DROP APPLICATION – ADDENDUM 2

COOPER CITY GENERAL EMPLOYEES PENSION PLAN

FREQUENTLY ASKED QUESTIONS ABOUT THE DEFERRED RETIREMENT OPTION PLAN (DROP)

A. QUESTIONS ON DROP PROGRAMS IN GENERAL

1. What does the phrase DROP stand for?
DROP is an acronym for Deferred Retirement Option Plan or Delayed Retirement Option Plan.

2. What is a DROP?
A DROP program is a form of retirement benefit that allows an employee to continue working while accumulating a savings account consisting of the benefits that would have been received had the employee actually retired. In other words, it is a chance to earn two incomes at the same time, with one of them being saved and invested without current tax liability. From a technical standpoint, a DROP program represents a method of providing for the deferred receipt of retirement benefits from a defined benefit plan.

3. Where and when did DROP plans originate?
DROP arrangements first started with several public safety plans in Louisiana during the mid-1970's to:

a. Encourage police and fire personnel who could retire early to continue working.
b. Allow a partial lump sum distribution option in the pension plan.
c. Provide the employer with a predictable turnover picture.
d. Replace a cost of living program that had become too costly to maintain.

DROP plans now exist in numerous state and local retirement systems. Originally popular with police and fire plans, they now exist for teachers and general public employees as well.

4. Does a DROP program represent a separate retirement plan?
A DROP program simply represents a distribution option within a traditional defined benefit pension plan. It is not a separate qualified retirement plan.

5. Are all DROP programs alike?
No. There is no rigid structure that must be followed for DROP programs. The design of DROP programs vary greatly and can be crafted to meet the needs of the employees, the pension plan, and the plan sponsor.

6. Is a DROP program available as a benefit within the Cooper City General Employees Pension Plan?
Yes, a DROP Program first became available as a retirement option upon the adoption of Ordinance 2000-1-11in January 2000.

7. How will the Cooper City DROP program work?
DROP is designed to allow you to accumulate a lump sum cash amount for retirement without affecting your normal monthly retirement benefit as of the date you became a DROP participant. Under DROP, you technically "retire," yet continue to work as an active city employee. For all non-pension benefits, you will continue to be treated as an active employee. If you become disabled after participating in the DROP, you will not be entitled to receive a disability pension, since you are already retired.

Here's how it works. Once you reach the service requirements for retirement, you are eligible to enroll in DROP. When you enroll in DROP, you agree to "lock-in" your service and benefit levels as of the effective date of your participation. From a service and benefit standpoint, it is as if you had retired on this date. You continue to work as an active employee, though, and the Pension Plan credits your normal monthly retirement benefit (based on your service as of the date you entered DROP) into your DROP account. You also continue to earn your normal pay as an active employee.

You can participate in DROP for a maximum of five (5) years from the date of entry. During your participation in the DROP, your normal retirement benefit payments are added to your DROP account balance each month, which is invested on a tax deferred basis. When you leave city employment, you choose how you want to receive your DROP account balance from available distribution methods and you begin receiving your regular monthly benefit checks.

B. ELIGIBILITY AND PARTICIPATION

1. Who is eligible to participate in DROP?
All members of the Pension Plan (i.e., active members) are eligible to participate in the DROP, providing such members are eligible for normal retirement and otherwise meet the requirements for DROP eligibility.

A member is eligible for normal service retirement on the first day of the month coincident with or next following the attainment of age fifty-five (55) and the completion of six (6) years of credited service. A member with less than six years of service credit, or a member younger than fifty-five, cannot participate in the DROP until attainment of age fifty-five with six years of service.

2. Are there time limits under which a member must elect to participate in DROP?
No. Election to participate in the DROP may be made any time after the date that a member attains eligibility. A member is eligible for normal retirement and can begin DROP participation following the attainment of age fifty-five and the completion of six years of credited service.

The maximum period of participation in the DROP is five (5) years or sixty (60) months, commencing on the date of entry. There is no penalty if a member chooses to delay entry.

3. When will participation in the DROP begin?
Entry into the DROP becomes effective upon the Board's approval of your DROP application. Once you enter into the DROP, you are retired for pension purposes. As a DROP participant, your monthly retirement income will be paid on the first day of each month into your DROP account.

4. In the event that an eligible member decides to participate in the DROP, what must s/he do?
An eligible member may elect to participate in the DROP by complying with the application process and the administrative rules established by the Board of Trustees. Such requirements shall include, but shall not be limited to the following:

a. A written election to participate in the DROP by submitting a properly completed DROP application form promulgated by the Board;
b. Selection of DROP participation and retirement dates. Such retirement date shall be a binding application for retirement, establishing a deferred retirement date; and
c. A written notification advising the member's employer of the date on which the DROP shall begin for the member.

