Anne Arundel County Government

Fire Service Retirement Plan

Summary Plan Description

Effective July 1, 2009

Revised January 2016

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INTRODUCTION

This booklet summarizes the most important features of the pension plan, as amended and restated, incorporating all plan changes made through January 1, 2016. Complete details are contained in the County Code (Article 5, Title 4), which governs the operation of the plan. If there is any conflict between this booklet and the County Code, the County Code will govern. This booklet does not give you any rights to benefits, which are not expressly provided under the terms of the County Code.

The provisions of this booklet do not necessarily apply to those members that terminated employment prior to February 14, 2013 (Do we need to change this date?).

The plan is an important part of the retirement resources provided by the County. Please read this booklet carefully for a better understanding of the benefits available to you at retirement.

PARTICIPATING IN THE PLAN

The pension plan can be a key source of your retirement income.

The plan allows you to:

- receive a pension based on your length of service;
- provide survivor benefits to your spouse and/or children, even if you die before retirement;
- receive a disability retirement benefit if you become totally disabled and cannot work; and
- work past retirement age and elect participation in the Deferred Retirement Option Program (DROP)

Please review the plan features carefully.

Eligibility

You are eligible if you are a member of the following groups of employees:

- Firefighter II;
- Firefighter III;
- Firefighter/Cardiac Rescue Technician;
- Firefight/Emergency Medical Technician-Paramedic;
- Fire Lieutenant;
- Fire Captain;
- Fire Battalion Chief;
- Fire Division Chief; and
- Deputy Fire Chief
- By election, Assistant Fire Chief
- By election, the Fire Chief.

Cost of the Plan

The Retirement and Pension System of Anne Arundel County is funded by contributions made by the County and its employees and investment earnings. The County pays most of the cost of this plan. However, you are required to contribute **7.25%** of your basic rate of pay. Your basic rate of pay is your rate of annual basic compensation (including longevity) with the County on the day specified, **excluding** overtime payments and other forms of additional compensation.

Your contributions are withheld each pay period. Effective October 1, 1989, Anne Arundel County implemented a pension "pick-up" program approved by the Internal Revenue Service which allows each participant to make regular contributions before federal income tax. Contributions prior to October 1, 1989, were made on an after-tax basis.

How to Enroll

Your enrollment is automatic once you are employed in one of the eligible groups. The only exception is the Fire Chief who must elect to join the plan.

Your Beneficiary

You will need to file a beneficiary form with the Office of Personnel to designate your beneficiary for this plan. <u>Should you die while actively employed, your legal spouse or if no spouse, your unmarried minor children, will take precedence over any person(s) or entity you designate as pension beneficiary</u>. It is **your responsibility** to make sure your beneficiary designation form is up to date and properly completed. Forms may be obtained from the Office of Personnel.

Types of Credited Service

Credited Service is used to determine the amount of your retirement benefit and in some cases your eligibility for retirement. There are five different types of Credited Service:

1. Actual Plan Service, this includes:

    a. Continuous employment with the County while you are a member of this plan. Credit is computed individually based on full calendar months, with any remainder amount of days numbering at least 15 days in any calendar month equaling an additional month of plan service.

    b. Credited "In-Plan Military Service". This refers to time spent in military service during a break in your County employment. There is no limit to the amount of service granted. However, you generally must return to County employment within 90 days of completion of your military service. In addition, the missed contributions must be repaid. If you think you are entitled to this service credit you should contact the Office of Personnel shortly after you return to work.

    c. Transferred service from one of the County's other retirement plans. Members shall transfer on a one to one basis all actual plan service from the Police Service Retirement Plan, the Detention Officers' and Deputy Sheriffs' Retirement Plan, or the Employees' Retirement Plan. Employee contributions are also transferred with no adjustment for differences in contribution rates between plans. This section does not apply to transfers from the State plans or from Plans outside of Anne Arundel County Government.

2. Pre-Employment Active Duty Military Service, which is active duty in the armed forces honorably completed up to a maximum of three years. To be eligible for this service credit, you must complete 20 years of Actual Plan Service and submit satisfactory documentation. Service is credited in one-month increments.

3. Unused Disability Leave that is credited as retirement service. The formula to calculate the amount of credited service is based on the number of hours you work per day and how frequently you are paid (weekly or bi-weekly). Please refer to the table on **Page 15** to convert Disability Leave to Credited Service.

4. Service Purchased Based on Prior Service with the County or the State or any political Subdivision of the State. **The plan no longer allows this type of service credit**. Purchased service is limited to eligible service that was purchased while a member of another County retirement plan and transferred to the Fire plan.

5. Service Transferred From Another Retirement System of the State or a political subdivision of the State. Such credit is governed by State law and procedures established by the County. **Currently the plan no longer permits such transfers**.

