

Montgomery County Employee Retirement Plans Employees' Retirement Plan – Group G (Fire)

Deferred Retirement Option Plan (DROP)

Any Group G member who meets the requirements for a normal retirement may elect to participate in the DROP for up to three years. Sick leave may be used as credited service towards your eligibility to participate in DROP, up to the two year maximum. You must satisfy the eligibility requirements before you apply for DROP.

DROP is a voluntary program that accounts for a portion of your retirement benefits in a recordkeeping account before you retire from County employment. Your DROP account is credited with:

- The monthly retirement benefits that you would have received if you had retired instead of entering DROP.
- Your biweekly contributions to the Plan.
- 8.25% annual interest for members enrolled before July 1, 2013 and 7.5% annual interest for members enrolled after June 30, 2013, compounded quarterly (calendar basis), based on the amount in the account at the beginning of each calendar quarter.

Participation in DROP is voluntary, but once you elect to participate:

- you must retire no later than three years after entry and
- your election is irrevocable unless you withdraw from DROP during the 2 week period immediately following the date you submit your application.

What is my employment status while I am in DROP?

You remain a County employee and are eligible for promotions, pay increases and benefits, such as annual and sick leave. However, DROP participation is not a guarantee of continued employment. You are subject to all laws and regulations regarding employment.

Who is eligible for DROP?

All active members of retirement Group G who meets the requirements for a normal retirement may elect to participate in DROP.

Sick leave may be used as credited service towards your eligibility to participate in DROP, up to the two year maximum.

You must satisfy the eligibility requirements before you apply for DROP.

How long can I participate in DROP?

For a maximum of three years.

You may end your participation in DROP and retire on the first of any month during those three years, but you must give 60 days notice to Fire and Rescue Services and to the Employee Retirement Plans Office.

How does DROP work?

You apply to participate in DROP at any time after meeting the eligibility requirement, but before you actually retire. You can elect to begin participating as soon as the first day of the month 45 days after applying, but no later than 75 days after applying. If you elect DROP participation, you:

- Agree to end your County employment when DROP participation ends which is no later than three years after your participation begins.
- Stop earning retirement benefits under the ERS, except for a final adjustment after exiting DROP to the monthly retirement benefit due to applying unused eligible sick leave and applying retiree cost of living adjustments (COLAs).
- Continue making biweekly retirement plan contributions that are credited to your DROP account.
- Make an irrevocable election of payment option for your monthly retirement benefits.
- Receive your DROP account balance, in the form elected at DROP entry, when you exit DROP.

What is the DROP benefit?

During your participation in DROP, your account is credited with:

- An amount equal to your monthly retirement benefit under the Plan, calculated as of the time you enter DROP and without any COLAs.
- Your biweekly retirement plan contributions (pre-tax) while you are in DROP, calculated at the same percentage of salary as any other active employee.
- 8.25% annual interest for members enrolled before July 1, 2013 and 7.5% annual interest for members enrolled after June 30, 2013, compounded quarterly (calendar basis), based on the amount in the account at the beginning of each calendar quarter.

You are always fully vested in your DROP account balance.

What do I get when I leave DROP?

You receive the monthly retirement benefit calculated at the time of your entry into DROP adjusted for (1) any eligible sick leave credits (up to the two year maximum) that were not converted into credited service at the time of DROP entry, and (2) COLA adjustments as if you had retired when you entered DROP.

Effective July 1, 2011, any additional sick leave credited as years and months of service when you exit DROP is subject to the 2.5% post retirement adjustment limit.

The payment option for your monthly retirement benefit must be elected before you enter DROP and once elected your choice is irrevocable.

You may elect either to (a) receive your DROP account (1) in a lump sum, (2) as a direct rollover to an IRA or another eligible tax-qualified plan (any amounts in your DROP account that are non-taxable may not be rolled over – these amounts will be paid directly to you in a lump sum), or (3) an annuity or (b) keep your DROP account balance in the ERS and receive an annual interest of 4%, credited monthly, on your DROP account balance.