Applications must be filed with the Board and a copy provided to the City not less than five business days prior to the effective date.

5. **Can a participant separate from service before the end of the DROP period?**
Yes. A DROP participant can separate from service at any time before the end of the specified DROP period. Upon termination of employment, monthly pension payments will be paid to you, rather than being paid into your DROP account. You will also be entitled to the entire balance in your DROP account.

6. **Do I have access to my DROP account before the end of the DROP period?**
No. In order to receive any payment from the DROP account, you must actually separate from service. It would violate both local and federal law to receive a distribution while still an active employee.

7. **Do I have to decide at the time I enroll in DROP how long I will participate and keep working for the City?**
Yes. However, for purposes of preserving maximum flexibility, most individuals may find it advantageous to elect to participate for the maximum period of time even if they feel that their actual period of DROP participation may in all likelihood end at an earlier date. You can always terminate employment and retire prior to the end of your announced DROP participation period; however, once announced, you are not permitted to work beyond your originally stipulated DROP ending date even if such date fell short of the maximum period allowed for DROP participants.

8. **Can I participate in the DROP more than once?**
No. Members may participate in the DROP only once. After DROP participation begins, a member may not rejoin the Pension Plan as an active member.

C. DROP PROGRAM EFFECTIVE DATE AND BEGINNING DATE

1. **What is the effective date of the DROP program?**
Ordinance No. 2000-1-11 was adopted by the City on January 25, 2000. The Board of Trustees, under its rule making power conferred by City Code, has created a 90-day window beginning on or after April 1, 2001 for members already eligible to retire to apply for DROP benefits.

2. **Once the DROP program was adopted, when was the DROP available for initial participation?**
The beginning date of each participant's DROP period shall be the first day of the month following approval of a member's DROP application.

D. EMPLOYMENT STATUS AND CONTRIBUTION REQUIREMENTS

1. **Are you covered by Social Security while you participate in DROP?**
Yes.

2. **Is a DROP participant considered to be an active employee or a retiree?**
A DROP participant shall be a retiree under the Pension Plan for accumulation of increased pension benefits, unless otherwise prescribed, but for purposes of employment with the City, the DROP participant shall be treated as any other active employee with respect to their ability to enjoy the availability of salary increases, employee benefits and programs related thereto.

3. **Are your regular active employee benefits affected while you are in DROP?**
Generally speaking, no. You continue to accrue sick leave if you are eligible to do so now, and you continue to accrue holiday and annual leave in accordance with the terms of any applicable collective bargaining agreements and/or City Rules and Regulations. Your insurance coverage also continues uninterrupted and unchanged, at current active rates. In addition, you may continue to participate in the City's Section 455 deferred compensation program.

The provisions of the City's personnel policies will be generally applicable to DROP participants. However, once an employee elects to participate in the DROP, the employee will no longer be eligible for promotion, nor will they be eligible to receive pay for educational reimbursement (other than the cost of training and education necessary to maintain certification).

In contrast, as a DROP participant, you are considered retired and are no longer an active member of the Pension Plan. If you become disabled or die after participating in the DROP, you will not be entitled to receive a disability pension or pre-retirement death benefits, since you are already retired.

4. **Can you enter the DROP and later change your mind or must a DROP participant actually retire at the end of the DROP period?**
The decision about when to retire and whether or not to enter DROP is entirely your decision. **Once made, the election to participate in the DROP carries with it a simultaneous election to retire that is irrevocable upon approval by the Board of Trustees.** In essence, the DROP participant has contractually agreed to retire as a condition of entering the DROP program.

The only exception that is allowed to this rule is under a situation wherein a DROP participant subsequently becomes an elected or appointed official specified in the City Charter. Under such cases, the individual is granted the option of rescinding DROP participation at any time subject to its being approved by the Board of Trustees. That withdrawal must be in writing. Once acted upon by the Board of Trustees, the irrevocability is in effect.

5. **What will my pension contribution requirements be during my period of DROP participation?**
As an active employee participating in the Pension Plan you are currently required to make employee contributions into the pension fund. Upon DROP participation, your employee contribution to the GE Pension Plan will stop, increasing your take-home pay. Since you will no longer be an active member of the GE Plan, you will be required to join FRS and will be making a contribution to that plan.

