

CITY OF GAINESVILLE GENERAL PENSION PLAN

DEFERRED RETIREMENT OPTION PROGRAM (DROP)



WHAT IS A DEFERRED RETIEMENT OPTION PROGRAM (DROP)?

A Deferred Retirement Option Program or DROP allows you to retire and receive benefits under the Pension Plan while delaying termination for a period of up to 60 months. As a DROP participant you continue to work and earn a salary while your monthly retirement benefit is placed in a separate account you receive at the end of DROP participation.

When you enter DROP, you are considered to be retired from the pension plan and you stop receiving retirement service credit. While participating in DROP, your monthly retirement benefits accumulate in a separate account earning tax deferred interest while you continue to work. When your DROP participation ends, you receive your DROP account payout and begin receiving your monthly pension benefit in the same amount determined when you entered DROP.

The longer you participate in DROP, the greater your financial earnings. However, even short periods of DROP participation can offer financial advantages. DROP offers a win-win situation providing the financial security of a guaranteed lifetime monthly benefit and an opportunity to accumulate additional savings while you are working.

IS DROP RIGHT FOR ME?

Participation in DROP is an important decision. Careful consideration of your options helps insure the choices you make provide the best financial security for your future and best emotional outcome. Once you enter DROP you cannot return to regular retirement so you need to make sure you're making the right choice before you enter DROP.

Questions you should ask include:

- Will I be ready to terminate employment when my DROP participation ends?
- Will I be ready emotionally and financially for retirement?
- If I want to work for the City/GRU after leaving the DROP what are my options?
- Should I begin DROP participation immediately upon reaching 27 years of service or should I wait until I've completed 30 years of service?
- Do I want to participate in DROP for the entire 60 month participation period?
- Can I work for another employer after leaving DROP?
- How will exiting DROP before age 55 effect my ability to access my DROP Assets?
- Should I retire now, enter DROP, or wait and retire at a later time? DROP provides additional funds for use during retirement, but waiting longer to retire and not participating in the DROP could provide for a higher monthly benefit for life.
- Do I want to sell back all of my eligible sick leave or PCLB at DROP entry to be used for additional service credit or do I want to keep a portion of that leave for emergencies while participating in the DROP?
- Do I want to sell back all of my eligible vacation balance at DROP entry to increase my Final Average Monthly Earnings (FAME)?

ELIGIBILITY REQUIREMENTS

Participants in the DROP **must**:

- Hold membership in the General Employees' Pension Plan
- Complete 27 to 30 years of total City service
- Have a most recent hire date prior to 10-1-2012
- Enter DROP on the 1st day of a month
- Forgo all general increases
- Forgo increases resulting in base salary exceeding the top of the salary range of the employee's classification upon DROP entry
- Convert to the PTO leave system upon DROP entry if you are a member of the CWA or ATU bargaining unit.

Participants in the DROP **may not**:

- Cancel participation in the DROP to continue regular employment
- Exceed 60 months DROP participation
- Exceed 35 years of service
- Use PTO accruals toward Final Average Monthly Earnings
- Receive vacation buy-out exceeding accruals as of 9-30-2012
- Use vacation accruals earned after 9-30-2012 to determine Final Average Monthly Earnings
- Receive service credit for sick leave or PCLB accruals earned after 9-30-2012
- Participate in or ever receive disability pension benefits
- Purchase additional service credit while in DROP

WHEN SHOULD I APPLY FOR DROP?

It's best to apply for DROP four (4) months before you plan to enter DROP. This allows you to select any annuity option available and to maximize your participation period. This also allows time for you to make proper decisions about the process.

You **must** have 27 to 30 years of service. DROP entry **may only be made on the 1st day of a month**. You **must** apply at least thirty (30) days prior to DROP entry.

HOW DO I APPLY FOR DROP?

Contact Risk Management if you have questions about DROP entry and to set up an appointment to make DROP application. You may contact a member of the Risk Management Department by calling (352) 334-5045 or by email at DG_Risk_Web Info.

The application process is simple. You meet with a member of the Risk Management staff at least 30 days before you plan to enter DROP to make application. You will receive some of the forms for completion prior to the meeting to expedite the process.

WHAT FORMS MUST I COMPLETE FOR DROP?