Before you decide whether to take your DROP benefit as a lump sum, direct rollover or annuity, be sure to consider the tax consequences. We recommend and encourage you to seek the advice of a tax professional.

If you elect a distribution, your DROP distribution will be made within 60 days of your exit from DROP.

If you elect to keep your DROP account in the ERS, you may request a distribution at any time but you must receive your entire DROP account. You must also receive your entire DROP account when you turn age 70 ½, or such earlier time as required by federal law. If you die before you receive your DROP account, your designated beneficiary will receive your DROP account as soon as practical after your death.

Is my DROP benefit taxable?

Any after-tax contributions allocated to your DROP account (calculated when you exit DROP) are not taxable to you. Non taxable amounts are *not eligible for direct rollover*. The remaining amounts in your DROP account are taxed as ordinary income in the year received. To defer taxes, you may roll the taxable portion of your DROP account into an IRA or another eligible retirement plan.

What happens if I get married during DROP? Divorced?

If you were unmarried when you entered DROP and marry while you are in DROP, you may change your beneficiary for your DROP account. You may *not* change the payment option for your monthly retirement benefit or your Joint Annuitant.

If you become divorced while you are in DROP, you may *not* change the payment option for your monthly retirement benefit. Your beneficiary for your DROP account can be changed.

How do I apply for DROP?

You must apply at least 45 days before you want your participation to begin. You may withdraw your application in writing at any time during the 2 week period following the date on which the application was submitted. Participation always begins on the first of a month. Contact the Employee Retirement Plans Office to complete the applicable paperwork necessary to participate in DROP.

How does DROP affect retirement benefits?

Credited service (except sick leave credits) and average final earnings (12 month period if you became a member before July 1, 1978; 36 month period if you became a member after June 30, 1978) are frozen at DROP entry. A salary increase while in DROP (e.g., a promotion or general wage adjustment) will not affect your monthly retirement benefits, but will affect the amount of your biweekly contributions into DROP.

Your monthly retirement benefit going into your DROP account will not reflect retiree COLAs. However, your monthly retirement benefits received after DROP participation ends include the COLAs as if you had retired when you entered DROP.

COLAs are paid only on your monthly retirement benefit. COLAs do not apply to any part of your DROP distribution.

Effective July 1, 2011, any additional sick leave credited as years and months of service when you exit DROP is subject to the 2.5% post retirement adjustment limit.

How does DROP affect the following other benefits, both during and after DROP?

Group Insurance (Health, Life and LTD)

Your group insurance benefits continue during DROP as they would for any other active employee. You are subject to the same provisions and cost sharing arrangements as any other active employee. Your time spent in DROP will count towards your years and months of service for the County cost sharing into retirement.

When you exit DROP, you are eligible for the same group insurance benefits as if you were an active employee retiring on the same date.

Sick Leave

Sick leave can be converted to retirement service credit at DROP entry (you choose how much to convert, up to the two year maximum) and used to calculate the monthly retirement benefit that will go into your DROP account. Sick leave that is converted to retirement service credit cannot be used in any other manner. You continue to earn both annual and sick leave while in DROP at the same rate as if you had not entered DROP. At the end of DROP, if you have not already been credited with the maximum two years of sick leave credit, any remaining sick leave will be converted to retirement service credit (up to the two year maximum) and used to increase the post DROP monthly retirement benefit.

Effective July 1, 2011, any additional sick leave credited as years and months of service when you exit DROP is subject to the 2.5% post retirement adjustment limit.

How does DROP affect the 457 (deferred compensation) plan?

DROP has no effect on the 457 plan. Your actual retirement date (when you exit DROP) is your retirement date for 457 purposes. You cannot receive 457 benefits until you exit DROP. You can continue to contribute to the 457 plan while in DROP. You are eligible for catch-up during the three consecutive years proceeding the year that you are eligible for normal retirement.

What are some considerations when deciding on DROP participation?