E. ACCUMULATION OF BENEFITS UNDER THE DROP PROGRAM

1. **How are my retirement benefits accumulated in my DROP account?**
Once you decide to enroll in DROP your monthly retirement benefit is calculated based upon your service and benefit levels as of the date you entered the DROP. Your monthly retirement benefit is computed based on your three highest years of earnings. Any additional service, benefit enhancements or raises occurring after entry into the DROP will not be utilized in the computation of your monthly retirement benefit.

Instead of having this monthly retirement benefit paid directly to you or deposited in your bank, it will be credited into your DROP account, where it will be invested, tax deferred, for as long as you participate in the DROP. Your retirement benefits will be paid into your DROP account on a monthly basis on the same schedule as used for retirees.

2. **How is interest calculated and credited to my DROP account?**
Member accounts shall be credited or debited, as appropriate, with the investment earned/lost at a rate equal to the Pension Fund's actual investment return, net of investment and administrative expenses. In addition, to compensate for the costs and expenses of administering the DROP, each member's DROP account shall be charged an administrative fee of one-half of one percent (.5%), which will be deducted from the member's DROP account. Accounts may be credited with earnings/losses monthly or quarterly at the discretion of the Board of Trustees. Investment earnings/losses will be posted up to the last date of the members' DROP period. DROP participants by virtue of their participation authorize the Pension Board to invest their DROP assets in the same manner as other assets of the Pension Fund. By participation in the DROP, DROP participants agree to hold the Board of Trustees, the Pension Plan and the City of Cooper

City harmless from any liability claims associated with investment losses, which may occur in the ordinary course of the investment of assets of the Pension Fund. No member shall receive a DROP payment until actually separated from the City.

The City and the Board of Trustees may seek a favorable determination letter from the IRS concerning the Pension Plan, including all provisions of the DROP. In the event that the IRS should hold that this Section does not meet the "definitely determinable benefit" rule, participant accounts will be credited at a fixed rate based upon the actuarially assumed rate of return as determined by the Board of Trustees during the period of DROP participation.

F. PAYMENT OF BENEFITS UNDER THE DROP PROGRAM

1. How is the DROP account money paid out or distributed?
Payment shall be made from the DROP account no more than ninety (90) days after separation from the City. When you terminate employment, your DROP account will be paid as you choose in one of the following ways:
a. Single lump sum - the participant receives the entire account less taxes.
b. Annual installments – the participant received an annual payment in an amount selected by the member. Annual installments continue until such time as the DROP account balance is depleted.
c. Equal monthly installments - the account balance is paid out monthly until the DROP account is depleted.
d. Combination of lump sum and periodic payments - the member selects a combination of a partial lump sum payment and periodic payments until the account balance is depleted.
e. Direct rollover - the funds are paid directly to the custodian of an eligible retirement plan as defined in Section 402(c)(8)(B) of the Internal Revenue Code.

DROP balances shall continue to be credited or debited with earnings until fully paid to the member. The form of payment may be altered upon written notice to the Board to take effect not more than ninety (90) days from the date of notice.

The Board of Trustees may accelerate or alter any payment schedule as may be required to comply with the provisions of the Internal Revenue Code Section 401(a)(9) and 415. No DROP payment may be made in a manner inconsistent with state or federal law. All benefits payable under the DROP program shall be paid solely from DROP assets. Neither the City nor the Board of Trustees shall have any liability or duty to pay the member or to furnish the DROP with any funds, securities or assets except to the extent required by applicable law.

2. How often can a payment change request be submitted?
The DROP program does not set any specific limit on the number of times that payment instructions can be modified by a Participant. Nevertheless, the Board is vested with the authority to alter, amend or revise the DROP distribution provisions, if the Board determines that limitations become appropriate.

3. What happens to my DROP account proceeds and the accumulated value of the retirement leave account in the event of my death while in DROP?
If you die and are survived by a named beneficiary, that person will receive the DROP account. If there is not a named beneficiary, the DROP account will be paid to your estate.

4. If I should die after I begin receiving periodic distributions of my DROP account balance but before the full amount of my DROP account is liquidated, can my spouse change the distribution then in effect? Yes. The selection of a distribution option can be changed by the DROP participant, a surviving spouse, or other beneficiary. For example, a spouse or surviving beneficiary might want to convert the existing distribution option to a lump sum distribution at the time of death. However, as discussed above a change in the distribution methodology may result in adverse tax consequences. DROP participants and beneficiaries considering a change in the distribution methodology are advised to consult with a tax advisor.

