



Deferred Retirement Option Plan (DROP) Frequently Asked Questions

What is the DROP Program?

The Deferred Retirement Option Plan (DROP Program) is a program that allows eligible employees, who agree to retire in one, two, or three years, to cease participating in, and contributing to, the Retirement Plan.

Who is eligible to participate in the DROP Program?

An employee is eligible to participate in the DROP Program if he or she and has at least 25 years of pension creditable service.

How does the DROP Program work?

The Total Rewards Retirement Team provides an estimate of your calculator monthly payout before enrolling in the DROP.

Your contributions and the city's contributions to the plan cease as of the effective date of your DROP enrollment.

No additional years of service or compensation will be considered, so your benefit under the plan is frozen (or fixed) as of the date your DROP election is effective.

Your frozen benefit will be calculated as though the employee retired on the effective date of his or her election, and a DROP account shall be established for such eligible employee.

The DROP account is a recordkeeping account for the benefit of the participant which beginning on the effective date of the electing participant's election, shall be credited with an amount equal to the monthly pension benefit the electing participant would receive had he or she retired and begun receiving payments on the effective date.

When you exit the DROP, you will begin to receive your pension payments and a single sum payment equal to the pension payments placed into your account plus interest earned.

How is my pension calculated?

Commissioned Officers

For each participant in the 1978 Pension Plan the average monthly compensation, (excluding and disregarding any hiatus in the participant's employment by the City) for his or her three (3) consecutive pension creditable years of service for which such compensation was the highest.

General Employee

Average monthly compensation is the average of your monthly compensation received for any five consecutive Years of Service preceding your date of termination which produces the highest average. If the 12 months preceding your termination of employment produce a higher average, then that shall be your Average Monthly Compensation.

What are the advantages of participating in the DROP Program?

- You will be able to better plan for your retirement prior to your exit date. You will continue to work as an active employee until your future retirement date.
- Your take-home pay can increase by the amount you were contributing to the City of Memphis Pension Plan.
- A special account is established for you and is credited with an amount equal to the monthly pension you would receive had you retired on the effective date of your election.
- You will receive your accrued benefits in a single lump sum plus interest earned that can be rolled over to an individual retirement account, or another qualified plan or receive a refund.

What are the disadvantages of participating in the DROP Program?

- Your contributions and the City's contributions to the Retirement Plan cease as of the effective date of your DROP enrollment.
- You cease accruing additional pension creditable years of service under the Retirement Plan, and your compensation (for calculating the Retirement Plan benefit) is frozen as of the effective date. Your future increases in pay will not be included in retirement benefits.
- Your benefit under the Retirement Plan is calculated as if the effective date of your election is your last day worked.

How do I elect to participate in the DROP Program?

Month of Election	Effective Date
December	January 15
March	April 15
June	July 15
September	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 retired on the effective date of your election.

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

Yes. Only if there's interest for that quarter. 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 for (June 30th and December 31st).

Will my participation 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 should I do while I am enrolled in the DROP Plan?

Review your contributions and investment selection in your 457(b) to ensure it matches your situation.

Speak with the Vendor about estimating your 457(b) benefits upon retirement.

Meet with Social Security to verify your benefit options from time paying into Social Security.

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 a “line of duty,” your service and compensation after joining the DROP Program **are** considered 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** considered, and you **will** receive a distribution equal to your DROP account.

How do I exit the DROP Program?

- A document will be sent to you electronically to complete. Attach a voided check or direct deposit authorization form to the electronic document then submit. The document is forwarded to the Total Rewards Retirement office electronically.
- Give notice to the supervisor 30 days prior to DROP exit.
- Notify your Supervisor and Total Rewards Retirement of your intent to exit the DROP early. Note: notification should be 30 days before your early exit date

What are my options for the DROP money I receive?

- Cash out your benefits. There is a tax implication (taxed 20%).
- Rollover your benefit to an IRA. Will need to be 59½ to withdraw money penalty free.
- Rollover your benefit to Empower. Tax deferred account with certain conditions for penalty free pre-59½ withdrawals.

If I have pension related questions, who do I contact?

For questions regarding the 1978 Pension Plan contact the City of Memphis at (901) 636-6800 or email retirementquestions@memphistn.gov. Visit the Total Rewards website at <https://totalrewards.memphistn.gov> or scan the QR Code for more information.

For one-on-one assistance regarding your 457(b) contact:

- Austin Maness, Empower Education Specialist at (901) 864-8211 or email at austin.maness@empower.com.
- San Tate, Empower Education Specialist at (901) 713-4079 or email at san.tate@empower.com