



Maximize Your DROP



AC: 0313-6439

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About ICMA-RC

We serve the public sector *only*

- Founded in 1972
- Independent
- Non-profit
- Over 1 million public sector participant accounts



ICMA-RC Vantagepoint Public Employee Memorial Scholarship Fund

- To honor local and state government employees who have died in the line of duty
- Annual scholarships for eligible students
- More than \$900,000 in scholarships*
- ICMA-RC – founding organization in 2001



www.vantagescholar.org

Income Diversification

Aim for balance – different retirement income sources

- ① Guaranteed lifetime income
 - Pension, Social Security
 - You do not bear the investment risk
- ② Retirement savings you control
 - 457 plan, IRA
 - Flexibility for major purchases, emergencies, heirs

Your DROP Can Help

A Deferred Retirement Option Plan (DROP) can provide

- 1** Investment control
- 2** Flexible withdrawal options
 - ✧ Lump sum
 - ✧ Automatic, regular withdrawals
 - ✧ Periodic withdrawals as needed

* Assumes the DROP is a self-directed, defined contribution DROP, as offered by ICMA-RC

Your DROP Can Help

What is a DROP?

Payment option within your defined benefit (DB) pension plan

- You remain employed
- But stop earning added DB plan benefits
- Instead, DB plan payments are paid to your DROP account



How Does a DROP Work? An Example¹

An Example of a DROP¹

- You reach age and/or service requirement²
- You can either
 - ✧ Retire
 - ✧ Continue working and stay in the DB plan; or
 - ✧ Continue working and elect the DROP

¹ For illustrative purposes only. Assumes a self-directed, defined contribution DROP, as offered by ICMA-RC

² In the Defined Benefit plan; for example, age 50 and 25 years of service

How Does a DROP Work?

An Example of a DROP¹ (continued)

- Monthly pension paid to your DROP account
- DROP's account value based on performance of investments you choose
- At end of DROP period, you can retire and begin receiving pension payments, DROP withdrawals

¹ For illustrative purposes only. Assumes is a self-directed, defined contribution DROP, as offered by ICMA-RC

Investing Decisions

We can help you understand different investing strategies



1 Build a portfolio from a variety of funds

- Stock, bond, money market, stable value funds
- Most flexibility, control



2 Keep it simple *and* diversified

- Target-date, target-risk, lifetime income funds
- Diversification and rebalancing in one fund

Withdrawal Decisions

We can help you understand different withdrawal strategies

- ① Boost your guaranteed lifetime income
 - ② Withdraw inflation-adjusted amounts from balanced portfolio
 - ③ Buckets – divide assets by when you will withdraw
- Consider when withdrawals will begin, how long they need to last, and taxes



Retirement Planning

Public Safety Employees – tend to retire earlier

- Due to nature of their professions
- Mandatory retirement ages are typical



☑ So planning for longer retirement especially key

Tax Planning

Avoiding IRS 10% penalty tax – distributions prior to age 59½¹

- ✓ Separation from service in year you turn age 55 or later
- ✓ Annual payments over your life expectancy
- ✓ Rollovers to other employer plans or IRAs²

☑ **Learn your options** – you may qualify for other exceptions. Different rules apply to employer plans vs. IRA distributions.

¹ For more information on exceptions, consult your ICMA-RC representative, IRS Form 5329, IRS Publication 590, or a qualified tax professional. Assets transferred (converted) to a Roth IRA are subject to tax.

² Subsequent distributions from the employer plan or IRA may be subject to the penalty tax.

Tax Planning

Caution: even if you *can* avoid the 10% penalty tax, if you withdraw too early, you

- ① Risk running out of money sooner.
 - ② Still pay **ordinary** income taxes sooner than needed
 - ③ Limit your potential for future tax-advantaged growth
- Retirement may last a long time!



Tax Planning – Public Safety Employees

Employer retirement plan withdrawals – tax-free for health insurance premiums¹

- Up to \$3,000 per year per individual²
- Eligible occupations
 - ✧ Law enforcement
 - ✧ Firefighters, rescue squad, ambulance
 - ✧ Chaplains of fire or police departments
- Separated from service as public safety employee – reached normal retirement age³ or disability
- Health or long-term care insurance premiums – paid directly from retirement plan to insurer



¹ Per Section 845, Pension Protection Act of 2006.

² Applies to distributions from all eligible plans *combined*.

³ As established by your Employer.

Get Help – Your ICMA-RC Representatives

Retirement Plans Specialist

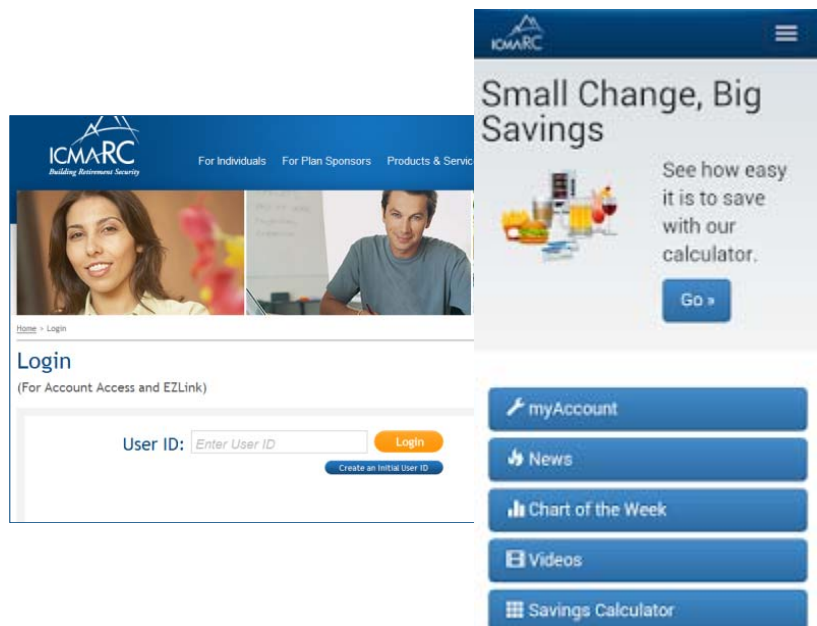
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 - ✧ <insert phone>
 - ✧ <insert email>
- Retirement account questions

CERTIFIED FINANCIAL PLANNER™

- <insert name>, a CERTIFIED FINANCIAL PLANNER™ professional
- Help with your overall finances

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