5. **I understand that the special calculations that are used for determining pension benefits in the event of line-of-duty death will not be operative once I elect to participate in DROP. Does this mean that my beneficiaries or estate will not be eligible to collect any death benefit programs that my otherwise be available?**
   No. The prohibition against DROP participants being eligible for line-of-duty death benefits only impacts the manner of calculating pension benefits. This prohibition does not extend to any other forms of death benefits that may be available to other active duty employees.

6. **What effect does a DROP plan have on eligibility for a disability pension?**
   DROP participants shall not be eligible to apply for nor receive disability retirement. Upon separation all DROP participants will receive normal retirement benefits only. In order to be a participant in the DROP plan, and to have retirement benefits paid to the employee's account, the employee can no longer be an active member of the Pension Plan. Since the employee is not an active member of the Plan, the employee is not eligible for a disability pension. If an employee becomes disabled during the DROP period, the employee will receive his or her normal retirement (at the lower rate) and will also receive the amount of money that has accrued in his or her DROP account.

   In the event an employee sustains an on-the-job injury during DROP participation (or before said participation, but where the employee is still experiencing the effects of said injury when he/she elects DROP participation) and misses time from work, the employee will be subject to applicable provisions of the City's Rules and Regulations, provided that no such provisions of the Rules and Regulations conflicts with the requirements of the DROP plan ordinance. The fact that the employee is a DROP participant will not prevent the City from separating the employee from employment or from offering the employee work outside of the employee's normal position.

   Participation in DROP is not a guarantee of continued employment.

7. **What is the status of my DROP account in the event of divorce?**
   DROP assets, like other forms of pension benefits, are considered marital property subject to division in a divorce proceeding. While DROP assets are not subject to distribution until a member terminates employment with the City, a court can determine that upon distribution, a certain percentage of the DROP assets be awarded to a former spouse in the same manner as other retirement payments.

8. **What type of order is used by the court system to place a lien against the proceeds of the DROP account in the event of a divorce?**
   Qualified Domestic Relations Orders (QDRO) and Income Deduction Orders (IDO) are two forms of court orders issued pursuant to divorce proceedings. A QDRO is a judgment, decree, or order by a court usually in the case of a divorce that relates to the provision of child support, alimony payments, or marital property rights to a spouse, child, or other dependent of a participant. Governmental plans, like the Pension Fund, are not subject to QDRO's. Unlike governmental plans, QDRO's are specifically applicable to private pension plans under Internal Revenue Code Section 414(p)(2). Accordingly, the Pension Fund does not recognize QDRO's for the assignment of any pension rights by a participant for distribution of a divorced spouse's interest. In lieu thereof, the State (under Section 61.1301, F.S.) has provided that IDO's for alimony and child support are mandatory court orders that the Pension Plan must follow. IDO's are taken from benefit checks or lump sum distributions to the spouse. The divorce laws can be quite complex. Therefore, you may wish to speak to legal counsel to discuss your personal circumstances.

G. TAX CIRCUMSTANCES UNDER DROP

1. **The DROP ordinance states that the form of payment selected by the DROP participant shall comply with the minimum distribution requirements per Section 401(a)(9) of the Internal Revenue Code (IRC). What does this mean?**
   Section 401(a)(9) states that you must begin taking money out of a tax deferred retirement account (like an IRA or a DROP account) by April 1 of the year following the calendar year in which you turn 70½ unless you are still working. If you are a participant in a qualified plan (like the Pension Plan), and you are still working, you may postpone withdrawals until such time as you terminate employment. In addition to the beginning date requirement (age 70½), Section 401(a)(9) requires that the distribution, if not taken as a lump sum, must be made over a specified period based upon life expectancy tables. Since the DROP participant must begin to liquidate the DROP account upon termination of employment, the beginning date requirements should not be an issue under the DROP program. However, all parties must be mindful to select a periodic distribution period that conforms to the requirement of 401(a)(9).

2. **Are amounts credited to DROP accounts tax deferred?**
   Yes. Under Section 402(a) of the Internal Revenue Code amounts are taxable only if distributed. Thus, even though amounts are credited to the DROP account because they could have been paid as retirement benefits, the participant will not be subject to tax until DROP account balances are distributed to the DROP participant. No withholding taxes will be imposed during the period of DROP participation pursuant to Code Section 3401(a)(12)(A).

