Town of Palm Beach Retirement System

Deferred Retirement Option Plan (DROP)
Policies and Information for Participants

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Adopted: May 15, 2015

Table of Contents

What is DROP?

The Deferred Retirement Option Program (DROP) allows a vested member that is eligible for normal retirement to effectively retire and remain employed by the Town of Palm Beach. The member can choose to accumulate their retirement benefits by making deposits of monthly retirement payments to the retirement fund while continuing to be employed by the Town. The maximum time allowed for DROP participation is 60 months from the date the member commences participation with the DROP program. The DROP member is authorized to simultaneously earn a salary while their monthly retirement benefits are accumulated in the Pension fund.

Before a member commences DROP participation, a monthly retirement benefit is calculated and the member is considered retired. The calculation of benefit is final, and the member will no longer be eligible to earn additional service credit thereafter. The member's monthly retirement benefit will accumulate in the Town's retirement fund while participating in DROP, earning tax-deferred income while continuing employment for the Town. (Tax-deferred income means that the member is able to defer payment of Federal Income Taxes until the DROP benefits are distributed to member after termination of employment. Exception: Federal Income Tax is deferred on DROP balance distribution if the member chooses to rollover from the Town of Palm Beach fund to a qualified retirement plan).

Once the DROP member terminates employment with the Town, the member will begin receiving monthly retirement benefits at the amount previously deposited as a monthly DROP benefit, plus annual cost-of-living-adjustment (COLA) increases when eligible, but then subject to Federal Income Tax withholding.

What are the eligibility requirements?

The member must be eligible for normal retirement in order to elect participation in DROP. An election to participate in DROP must be made within 7 years of the date the member is first eligible for normal retirement, and DROP participation must be terminated within the shorter of 5 years of participation or 120 months after date of normal retirement.

Normal Retirement Eligibility

Plan A

a) *General:* 30 or more years of service, regardless of age; or age 55 with 10 or more years of service

b) *Ocean Rescue:* Age 50 with 10 or more years of service. Or 10 or more years of service and age plus credited service totals 65 years or more.

c) *Police Officers and Firefighters:* 20 or more years of service, regardless of age; or, age 50 with 10 or more years of service; or, at least 10 years of service and age plus credited service totals 65 years or more.

d) Immediate vesting was granted to all employees who on May 1, 2012, were active contributing plan participants.

Plan B

Age 65 with 10 or more years of service, including service prior to May 1, 2012.

Pension Amount

General and Ocean Rescue: 100% of member's accrued benefit at the date of election to participate in DROP. Grandfathered General and Ocean Rescue employees: 98% of member's accrued benefit at the date of election to participate in DROP

Police and Firefighters: 100% of the member's accrued benefit at the date of election to participate in DROP.

How is the benefit calculated?

Since the member is considered retired when entering DROP, the monthly DROP benefit represents the final calculation of the retirement benefit at the time the member elects to participate in DROP. Therefore, the average monthly earnings, multiplier, and continuous credited service at the time of the election to participate in the DROP represents the monthly benefit that is deposited while employed and participating in DROP, and after termination of employment after participation in DROP. The monthly retirement benefits will include a cost of living adjustment (COLA) after 36 months of payment, whether during DROP or retirement after DROP.

Will the DROP balance receive a Cost of Living Adjustment (COLA)?

The retirement benefits that accumulate in DROP will be increased by an annual cost of living adjustment of 2% for Plan A benefits on the 37th month of the DROP payment and adjusted each year thereafter during DROP and retirement.

What must I do to enter participation in DROP?

A member electing to participate in the DROP must complete the proper DROP/Retirement forms requiring the selection of a monthly benefit option, and designation of beneficiary. Like retirement, DROP participation is irrevocable once the first payment is made.

Are there limitations or conditions that restrict receipt of other public benefits?

After commencement of DROP participation, the member shall thereafter be prohibited from becoming a future contributing member of the Retirement System, and shall no longer be eligible for disability or pre-retirement death benefits.

Will employee contributions to the retirement system be discontinued?

The member's employee contributions will be discontinued upon commencement of participation in DROP.

How will the accumulated DROP balances be invested?

The member's DROP account is credited or debited based on a calculation of net quarterly performance applied over a trailing five (5) years to the Retirement fund investment portfolio. The calculation is performed each quarter by the System's investment consultant. Net quarterly performance is calculated by reducing the gross rate of quarterly return by brokerage commissions and fund transaction costs realized by the Retirement plan portfolio. This return is applied to the member's average daily DROP balance each quarter. Exhibit A demonstrates the calculation of quarterly DROP earnings.

