



## **DEFERRED RETIREMENT OPTION PROGRAM ADMINISTRATIVE GUIDELINES**

### **Summary of the Deferred Retirement Option Program**

The Deferred Retirement Option Program (DROP), effective October 1, 2003, is a program under which an eligible Public Safety Member (sworn police officer or firefighter) may elect to participate for up to six (6) years, deferring receipt of unreduced retirement benefits while continuing employment with the City of Richmond without loss of any other employee benefits.

Upon an eligible Member's election to participate in DROP, the amount of creditable service and the three-year average final compensation becomes frozen for purposes of determining pension benefits. The participant is considered a retired Member for all purposes related to the System and does not accrue additional retirement benefits under the System, except for annual benefit cost-of-living adjustments (COLA), if applicable.

The monthly retirement benefit under the DROP will be paid into a DROP account in lieu of being paid to the participant. A fee of up to three percent (3%) of the participant's creditable compensation may be charged to the DROP account to cover the cost of the program. Upon termination of employment, the participant will receive the DROP account balance and will begin receiving the monthly retirement benefit.

### **Administration of the DROP**

The Board of Trustees of the System shall make such rules as are necessary for the effective and efficient administration of the DROP. Neither the Board nor the staff of the System shall advise Members of the economic impact of an election related to the DROP on the Member's retirement income as a whole. Members are urged to contact financial planners for advice relating to the election.

### **Participation in the DROP**

#### **A. Eligibility**

Public Safety Members, who are eligible for an unreduced retirement allowance under the System, may elect participation in the DROP upon reaching eligibility for unreduced retirement benefits or anytime thereafter, provided the Member complies with the Rules and Regulations established by the Board of Trustees for the administration of the

DROP. Election to participate must be made not less than sixty (60) days prior to participation in the program.

Eligibility for an unreduced retirement allowance is as follows:

1. Twenty (20) years of creditable service as a sworn police officer or firefighter or the combination of the two, regardless of age, if enrolled in the Enhanced Defined Benefit Plan;
2. Twenty-five (25) years of creditable service as a sworn police officer or firefighter or a combination of the two, regardless of age, if a Member of the current System; or
3. Upon reaching the normal retirement age of 60.

## **B. DROP Application Process**

Any Public Safety Member may apply for participation in the DROP by providing a complete retirement application to the Retirement Office at least sixty (60) days prior to participation in the program. The effective date of the application must be the first day of the month of the Member's choice. A complete application consists of the following forms:

1. DROP Application
2. Beneficiary Appointment/Change Form
3. Certification Form
4. Elections for Unused Sick Leave Balances

Members must schedule an appointment with the Retirement Office for completion of the Member's application. A copy of the completed application will be forwarded to the Member's department. The Member's department will return to the Retirement Office the verification of the Member's creditable service, creditable compensation and certified unused sick leave balance. The application will be presented to the Board of Trustees for action. The Member and the Member's department will be notified in writing of the Board's decision.

## **C. Benefits Payable Under the DROP**

The Retirement Office calculates the Member's monthly retirement allowance as if the Member had retired on the date of the Member's entry into the DROP (including credit for 50% of unused sick leave that is not retained for use as sick leave during the Member's participation in the DROP program). The Member may make an election of any available optional form of payment. The Member's monthly retirement allowance based on the form of payment the Member selected will be credited to the Member's DROP account for the duration of the DROP, including any Cost-of-Living Adjustments (COLAs).

Retirement benefits are issued on the last working day of each month for that month.

#### **D. DROP Account Accumulation**

During the Member's participation in DROP, the Member's account is credited with:

- a. The monthly retirement allowance that the Member would have collected had the Member retired instead of entering the DROP, plus
- b. Any COLA increases that the Member would have collected if the Member retired.

During the Member's participation in DROP, the Member's account may be charged with an administrative fee up to three percent (3%) of creditable compensation.

The monthly retirement allowance calculated at the time of the Member's entry into DROP is credited to the Member's DROP account tax deferred.

Account statements will be provided annually to the participants.

The Member is always fully vested in the Member's DROP account balance.

#### **E. DROP Account Distribution**

The terminated DROP participant or, if deceased, the designated beneficiary or representative, will elect on forms provided by the System to receive payment of the DROP benefits in accordance with one of the options listed below.

1. Lump Sum. All accrued DROP benefits, less federal and state withholding taxes, will be paid to the DROP participant, beneficiary or representative.
2. Direct Rollover. All accrued DROP benefits will be paid from the DROP directly to the custodian of an eligible retirement plan as defined in section 401(a), 401(k), 403(b), or 457 of the Internal Revenue Code, an individual retirement account, or an individual retirement annuity.

If the participant, beneficiary or representative fails to elect a method of payment within thirty (30) days of termination of the DROP, the System will pay the DROP account balance in a lump sum subject to the provisions of Section 22-265 of the Code of the City of Richmond.

Before the Member decides whether to take the Member's DROP benefit as a lump sum or direct rollover, the Member must be sure to carefully consider any potential tax consequences. A Special Tax Notice describing the Member's rights and the tax consequences of the lump sum payment will be provided to the Member within ninety (90) days prior to the payment of the lump sum. Tax laws are complicated and may change. We recommend and encourage the Member to seek the advice of a tax

professional to determine what is best for the Member and how the Member will be impacted.

Distributions can be obtained by contacting the Retirement Office.

The accumulated benefits of any DROP participant are not subject to assignment, execution, and attachment or to any legal process whatsoever, except for federal income tax levies and child support payments.