Employees electing to enter the General Plan DROP must contact the Risk Management Department for an appointment to complete the forms necessary for that process at least 30 days prior to DROP entry on the 1st day of a month. Prior to that meeting you will receive certain forms like the General DROP Application and the General Plan Annuity Option Election Form to complete for the application process and will be provided with additional information and forms during that meeting.

Employee's exiting the DROP must contact Risk Management for an appointment to exit the DROP at least 30 days before they want to leave the DROP. Once you contact Risk Management and set up an appointment you will be sent several forms to complete in advance of that appointment including the DROP Exit Election Form, a W4-P tax form, and DROP Distribution Form which advises where you want to transfer your DROP account once you leave employment. During that meeting you will discuss the recertification process, retiree health and life insurance, benefits available through COBRA, Retiree Health Savings (RHS) options, when you will receive your first benefit payment, information regarding re-employment after retirement, COLA's etc. You will sign additional forms and receive other relevant information regarding retirement.

ARE PENSON CONTRIBUTIONS STILL REQUIRED ONCE I ENTER DROP?

Once you enter the DROP pension contributions cease. You may take the amount you would have paid toward pension contributions and increase your earnings each pay period or you may elect to defer the amount you were receiving into your City 457 Plan.

DO I CONTINUE TO PAY FICA AND MEDICARE CONTRIBUTIONS WHILE PARTICIPATING IN DROP?

Yes, you continue to pay Medicare and FICA contributions while participating in DROP. If you plan to work and participate in DROP past age 65, contact the Social Security Administration 90 days prior to reaching age 65 to determine the appropriate time to apply for Medicare, even if you are not receiving Social Security benefits until you terminate employment. If you are late enrolling in Medicare, you may have to pay higher premiums.

DOES PARTICIPATION IN DROP GUARANTEE EMPLOYMENT?

No, your employment status is not changed by your DROP participation. You may terminate your employment or your employer may terminate your employment in the same manner as before your DROP participation began.

BENEFIT DETERMINATION AT DROP ENTRY

Upon DROP entry your monthly benefit is determined using the calculation for normal retirement and you are considered a retiree for purposes of the General Employees' Pension Plan. The formula used to determine your benefit is:

Years of Service x Plan Multiplier x Average Final Monthly Earnings (FAME)

Example

A member enters DROP with 27 years of service.

Plan multiplier is 2% per year.

Final Average Monthly Earnings are \$3,750.00.

Monthly benefit for DROP participation is: $27 \times 2\% \times \$3,750 = \$2,025.00$

Sick Leave or PCLB may be used toward determining your years of service. Accruals used toward years of service may not exceed Sick Leave accruals or PCLB accruals earned on or before October 1, 2012.

If you were hired on or before October 1, 2007, the average of your pensionable earnings during the 36 consecutive months of employment that produces the highest pay figures for you will be used to calculate Final Monthly Average Earnings.

If you were hired between October 2, 2007 and October 1, 2012, the average of your pensionable earnings during the 48 consecutive months of employment that produces the highest pay figures for you will be used to calculate Final Average Monthly Earnings.

Vacation accruals may be used toward determining your Final Average Monthly Earnings (FAME). Vacation accruals used toward FAME may not exceed vacation accruals earned on or before October 1, 2012. PTO may not be used toward determining Final Average Monthly Earnings.

Longevity pay is also eligible for use in determining Final Average Monthly Earnings.

Remember:

You can determine your estimated monthly benefit at any time by using the pension calculators located on the Risk Management Intranet Web Page <http://ggsp/RMTS/default.aspx> or request an estimate 6 months prior to DROP entry by contacting Risk Management.

CAN I CHANGE BENEFICIARIES DURING DROP PARTICIPATION?

You are limited as to how and when you can make a beneficiary change of the Beneficiary Option you elected (Life Annuity, Joint & Survivor or Joint & Last Survivor) at DROP entry.

If you elected the Life Annuity option at DROP entry and marry you may request to add your spouse for a beneficiary benefit after presenting your Marriage License and a recalculation by the plan actuary of your monthly benefit. It requires three months to change beneficiary options if eligible.

If you were married upon DROP entry and elected either the Joint & Survivor or Joint and Last Survivor beneficiary option, you may only change that option to a Life Annuity if you divorce your spouse and the spouse gives up their right in writing in the divorce decree. It takes 3 months for the Plan actuary to recalculate the Life Annuity option once you have requested that change with required documentation.