Will the member receive DROP statements that identify the transactions?

DROP members shall receive quarterly statements from the System approximately 45 days after the end of each quarter. This should provide sufficient time for fund valuations and expenses to be completed and processed for calculation of net quarterly performance. The annual quarterly end dates are March 31, June 30, September 30, and December 31 for each year. The member can access their most recent statement and deposits to date at the internet link as follows: [http://webserver.townofpalmbeach.com/cgi-bin/ol050_agree.htm.](http://webserver.townofpalmbeach.com/cgi-bin/ol050_agree.htm) The DROP participant must enter the following to access account information: (1) Retiree (DROP) identification number, (2) Date of Birth, and (3) Social Security Number.

Statements can also be viewed on the Town's website under the Human Resources Department/Retirement Benefits/Participant Access to DROP and Share Account Statements.

How do I take distributions from my accumulated DROP monies?

Upon termination of employment DROP participation is discontinued and the retirement benefits will be paid to the member or survivor if member is deceased.

Once participant terminates employment, the accumulated DROP balances will remain with the Retirement System's fund until a distribution is requested by the member. The member's balance shall be distributed based on the member's written request within 30 days of the retirement administrator's receipt of the completed form.

All DROP distributions will be made based on the balance from the most recent quarterly statement at the time of the member's filing of the appropriate form with the retirement administrator. DROP statements will be provided approximately 45 days after the end of a quarter. This should provide sufficient time for valuations to be completed by the retirement system funds, and to process for the quarterly performance calculation.

Withdrawal options are as follows:

(1) Lump Sum. You may elect a distribution of your accumulated balance, less withholding of Federal Income Taxes.

(2) Direct rollover. You may elect to transfer your accumulated balance tax deferred to an account held at an institution that provides an eligible retirement plan as defined in section 402(c) (8) (b) of the Internal Revenue Code.

(3) Partial lump sum distribution and rollover. You may elect a portion of the accumulated balance paid to you, less withholding of Federal Income Tax, and the remaining balance transferred to a qualified retirement plan tax deferred.

(4) One-time Partial Distribution Option – An eligible member has a one-time partial distribution election prior to total distribution of the balance. The balance will remain in the retirement system fund.

If the member chooses a total or partial lump-sum distribution from their DROP Account, the lump-sum amount will be subject to Federal Income Tax in the year the payment is issued. Federal Law requires that the Town withhold 20% of the amount distributed. The member may owe additional Federal Income Taxes based on their personal tax liability.

DROP balances will continue to receive the quarterly calculation of investment performance while balances remain in the retirement fund until member is terminated from employment and reaches age 60. However, once a DROP participant has terminated Town employment and reaches the age of 60, there will be no further net quarterly performance credited.

Finally, significant Federal Income Tax penalties may apply to DROP participants who reach age 70 and ½ and do not take the minimum distributions required by Federal Law. Participants who maintain DROP balances are urged to consult with a qualified tax advisor regarding this matter prior to reaching age 70 ½.

How are other employment benefits impacted?

Other non-retirement benefits are not impacted by the member's participation of DROP. Accumulated leave and RHS account distributions, when applicable, apply at separation of service after termination of DROP participation and according the Employee Personnel Manual or other applicable Town policy. Also, a member who receives any DROP benefits for the portion of their pension benefits earned on or after May 1, 2012, shall be an at-will employee for the entire DROP period.

EXHIBIT A: EXAMPLE OF MONTHLY DROP ACCOUNT ACTIVITY AND EARNINGS CALCULATION

Assumptions:

DROP Account Balance on January 1: $25,000

Monthly deposit at end of each month: $2,000 (Last business day of the month)

Net investment return for the Quarter: 2.04% (Actual rate used is plan's 5 year trailing average return, net of fees)

Calculations:

The quarterly earnings are calculated based on the average daily account balance for the month.

The Average Daily Balance:

$25,000 + $2,000 deposit on January 31st, February 28th and March 31st = ($25,000 x 30 days, $27,000 x 28 days, $29,000 x 31 days, and $31,000 x 1 day) / 90 days = Average Daily Balance for the Quarter = $27,066.67

Calculation of Earnings

$27,066.67 Average Balance x 2.04% (Quarterly 5 year trailing average return net of fees) = $552.16 Earnings

DROP Account Balance on March 31:

Beginning Balance	$25,000.00
Add: Monthly Deposits	$ 6,000.00
Add/Subtract: Earnings/Losses	$ 552.16
Balance at End of Quarter	$31,552.16

DROP activity is calculated monthly, DROP earnings are calculated quarterly, and DROP statements are distributed quarterly.