## **F. Tenure of DROP**

The DROP period cannot exceed a maximum of six (6) years. The Member may end participation in the DROP and retire before the end of six (6) years, but the Member must give at least sixty (60) days notice to the Member's supervisor and to the Retirement Office. If the Member leaves the DROP early, the Member's employment will end as of the date the Member leaves the DROP.

When the DROP period expires, the Member will become a retired Member and will begin to receive the monthly retirement allowance that was previously paid into the DROP. The Member will also receive the accumulated value of the Member's DROP account.

When the Member's DROP period expires, the Member must contact the Retirement Office regarding direct deposit, state and federal tax withholding, and the continuation of any health and/or dental insurance deductions.

## **G. Interrupted Military Service**

If a participating DROP Member's participation in the DROP is interrupted by military service, there shall be no interruption of Membership in the DROP. Such a participating DROP Member's retirement allowance shall continue to be paid into the participating Member's DROP account while in the military for the balance of the elected term, unless the participant elects to terminate employment with the City of Richmond.

# **CONTRIBUTIONS AND DEDUCTIONS**

## **A. Employer's Contributions**

No contributions will be made to the System on the creditable compensation of DROP participants.

## **Disability During DROP**

### **A. Ordinary Disability**

For an ordinary (non-job-related) disability, the Member will receive the monthly allowance along with the Member's DROP account balance as if the Member had retired from DROP without disability. No RRS medical evaluation will be conducted.

### **B. Compensable Disability**

For a compensable (job-related) disability, the Member has the option to receive:

1. The Member's disability retirement allowance in accordance with Section 22-241 of the Code of the City of Richmond (or other applicable disability provisions) as if the Member had never elected to participate in the DROP. (The Member's years of service in the DROP will be added to the Member's years of service for the disability benefit calculation.) The money in the Member's DROP account will be forfeited, or
2. The Member's regular retirement allowance as calculated with years of service up to the Member's DROP entry date along with the Member's DROP account balance. If in receipt of Workers Compensation benefits, the retirement allowance will be subject to the provisions of Section 22-202 of the Code of the City of Richmond.

## **Death Benefits Under the DROP**

### **A. Service-Connected Death during DROP (Death-In-Line-Of-Duty)**

If the Member dies on or after the effective date of enrollment in DROP, retirement benefits will be paid to the Member's surviving spouse or, if no spouse, to the child or children under the age of 18 in accordance with Section 22-299 of the Code of the City of Richmond (or other applicable death benefit provision) as if the Member had not elected participation in the DROP. The DROP account balance will be forfeited.

If applicable, the Member's designated beneficiary will receive the one-time, lump sum death benefit from the Retirement System.

### **B. Non-Service Connected Death during DROP**

If the Member dies on or after the effective date of enrollment in the DROP, the Member's beneficiary will receive the balance in the Member's DROP account plus the

death benefit, if applicable. If the Member selected a survivor option payment upon the Member's entry into the DROP, the Member's contingent beneficiary will receive a monthly survivor allowance.

### **C. Beneficiary Designation**

The Member's beneficiary for the funds in the Member's DROP account will be the beneficiary designated when the Member completed the retirement application. The Member may change the Member's beneficiary at any time. If the Member does not elect a beneficiary for these funds, they will be paid in accordance with the order of precedence set forth in Section 22-298 of the Code of the City of Richmond.

## **DROP's Effect on Other Benefits**

### **A. Employment Status**

Except for the fact that the Member's monthly retirement allowance is paid into the Member's DROP account, the Member is considered an active employee performing all the functions of the Member's position. The Member remains eligible for promotions, pay increases subject to satisfactory performance of the Member's job, and benefits, such as annual leave and sick leave accrual. DROP participation is not a guarantee of continued employment. The Member is subject to all of the same laws and regulations regarding employment that the Member was subject to prior to entering the DROP.

### **B. Retirement Benefits**

A salary increase while in DROP (e.g., due to a promotion) will not affect the Member's monthly retirement allowance. The Member's average final compensation will have already been determined in order to calculate the Member's retirement allowance, which is credited to the DROP.

### **C. Health Insurance Benefits**

If applicable, the Member's group health insurance benefits continue during the DROP at the same monthly premium as for any other active employee.

When the Member exits the DROP, the Member may continue the Member's health insurance coverage with the City at the retiree rate provided the Member meets the City's policy regarding health insurance coverage as a retiree.

#### **D. Life Insurance Benefits**

The Member's group insurance benefits continue during the DROP as they would for any other active employee. The Member is subject to the same provisions and cost sharing arrangements as any other active employee. When the Member exits the DROP, the Member is eligible for the same group insurance benefits as if the Member were an active employee retiring on the same date.

#### **E. Sick Leave Accrual**

Any participating Member in the DROP will continue to accumulate sick leave, as does any other active employee. However, the participating Member shall forfeit unused sick leave upon separation from City employment.

#### **F. Vacation and Compensatory Leave**

Any participating Member in the DROP will continue to accumulate vacation and compensatory leave, as does any other active employee.

Unpaid vacation and compensatory leave will be paid in accordance with City policy upon separation from the City.

#### **G. 457 Deferred Compensation Plan**

Participation in the DROP has no effect on the 457 Deferred Compensation Plan. The Member's actual termination date (when the Member exits DROP) will be the Member's retirement date for 457 Deferred Compensation Plan purposes. The Member can continue to contribute to the deferred compensation plan while in the DROP.