You may not change your beneficiary option back to a Life Annuity if you spouse passes away.

HOW IS MY RETIREE HEALTH INSURANCE PREMIUM CALCULATED?

Every retiree's health insurance premium is different. The amount you will normally receive from the City towards your monthly health insurance payment is determined at DROP entry. The retiree receives \$10 for each year of service and \pm \$5 per year depending on your age at DROP entry. (Deduct \$5 for each year you are under age 65 or add \$5 for each year over 65)

Example:

A retiree enters DROP at age 57 with 28 years of service.

28 years x \$10/yr. = \$280

Deduct \$5 for each year under age 65 = -\$40 ($\$5 \times 8 = \40)

Total amount paid by the City toward retiree health insurance monthly premium is \$240.

If the monthly health insurance premium that year were \$540.00 the City will pay \$240 toward the retiree's individual health insurance premium and the retiree will pay \$300 a month toward that premium.

Your spouse and children under the age of 26 can also be covered but will pay the entire monthly premium. Based on the example above, if you cover your spouse your monthly retiree health insurance premium will be \$540 for your spouse and \$300 for the retiree for a total of \$840 per month.

If the retiree dies their spouse, if covered at the retiree's time of death, can remain on the retiree health insurance plan through age 65.

HOW MUCH INTEREST WILL MY DROP ACCOUNT EARN?

DROP monies accrue in the Plan pension fund with interest. You must make a one-time irrevocable election prior to DROP entry regarding the interest assessed in your account. While participating in DROP, an annual accounting of DROP assets is sent by the Budget & Finance Department to each participant in late October.

You may select to receive interest accrued:

- At an effective annual rate of 2.25% compounded monthly on the prior month's accumulated ending balance until your termination from the DROP.

OR

- At a variable annual rate of not less than 0 and not more than 4.5% based on the plan's actual return rate for the previous plan year compounded monthly, on the prior month's accumulated ending balance up to your termination from DROP. **There is no guaranteed rate of return with this choice.**

Your election of interest assessed to your account is irrevocable!

Examples of a DROP employee's annual balances while in the DROP are shown in the tables below. For an employee whose monthly DROP retirement benefit is \$2,000 (\$24,000 annually) and who **earns 2.25% interest** compounded monthly on his/her DROP balance, the cumulative balance at the end of 5 years in the DROP is \$126,884.68.

YEAR	DROP PAYMENTS	INTEREST	CUMULATIVE TOTAL
1	\$24,000	\$249.05	\$24,249.05
2	\$24,000	\$800.32	\$49,049.37
3	\$24,000	\$1,364.12	\$74,413.49
4	\$24,000	\$1,940.73	\$100,354.22
5	\$24,000	\$2,530.45	\$126,884.68
TOTAL	\$120,000	\$6,884.68	\$126,884.68

For an employee whose monthly DROP retirement benefit is \$2,000 (\$24,000) annually and who elects the **variable rate of interest** compounded monthly on his/her DROP balance, the cumulative balance at the end of the 5 years in the DROP is \$127,372.13.

YEAR	DROP PAYMENTS	INTEREST	CUMULATIVE TOTAL
1 (2.25%)	\$24,000	\$249.05	\$24,249.05
2 (0.00%)	\$24,000	\$0.00	\$48,309.68
3 (3.00%)	\$24,000	\$1,800.31	\$74,049.36
4 (4.50%)	\$24,000	\$3,903.05	\$101,952.41
5 (1.25%)	\$24,000	\$1,419.71	\$127,372.13
TOTAL	\$120,000	\$7,372.12	\$127,372.13

IF I DIE WHILE PARTICIPATING IN THE DROP WHO IS ENTITLED TO MY DROP ACCOUNT?

Your designated beneficiary is entitled to receive your DROP accumulations up to the date of your death. If you designated a beneficiary under the Joint & Survivor or Joint and Last Survivor option, that beneficiary will receive a monthly benefit for life according to the terms of your election.

HOW DO I EXIT THE DROP?

Contact Risk Management to set up an appointment to exit DROP. You may contact a member of the Risk Management Department by calling (352) 334-5045 or by email at DG_Risk_Web Info. You are required to provide at least thirty (30) days' notice to Exit DROP as agreed upon in your DROP application when you entered DROP.