THE ABOVE EXAMPLE IS FOR DEMONSTRATION PURPOSES ONLY AND IS NO INDICATION OR GUARANTEE OF INVESTMENT PERFORMANCE.

Exhibit B: DROP Form

Town of Palm Beach Retirement System
DROP Distribution Election Form

_______________________________ _______________________________
Member's Name (Print) Member's Phone

____
Member's Address City State Zip

Please Select Option A, B, C, or D below:

A. The Town of Palm Beach Retirement System is directed to make full payment to me, the member, less any applicable withholding described in the Special Tax Notice received with this election form.

_______________________________ _______________
Signature of Member Date

B. The Town of Palm Beach Retirement System is directed to make a one-time partial distribution to me, the member, less any applicable withholding described in the Special Tax Notice received with this election form in the amount of $____________________. The remaining balance will remain with the Town of Palm Beach Retirement System.

_______________________________ _______________
Signature of Member Date

C. The Town of Palm Beach Retirement System is directed to mail the entire balance of my DROP to the trustee for deposit in accordance with the rollover provisions (attached).

_______________________________ _______________
Signature of Member Date

D. The Town of Palm Beach Retirement System is directed to mail $______________ of my DROP balance to trustee for deposit in accordance with the rollover provisions (attached). The remainder less any applicable withholding described in the Special Tax Notice received with this election form will be paid directly to me, the member.

_______________________________ _______________
Signature of Member Date

Please complete the "Agreement of Depository Trustee", attached, if Option C or D is selected.

Approved for Payment: _______________________________ _______________
Administrator Date

Revised May 2015

Town of Palm Beach Retirement System
DROP Distribution Election

AGREEMENT OF DEPOSITORY TRUSTEE

This form is to be completed by the chosen Trustee of the eligible Retirement Plan or IRA.

In accordance with the authorization of the depositor ___________________________________
(Member's Name)

We agree to deposit the forthcoming rollover amount from the Town of Palm Beach Retirement System to the following account:

Type of Rollover Account	Name of Trustee
Signature of Trustee	Mailing Address
Date	City State Zip

Please return Completed Form to:

William P. Hanes
249 Royal Palm Way. Suite 301D
Palm Beach, FL 33480
whanes@Townofpalmbeach.com
Telephone: (561) 906-5885
Fax: (561) 828-4699

TOWN OF PALM BEACH RETIREMENT SYSTEM

SPECIAL TAX NOTICE REGARDING CERTAIN PLAN PAYMENTS

This notice contains important information you will need to know before you decide how to receive your payments (contributions) from the Town of Palm Beach Retirement System (Plan).

SUMMARY:

A payment from the Plan that is eligible for a rollover can be taken in two ways: You may have all or any portion of your payment either paid in a direct rollover (payment of your Plan benefits to your individual retirement arrangement [IRA] or to another employer plan) <u>or</u> paid to you. Your choice if payment method will affect any taxes you may owe.

If you choose a <u>Direct Rollover</u>:

- Your payment will not be taxed in the current year and no income tax will be withheld.
- Your payment will be made directly to your IRA or, if you choose, to another employer plan that accepts your rollover.
- Your payment will be taxed at such time as you take it out of the IRA or the new employer plan.

If you choose to have your plan benefits <u>paid to you:</u>

- You will receive only 80% of the payment, as the plan administrator is required to withhold 20% of the payment for payment to the IRS as income tax withholding to be credited against your taxes.
- Your payment will be taxed in the current year. You may be able to use special tax rules that could reduce the tax you owe; however, if you receive the payment before age 59-1/2, you also may have to pay an additional 10% tax.
- If you decide to roll over this payment to your IRA or another employer plan that accepts roll overs <u>after</u> you have received the payment, you may do so within 60 days of receiving the payment. The amount rolled over will not be taxed until such time as you take it out of the IRA or employer plan.
- If your plan benefits are paid to you and you then decide you want to roll over 100% of or your payment (contributions) to an IRA or an employer plan, you must find other money to replace the 20% that was withheld when you received your payment. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

PAYMENTS THAT CAN AND CANNOT BE ROLLED OVER:

Payments from the Plan may be eligible rollover distributions. This means that they can be rolled over to an IRA or to another employer plan that accepts rollovers. Your plan administrator can advise you as to which portion of your payment is an eligible rollover distribution. The following types of payments <u>cannot</u> be rolled over:

<u>Non-taxable Payments</u>. In general, only the taxable portion of your payment is an eligible rollover distribution. If you have made after-tax employee contributions to the Plan, these contributions will be non-taxable when they are paid to you, and they cannot be rolled over. (After-tax employee contributions generally are contributions you made from your own pay that were already taxed.)

