amount taken from the COLA bank cannot exceed 3%.

## Can the provisions of DROP be changed?

Yes, but members already in DROP will not be affected by any changes to the DROP ordinance.

The City and the Los Angeles Police Protective League, the Police Command Officers Association, the United Firefighters of Los Angeles City and the Fire Chief Officers Association will reassess DROP approximately two-and-one-half years after the plan begins. The purpose of the reassessment will be to determine whether DROP is meeting the intent and the cost-neutrality requirement of the Charter.

If changes are required, they will take effect at the beginning of the fourth