3. **If I decide to rollover my DROP benefits, what can I roll them into?**
   The law states that rollovers must be paid directly to the custodian of an eligible retirement plan as defined in Section 402(c)(8)(B) of the Internal Revenue Code (IRC). Eligible retirement plans include an individual retirement account (IRA) as described in Section 408(a), IRC; an individual retirement annuity [Section 408(b), IRC, except an endowment contract]; a qualified trust; and an annuity plan as described in Section 403(a), IRC. If you die, your spouse will only be eligible to rollover your DROP benefits into an individual retirement account or an individual retirement annuity as described in Section 402(c)(9), IRC.

4. **How is my DROP distribution taxed?**
   If you authorize the Pension Plan to transfer the lump sum value of your DROP account directly to an IRA or qualified retirement plan, there will be no immediate recognition of income for purposes of federal income taxation. You would pay taxes on these funds only as funds are received from your IRA or qualified retirement plan.

   However, in the event that you do not choose a direct rollover of any portion of your DROP account that is an "eligible rollover distribution," the payment is taxed in the year you receive it. If you forego the rollover option and elect to receive the DROP account proceeds, the following rules may apply:
   a. The distribution will be treated as a source of ordinary income to you (and taxed accordingly) in the year you receive it.
   b. You may be subject to a 15% "early distribution" tax penalty if you take your DROP prior to age 59½, unless the payment method chosen provides for substantially equal payments based on your life expectancy (an annuity type payment).
   c. You may be subject to a 15% "excess distribution" tax penalty if your total retirement proceeds (from the DROP account, any IRA's or qualified retirement plans) exceed the IRS maximum distribution amount for the year in which you receive the distribution.

   This is our understanding of the current tax issues that you may wish to consider. We may not be correct. We are not allowed to give tax advice in any way. Keep in mind the **tax laws can change,** and they are complex. We recommend and encourage you to seek the advice of a tax professional to determine what is best for you and how you will be impacted.

H. DROP DECISION CONSIDERATIONS

1. When should I enter the DROP?

This is a very personal decision. No one knows better than you when to begin taking retirement benefits. Once you enter the DROP, you cannot accumulate any more service credit in the Pension Plan. A person who DROPS with more service time will have a higher pension.

If the Plan benefits change after you DROP those benefits may not be available to you. If you get a raise after you enter the DROP, that salary increase will not count toward your pension. Once you enter the DROP, you are retired under the Plan and your benefits are fixed.

2. What are some advantages of DROP?

A DROP program can be very advantageous to an employee who is interested in assembling a "nest egg" for themselves and their family and providing a "jump-start" into retirement. This "nest egg" can offer the employee the ability to start a business, purchase a home, travel, etc., upon retirement.

The DROP participant’s required pension contribution is stopped and the employee's take-home pay is thus increased.

The DROP program allows the employee to select an option that would effectively accelerate a portion of the retirement benefits that would otherwise have been received over an extended period of time. If the employee has reason to believe that his life expectancy will be less than average, the DROP could be viewed as a practical response to this outlook.

3. What are some disadvantages of DROP?

One disadvantage of participating in a DROP plan is that the amount of monthly pension that an employee receives will be substantially lower than the amount that the employee would receive had the employee retired under a normal retirement calculation performed at the time of actual retirement.

Another disadvantage is that the decision to enter the DROP is irrevocable. Sometimes employees change their minds about continuing to work, but once they have entered the DROP, they are not allowed to reverse the decision to retire. A retiree experiencing the birth of a child, a new marriage, divorce, or other significant life event, may have no choice but to retire at the end of the DROP period.

Lump sum payments may not be used wisely; thereby placing financial pressures upon retirees at a point in their lives that they can ill afford to effectively respond to such pressures.

Lump sum payouts are subject to the mandatory 20% withholding requirements that would materially impact the funds available under the DROP. DROP participants may address this issue by electing a direct rollover to an eligible plan or an IRA

4. Should I participate in the DROP?

One of the most important decisions you will have to make is whether you should join DROP or remain as an active contributor to the Pension Plan. To assist in this decision, the Pension Administrator will provide upon request an estimate of the benefits you will receive if you elect to join DROP. Upon receipt of these estimates, you should meet with your accountant, CPA, financial planner, etc., to review your total financial situation, including pension and/or DROP benefits, personal investments, and Social Security benefits, to determine which choice will be the best decision for your future.

5. **How can I get more information?**
   Entering the DROP is a big decision. Once made, it is FINAL. Before entering the DROP you are encouraged to contact the Pension Administrator with your questions. The DROP is a valuable benefit, but like anything, it does not meet everyone's needs in the same way. Before you DROP, be sure of your rights and make careful plans for your future. It would be wise to consult your own financial adviser concerning the choices that are most advantageous for your specific circumstances.