HOW DO I HANDLE MY DROP ACCOUNT UPON DROP EXIT?

You will be able to decide where to transfer your DROP assets during your DROP Exit meeting in Risk Management prior to exiting DROP. At that time you will decide whether to take your DROP assets (contributions plus interest) as a lump-sum cash disbursement, or to transfer (rollover) your DROP assets directly to a 457 Deferred Compensation Plan, Individual Retirement Account (IRA), or other eligible retirement account. ROTH IRA's are not an eligible retirement account for purposes of transferring your DROP assets. You can also elect a combination of both a cash distribution and a rollover to another eligible retirement plan.

Where you choose to roll your DROP assets after exiting the DROP can affect the availability of your DROP assets. If you roll your DROP assets into the City of Gainesville-sponsored 457 Deferred Compensation account you may make withdrawals from that plan penalty-free if leaving the DROP in or after the year in which you turn age 55. Other eligible retirement accounts may require that you be 59½ before you access your funds. You will need to meet with a representative of the retirement account you wish to use prior to leaving the DROP to discuss availability of your funds and obtain account deposit information.

If you elect to receive your DROP assets as a lump-sum payment when you exit the DROP, the City is required to withhold income tax from that distribution at a rate of 20%.

Your DROP account stops earning interest the date your participation ends. If you do not choose a distribution within 60 days after your DROP exit date the City issues a lump-sum payment and withholds 20 percent for taxes.

HOW WILL MY DROP BENEFITS BE TAXED?

At the end of DROP participation, if you elect to have your DROP account rolled to another eligible retirement plan you owe no taxes on your DROP assets until you begin to withdraw these funds from your eligible retirement plan. When you begin to withdraw those funds, the income taxes you owe are based on your income tax rate in the year you receive those funds.

If you choose a total or partial lump-sum payment of your DROP funds at DROP exit, the lump-sum amount will be taxed as income in the year the payment is issued. The IRS requires that the City withhold 20% of this amount for taxes when distributed to you. You can owe additional taxes based on your income bracket.

Example:

If you choose to take a lump-sum DROP distribution of \$100,000, the City automatically withholds 20% (\$20,000) for taxes. The amount of the lump-sum distribution paid to you would be \$80,000 (\$100,000 - \$20,000). The 1099-R tax form you receive from the City for that year would include the lump-sum amount you would receive and the 20% tax withheld. If you are in the 28% tax bracket that year, you will owe an extra 8% (\$8,000) in taxes to the IRS. If your termination from DROP occurs before the year you turn 55, you may also owe the IRS and additional 10% tax (\$10,000) on your lump-sum distribution.

CAN I WORK AT THE CITY AFTER EXITING DROP?

The City of Gainesville's General Employees Pension Plans are subject to the Internal Revenue Code and Income Tax Regulations. These laws and regulations require actual retirement (i.e., termination of employment) before a member may receive a retirement benefit. In particular, if both the employer and employee know at the time of 'retirement' that the employee will, with reasonable certainty, continue to perform services for the employer, a termination of employment has not occurred upon 'retirement' and the employee has not legitimately retired. If the City were to provide a retirement benefit under such circumstances such "retirements" would violate the Code and may result in disqualification of the Plan. The only exception to this rule is where an employee returns to work for the same employer for less than eight (8) hours per week or the employee is age 62 or older.

To avoid disqualification of the Plan and ensure that retirement benefits are only distributed to members who have legitimately retired in compliance with the Internal Revenue Code and Income Tax Regulations, the City will review all City employees' applications for retirement and any other relevant information to verify that the City employee is legitimately retiring before providing any retirement benefit payment.

Retirement benefit payments will not be issued to City employees who do not legitimately retire. For example, a City employee who "retires" on a Friday with an agreement in place to return to work with the City on Monday in any capacity (as a

regular employee, temporary employee, or independent contractor in any City department even if the department is different than the employee's previously assigned department) will not be eligible to receive retirement benefit payments because the employee has not legitimately retired as required by law, except in cases where an employee returns to work for the City for less than eight (8) hours per week or the employee is age 62 or older.

Re-employment with an employer other than the City of Gainesville will not affect retirees ability to receive their retirement benefits.