

Questions and Answers About the City of Memphis Deferred Retirement Option Plan

What is the DROP Program?

The DROP Program (or Deferred Retirement Option Plan), is a new feature of the City of Memphis Retirement System. It allows eligible employees, who agree to retire in one, two, or three years, to cease participating in, and contributing to, the Retirement Plan. Thus, an electing employee's pay will increase by the amount he or she was contributing to the Retirement Plan. In addition, once an eligible employee joins the DROP Program, his or her pension benefits will be determined and payments from the Retirement Plan will begin. However, instead of the payments being distributed to you, they will be placed in an interest-bearing account in the Retirement Plan. When you actually retire, you will not only begin to receive your pension payments, but you will also receive a single sum payment equal to the pension payments placed into your account plus interest earned.

Your benefits are:

- ◆ Increased take home pay; and
- ◆ Receiving a lump sum upon retirement that can be rolled over to an individual retirement account or another qualified plan.

The City's benefits are:

- ◆ Decreased contributions it has to make to the Retirement Plan; and
- ◆ Knowing well in advance the retirement date of electing employees

Who is eligible to participate in the DROP Program?

An employee is eligible to participate in the DROP Program if he or she has attained normal retirement age (as defined by the Retirement Plan) and has at least 25 years of service.

How do I elect to participate in the DROP Program?

During December, March, June or September, you must complete an election form agreeing to retire in one, two, or three years from the effective date of your participation. The effective dates are:

Month of Election

December
March
June
September

Effective Date

January 15
April 15
July 15
October 15

What happens if, after completing the election form and agreeing to retire on a specific date, I decide I don't want to participate in the Plan or retire?

Your election to participate, and your agreement to retire are **irrevocable***. Once you have completed and submitted your election form, you have agreed to participate in the DROP Program, and have agreed to retire. **You will not be allowed to change this election.** Therefore, you should be certain about your decision before making an election.

What happens once I elect to participate?

First, your contributions and the City's contributions to the Retirement Plan cease as of the effective date. Second, you cease being credited with any additional years of service under the Retirement Plan, and your compensation (for purposes of calculating the Retirement Plan benefit) is frozen as of the effective date. You can still receive increases in pay after you elect to participate, but they will not be used to determine your Retirement Plan benefit. Also, you are still eligible to receive the occasional benefit increases that are granted by the City to retirees.

Third, your benefit under the Retirement Plan is calculated as if the effective date of your election is your last day worked. Fourth, a special account is established for you and is credited with an amount equal to the monthly pension you would receive had you actually retired on the effective date of your election.

Do I earn interest on my money in the DROP account?

Yes. Your account is credited each calendar quarter on the average monthly balance in your account. The interest is based on 25% of the 90-day Treasury Bill yield published in the last published Wall Street Journal of the quarter. For example, if the average monthly balance in your account was \$10,000 and the 90-day Treasury Bill yield on the last day of the quarter was 6%, your account would be credited that quarter with \$150 of interest. ($\$10,000 \times 6\% \times 25\%$)

Will I receive a statement showing the balance in my account?

Yes. You will receive a statement at least semi-annually.

Will my participating in the DROP affect my status as an employee?

You continue to be an active employee for all purposes and treated the same (including not participating in Social Security), except you are treated as retired for purposes of participating in the Retirement Plan.

How and when will I receive distributions from the DROP Programs?

Once your participation in the DROP Program ceases (at the end of the one, two, or three year period you elect), you will begin to receive your retirement allowance (that had been

getting paid into the DROP Program account). In addition, you will receive a distribution equal to your DROP account balance. These payments will be made as soon as administratively feasible.

Can I rollover my distribution to an IRA or another qualified plan?

Yes, even if you are over age 70 ½. In addition, if you die, your surviving spouse can make a rollover to an IRA (but not a qualified plan).

What happens if I decide to retire before my selected retirement date?

You will begin to receive your retirement allowance from the Retirement Plan, plus your DROP Program account balance. You will not; however, receive any interest on your DROP account balance for the last quarter participation in the program.

What happens if I become disabled or die?

If you die or become disabled in the line of duty, your election to participate in the DROP Program will be retroactively revoked. This means that you (or your beneficiary in the case of death), will be eligible for the line of duty disability or death benefits under the Retirement Plan as if you had not elected to participate in the DROP Program. Thus, if your death or disability is “line of duty,” your service and compensation after joining the DROP Program **are** taken into account and you **will not** receive a distribution from the DROP Program.

If you die or become disabled and it is not in the line of duty, your participation in the DROP Program will cease, and your death or disability benefit will be based on your service and compensation at the time you elected to participate in the DROP Program. Thus, if your death or disability is not in the line of duty, your service and compensation after joining the DROP Program **are not** taken into account, and you **will** receive a distribution equal to your DROP account.