- Whether you are ready to make an irrevocable choice to enter DROP and to retire at the end of the DROP period.
- Whether your total retirement benefits might be higher without DROP (e.g., significant pay increase while in DROP).
- Whether you completed the purchase of any prior service credit before you enter DROP. Any outstanding balance of purchased service must be paid before you enter DROP.

Whether you want to convert all of your sick leave to retirement service credit when you enter DROP or maintain part of your balance for later use while in DROP.

- Effective July 1, 2011, any additional sick leave credited as years and months of service when you exit DROP is subject to the 2.5% post retirement adjustment limit.
- Whether you are ready to make an irrevocable choice of the payment option for your monthly retirement benefit.
- Whether you should retire instead of entering DROP.
- Whether you are ready to or have consulted an attorney, tax professional or financial planner before making these decisions.

Can I revoke my DROP decision?

Yes, but **only** during the two week period following submission of your application.

What if I leave DROP early?

- Your DROP account will be smaller.
- Your employment will end as of the date you leave DROP.
- You must notify Fire and Rescue Services, and the Employee Retirement Plans Office at least 60 days before leaving DROP early.

What if I die during DROP, including being killed in the line of duty?

For service-connected deaths, your beneficiary will receive the greater of (1) the balance in your DROP account plus any death benefit he or she would have received (based on the form of retirement payment option chosen) if you had retired on the date you began to participate in DROP, or (2) the service-connected death benefit that the beneficiary would have received if you had never entered DROP, but your beneficiary will not receive the DROP account balance. The death benefit in (1) includes adjustments for:

- Sick leave credit not already converted to service credit (up to the two year maximum).
Effective July 1, 2011, any additional sick leave credited as years and months of service is subject to the 2.5% post retirement adjustment limit
- COLAs on the amount of your monthly retirement benefit at DROP entry.

For non-service connected deaths, your beneficiary will receive the benefit in (1) above. If you elected a form of retirement payment option in which no remaining benefit is payable to a beneficiary upon your death, only the DROP account will be paid.

If you do not designate a beneficiary, your surviving spouse or eligible domestic partner would be your beneficiary. If you do not have a surviving spouse or eligible domestic partner, your surviving children share equally in any benefit. If you do not have a surviving spouse, eligible domestic partner or any surviving children, your estate is your beneficiary.

You may change your beneficiary at any time by filling out and returning a new form to OHR.

Examples:

If you elect a 10-year certain and continuous retirement payment option for your monthly retirement benefit at DROP entry and die a year later, your beneficiary will receive monthly retirement benefit payments for nine years, not 10. Your beneficiary will also receive the balance in your DROP account.

If you elect the modified cash refund payment option for your monthly retirement benefit and then die while in DROP, your beneficiary will receive your DROP account balance. In addition, if the total of the monthly retirement benefit payments deposited into your DROP account do not equal your accumulated employee contributions (excluding those made into DROP), plus interest, the difference will be paid to your beneficiary.

Note: Different death benefits are provided to spouses, eligible domestic partners and children. If you do not designate a spouse, eligible domestic partner or child as your beneficiary, they will not receive any death benefit. Only designated beneficiaries will receive a death benefit.

What if I become disabled during DROP?

For a non-service connected disability, you receive a monthly pension benefit calculated as if you had retired with a non-service connected disability on the date you entered DROP. You will also receive your DROP account. You will not receive any sick leave credit accrued during DROP participation.

For a service-connected disability, you may elect to receive either (1) the benefit as if you had retired from DROP without disability, or (2) the service-connected benefit that you would have received if you had never entered DROP. You should consider consulting an advisor to discuss the tax implications of your decision.

If you receive a disability retirement benefit for a disability occurring after June 30, 2011, as determined by the Disability Review Panel, any adjustment of your benefit payment will not exceed 2.5%.

Is there a deadline to apply for DROP?

No, but you must apply at least 45 days before actually entering DROP after becoming eligible.

Where can I get more information?

You may contact the Employee Retirement Plans office retirement@montgomerycountymd.gov or 240-777-8230.