

**CITY OF GAINESVILLE
GENERAL PENSION PLAN
HIRED PRIOR TO 10/1/2012**

**DEFERRED RETIREMENT
OPTION PROGRAM (DROP)**



WHAT IS A DEFERRED RETIREMENT OPTION PROGRAM (DROP)?

A Deferred Retirement Option Program or DROP allows you to retire and receive benefits under the Pension Plan while delaying termination of employment for a period of up to 60 months. If you were hired prior to 10/1/2012, you may enter DROP at 27-30 years of service and you may only stay for a total of 5 years. Your total combined service for DROP and City service cannot exceed 35 years (depends upon when you entered DROP). 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 revoke your retirement option, so you need to make sure you're making the right choice before you enter DROP. Your decision to enter DROP is irrevocable.

Questions you should ask yourself 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? Will my total years of service exceed 35 years?
- Do I want to participate in DROP for the entire 60 month participation period?
- May 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? Answer: 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 use all of my eligible sick leave or PCLB, CAP as of 10/1/2012, at DROP entry 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, CAP as of 10/1/2012, at DROP entry to increase my Final Average Monthly Earnings (FAME)? PTO cannot be sold back at DROP entry.

ELIGIBILITY REQUIREMENTS

Participants in the DROP **must**:

- Hold membership in the General Employees' Pension Plan
- Complete 27 to 30 years of service credit
- Have a most recent hire date prior to 10-1-2012
- Enter DROP on the 1st day of a month
- Forego all general increases
- Forego increases resulting in base salary exceeding the top of the salary range of the 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 combined service (DROP & City)
- 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 three (3) 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**. The DROP entry process must be completed at least 30 days prior to DROP entry.

HOW DO I APPLY FOR DROP?

The application process is simple. Obtain the forms from Risk Management's Intranet site, Risk Management lobby kiosks, or have a packet emailed to you by one of our staff. Next you complete and return forms to Risk Management. After your forms have been received, a member of the Risk Management staff will meet with you at least 30 days before you plan to enter DROP to complete the process. All forms should be completed and returned to Risk Management prior to the meeting being scheduled to expedite the process.

If you have questions about DROP entry, you may contact a member of the Risk Management Department by calling (352) 334-5045 or by email at DG_Risk_Web Info.

WHAT FORMS MUST I COMPLETE FOR DROP?

DROP Entry:

Employees electing to enter the General Plan DROP may obtain a DROP Entry Packet by visiting Risk Management's intranet site, visiting Risk Management's site on the City's internet site, visiting the kiosks in Risk Management's lobby, or by having a Risk Management staff member email a packet to them. The process should be completed 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 Pension Application Election form, 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.

DROP Exit:

Employee's exiting the DROP should complete the process to exit the DROP at least 30 days before they want to leave the DROP. All forms should be completed and returned so that a meeting can be scheduled to go over the DROP Exit process. These forms include: DROP Exit Election Form, a W4-P tax form, Direct Deposit form, Notice to Retirees Regarding Re-employment 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 re-certification process, life insurance, retiree health, dental and vision 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?

No, once you enter the DROP, pension contributions cease. You may keep 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 to add additional income during retirement.

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. Your employer may terminate your employment in the same manner as before your DROP participation began. You may terminate your employment in DROP with 30 days' notice in writing to the Department of Risk Management.

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. The lesser amount of sick leave or PCLB balance or amount earned on or before October 1, 2012 will be used in determining service credit.

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. Longevity pay is prorated for months prior to DROP entry after last Jan or July payment.

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 using the kiosks located in Risk Management's lobby, or by requesting 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 were not married and elected the Life Annuity option at DROP entry and marry after the start of DROP 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. The requested change shall be effective no sooner than three months after your request in writing with applicable documentation. The benefit amount will be sent to the actuary to review for compliance with the plan and will be adjusted as deemed necessary.

You may not change your beneficiary option back to a Life Annuity if your spouse passes away or back to a Joint & Survivor option if changed to a Life Annuity

HOW IS MY RETIREE HEALTH INSURANCE CONTRIBUTION CALCULATED?

Every retiree's health insurance contribution is different. The amount of your contribution you will receive from the City towards your monthly health insurance premium 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 contribution paid by the City towards retiree health insurance monthly premium is \$240.

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

Your spouse and children under the age of 26 can also be covered but you will pay an additional monthly premium based upon the plan you choose.

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 at which point they will be eligible to participate for 36 months under COBRA.

You can only use your City contribution towards health insurance or Medicare supplement plans that the City provides to help pay for those premiums.

WHAT ABOUT MEDICARE SUPPLEMENT PLANS?

If you decline health insurance but would like Medicare supplements that the City provides, you will be eligible to use your City contribution to reduce those premiums. City of Gainesville Retirees and their Medicare eligible spouses are eligible for the Medicare Supplement plans the City provides. Currently, the City offers Medicare Supplements Part F and Part D through Florida Blue.

Medicare Supplement Part F covers gaps in Parts A and B and is the most comprehensive of the Medicare Supplement plans and is comparable to the City's Health Plan. It will cover the Part A deductible, Part B excess charges, Part B deductible for Durable Medical Equipment, and 20% of the remaining Medicare allowance and foreign travel.

Medicare Supplement Part D is your prescription plan coverage. With this coverage you will meet your yearly prescription deductible and then move to the initial coverage stage where you and the Part D plan have paid \$3,700 towards your prescriptions. At that point, you move to the Coverage Gap Stage or "Donut Hole" (Amounts may change yearly). During the coverage gap period for 2017, you pay no more than 40% of the price for name brand drugs and 51% of generic drugs cost. These costs are applied to your out of pocket costs. Once you have spent \$4,950 towards your out of pocket costs, you enter the Catastrophic Stage, where you only pay a small coinsurance or copayment for your prescriptions for the remainder of the year.

For more information or to sign up, McGriff-Williams is the agent of record for this benefit and can be reached at 352-371-7977. You may also contact Risk Management at 352-334-5045 should you have any questions.

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!

An example of a DROP employee's annual balances while in the DROP is shown in the table 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	\$48,249.05
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

Note: These are only provided for an example and not a guaranteed rate of return.

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. If you chose the Life Annuity option, the beneficiary selected on your City beneficiary card will receive your account balance.

HOW DO I EXIT THE DROP?

Employee's exiting the DROP should complete the process to exit the DROP at least 30 days before they want to leave the DROP. All forms should be completed and returned so that a meeting can be scheduled to go over the DROP Exit process. These forms include: DROP Exit Election Form, a W4-P tax form, Direct Deposit form, Notice to Retirees Regarding Re-employment 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 re-certification 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.

For questions related to the DROP exit process, 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 should decide where to transfer your DROP assets prior to your DROP Exit meeting and before you exit DROP. By completing and returning the DROP Distribution form, you have decided 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% and you may receive a penalty for early distribution of a retirement account by the IRS.

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 will owe no taxes on your DROP assets until you begin to withdraw those 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 may owe additional taxes based on your income bracket and a penalty for early withdrawal.

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 an 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 Plan is 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 a retiree's ability to receive their retirement benefits.