<u>Payments Spread Over Long Periods</u>: You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for:

- your lifetime (or your life expectancy); or
- your lifetime and your beneficiary's lifetime (or life expectancies); or
- a period of ten years or more.

DIRECT ROLLOVER:

You can choose a direct rollover of all or any portion of your payment that is an eligible rollover distribution, as described above. In a direct rollover, the eligible rollover distribution is paid directly from the Plan to an IRA or another employer plan that accepts rollovers. If you choose a direct rollover, you are not taxed on a payment until you later take it out of the IRA or the employer plan. Following are types of Direct Rollovers:

Direct Rollover to an IRA: You can open an IRA to receive the direct rollover. (The term IRA, as used in this notice, includes individual retirement accounts and individual retirement annuities). If you choose to have your payment made directly to an IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to an IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish an IRA to receive the payment. However, in choosing an IRA, you may wish to consider whether the IRA you choose will allow you to move all or part of your payment to another IRA at a later date, without penalties or other limitations. See IRS Publication 590, Individual Retirement Arrangements, for more information on IRAs (including limits on how often you can roll over between IRAs).

Direct Rollover to a Plan: If you are employed by a new employer that has a plan, and you want a direct rollover to that plan, ask the administrator of that plan whether it will accept your rollover. If your new employers plan accepts a rollover, that plan administrator can assist you with the rollover. If your new employers plan does not accept a rollover, you can choose a direct rollover to an IRA.

Direct Rollover of a Series of Payments: If you receive eligible rollover distributions that are paid in a series for less than ten years, your choice to make or not make a direct rollover for a payment will apply to all later payments in the series unless you change your election. You are free to change your election for any later payment in the series.

PAYMENT MADE TO YOU:

If you have the payment made to you, it is subject to 20% income tax withholding. The payment is taxed in the year you receive it, unless within 60 days you roll it over to an IRA or another plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

Income Tax Withholding:

Mandatory Withholding: If any portion of the payment to you is an eligible rollover distribution, the Plan is required by law to withhold 20% of that amount. This amount is sent to the IRS as income tax withholding. For example, if your eligible rollover distribution is $10,000, only $8,000 will be paid to you because the plan must withhold $2,000 as income tax. However, when you prepare your income tax return for the year, you will report the full $10,000 as a payment from the Plan. You will report the $2,000 as tax withheld, and it will be credited against income tax you owe for the year.

Sixty-Day Rollover Option: If you have an eligible rollover distribution paid to you, you can still decide to roll over all or part of it to an IRA or another employer plan that accepts rollovers. If you decide to roll the distribution over, *you must make the rollover within 60 days after you receive the payment.* The portion of your payment that is rolled over will not be taxed until you take it out of the IRA or the employer plan.

You can roll over up to 100% of the eligible rollover distribution, including an amount equal to the 20% that was withheld for income tax. If you choose to roll over 100% of the distribution you received, within the 60-day period, you must find money to replace the 20% that was withheld and rollover the entire amount. However, if you roll over only the 80% that you received, you will be taxed on the 20% that was withheld.

> *Example*: Your eligible rollover distribution is $10,000, and you choose to have it paid to you. You will receive $8,000, and $2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the $8,000, you may roll over the entire $10,000 amount to an IRA or employer plan. To do this you roll over the $8,000 you received from the Plan, and you obtain $2,000 from other sources (your savings, a loan, etc.). In this case, the entire $10,000 will not be taxed until you take it out of the IRA or employer plan. If you roll over the entire $1,000, when you file your income tax return for that year, you may get a refund of the $2,000 that was originally withheld.

However, if you roll over only $8,000, the $2,000 that you did not roll over is taxed in the year that it was withheld. When you file your income tax return for that year, you may get a refund of part of the $2,000 that was withheld.

Any income tax refund that you may receive is likely to be larger if the entire $10,000 is rolled over.

Additional 10% Tax If You Are Under Age 59-1/2: If you receive a payment before you reach age 59-1/2 and you do not roll it over, then, in addition to the regular income tax, you may have to pay an extra tax equal to 10% of the taxable portion of the payment. The additional 10% tax does not apply to your payment if it is:

- o paid to you because you separated from service with your employer during or after the year you reach age 55; or,
- o paid because you retire due to disability; or,
- o paid to you as equal (or almost equal) payments over your life or life expectancy (or you and your beneficiary=s lives or life expectancies; or
- o used to pay certain medical expenses.

See IRS Form 5329 for more information on the additional 10% tax.

Special Tax Treatment: If your eligible rollover distribution is not rolled over, it will be taxed in the year you receive it. However, if it qualifies as a lump sum distribution, it may be eligible for a special tax treatment. A lump sum distribution is a payment, made within one year, of your entire balance under that Plan (and certain other similar plans of the employer) that is payable to you because:

- o you have reached age 59-1/2; or,
- o have separated from service with your employer; or,
- o in the case of a self-employed individual, because you have reached age 59-1/2 or have become disabled.

For a payment to qualify as a lump sum distribution, you must have been a participant in the Plan for at least five years. The special tax treatment for lump sum distributions is described below.

Five Year Averaging: If you receive a lump sum distribution after you are age 59-1/2, you may be able to make a one-time election to figure the tax on the payment by using 5-year averaging. Five-year averaging often reduces the tax you owe because it treats the payment much as if it were paid over five years.

Ten Year Averaging: If you receive a lump sum distribution and you were born before January 1, 1936, you can make a one-time election to figure the tax on the payment by using 10 year averaging (using 1986 tax rates) instead of 5-year averaging (using current tax rates). Like the 5-year averaging, the 10-year averaging often reduces the tax you owe.

Capital Gain Treatment if You Were Born Before January 1, 1936: In addition to the above, if you receive a lump sum distribution, and you were born before January 1, 1936, you may elect to have the part of your payment that is attributable to your pre-1974 participation in the Plan (if any) taxed as long term capital gain at a rate of 20%.

There are other limits on the special tax treatment for lump sum distributions. For example, you can generally elect this special tax treatment only once in your lifetime, and the election applies to all lump sum distributions that you receive in that same year. If you have preciously rolled over a payment from the Plan (or certain other similar plans of the employer), you cannot use this special tax treatment for later payments from the Plan. If you roll over your payment to an IRA, you will not be able to use this special tax treatment for later payments from the IRA. Also, if you roll over only a portion of your payment to an IRA, this special tax treatment is not available for the rest of the payment. Additional restrictions are described in IRS Form 4972, which has more information on lump sum distributions and how you elect the special tax treatment.

SURVIVING SPOUSES, ALTERNATIVE PAYEES, AND OTHER BENEFICIARIES:

In general, the rules summarized above that apply to payments to employees also apply to payments to surviving spouses of employees and to spouses or former spouses who are alternate payees. You are an alternate payee if your interest in the Plan results from a domestic relations order, which is an order issued by a court, usually in connection with a divorce or legal separation. Some of the rules summarized above also apply to a deceased employees beneficiary who is not a spouse. However, there are some exceptions to payments to surviving spouses, alternate payees, and other beneficiaries:

- o If you are a surviving spouse, you may choose to have an eligible rollover distribution paid in a direct rollover to an IRA or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to an IRA, but you cannot roll it over to an employer plan.
- o If you are an alternate payee, you have the same

choices as the employee. Thus, you can have the payment paid as a direct rollover to you. If you have it paid to you, you can keep it or roll it over yourself to an IRA or to another employer plan that accepts rollovers.

- If you are a beneficiary other than the surviving spouse, you cannot choose a direct rollover, and you cannot roll over the payment yourself.

- If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is not subject to the additional 10% tax described above, even if you are younger than age 59-12.

- If you are a surviving spouse, an alternate payee, or another beneficiary, you may be able to use the special tax treatment for lump sum distributions, as described above. If you receive a payment because of the employee=s death, you may be able to treat the payment as a lump sum distribution if the employee met the appropriate age requirements whether or not the employee had five years of participation in the Plan.

HOW TO OBTAIN ADDITIONAL INFORMATION:

This notice summarizes only the federal (not state or local) tax rules that might apply to your payment. The rules described above are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with a professional tax advisor before you take a payment from the plan. Also, you can find more specific information on the tax treatment of payments from qualified retirement plans in IRS Publication 575, Pension and Annuity Income, and IRS Publication 590, Individual Retirement Arrangements. These publications are available from your local IRS office or by calling 1-800-TAX-FORM.