Normal Retirement

Your Normal Retirement Date is the first day of the month after you reach the earlier of:

- age 50 and five years of Actual Plan Service
- 20 years of service regardless of age

Both Actual Plan Service and Disability Leave Service count toward the 20 years of service requirement.

Service transferred from another retirement plan of the State or a political subdivision of the State shall count toward the 20 years of service requirement only if:

(1) you were hired prior to July 1, 1990 and

(2) you transferred your service prior to July 1, 1991.

Pre-employment Active Duty Military Service does not count as credited service until you attain 20 years of Actual Plan Service.

Early Retirement

None.

Vesting

If you leave the County prior to your Normal Retirement Date, you will only be entitled to a lump sum refund equal to your contributions plus interest at 3%. You may elect to receive your refund as a lump sum payment or directly rollover the eligible portion of your distribution to another plan or an Individual Retirement Account (IRA) that will accept your funds.

Retirement after Normal Retirement Date

If you continue to work after you reach your Normal Retirement Date, you will continue to contribute to the pension plan, and you will continue to earn service credit. There are maximum benefit limitations once you have reached 30 years of actual plan service.

Disability Retirement

The plan provides special benefits if your retirement is due to a duty-related or non-duty-related disability. There is no credited service requirement for a disability retirement. For more details, see the disability retirement section.

DETERMINING YOUR RETIREMENT BENEFIT

The formula for calculating your pension benefit is your final average basic pay multiplied by your years of credited service with the County.

> This formula is 2.5% of your final average basic pay multiplied by your years of credited service up to 20 years
>
> plus
>
> 2% of your final average basic pay multiplied by your years of credited service in excess of 20 years (to a maximum of 30 years of total credited service).

However, Pre-Employment Military Service is always credited at the 2% rate. Service is measured to the nearest 1/12 of a year.

The maximum pension benefit is 70% (attained after 30 years) of your final average basic pay plus 2% per year of final average basic pay for Disability Leave Service and Pre-Plan Military Service **not** already included in the 70%.

Final Average Basic Pay

Your Final Average Basic Pay is your highest three years annual basic pays (salary) consisting of the participant's annual basic pay of the participant's date of separation from employment and *any* prior annual basic pay of the anniversary date of the date of separation. Earnings are based on your base rate of pay (excludes overtime, bonuses, etc.). You should note that your rate of pay, not your annual earnings, is used in the formula. See example in illustration below.

NOTE: If a participant's rate of pay was reduced based on an involuntary transfer, performance or disciplinary grounds, the Final Average Basic Pay will be the average of the three highest annual basic pays as of the date of separation and the last four anniversary dates as of the date of separation.

For example: If you elect to retire on May 1, 2015 and your employment terminated on April 30, 2015, your final average basic pay is determined by reviewing your pay history and selecting the five highest career salaries as of your date of separation as follows:

As of	**Pay Rate**	**High 3**
04/30/2016	$50,000	$50,000
04/30/2014	$48,000	
04/30/2013*	$46,000	
04/30/2009	$60,000	$60,000
04/30/2008	$58,000	$58,000
*Voluntary demotion	Total for 2016, 2009 & 2008	$168,000
	Divide by 3	÷3
	Your Final Average Basic Pay is	**$56,000**

Post-Retirement Death Benefits

Under this Plan, the benefit is payable for the life of the retiree. If the retiree is married at the time of their death, the retiree's surviving spouse (or eligible minor children, if no surviving spouse) becomes eligible to receive 100% of the monthly annuity, beginning on the first day of the month coinciding with or next following the death of the retiree . Benefits to the spouse end on the date the spouse dies. If benefits to the spouse end, eligible minor children will begin receiving benefits until age 18 or marriage, whichever occurs first.

The payments made are guaranteed not to be less than your contributions plus interest through your date of retirement.

A minimum of 60 payments are guaranteed to be made. If payments stop due to the death of the retiree (and spouse) before 60 payments have been paid, the remaining payments will be made to the beneficiary selected by the retiree.

Contingent Annuitant Option

If the retiree is unmarried and has no minor children at the time of *retirement (including DROP entry)* he or she may designate one person as a Contingent Annuitant. Under this option, the retiree could name one person to receive 66 2/3%, or 50% of their benefit upon their death for the remainder of the Contingent Annuitant's lifetime. The retiree will take a lifetime actuarial reduction in their benefit to provide this death benefit. The Contingent Annuitant Option is only available for those persons **hired before** February 25, 2002. **PLEASE NOTE:** For the 100% option, the beneficiary age may not exceed 10 years from the age of the retiree.

COST OF LIVING ADJUSTMENT (COLA)

If the plan has not terminated, benefits are adjusted after retirement. Benefit adjustments occur on July 1st each year. There are two different COLA's - one is applied to benefits earned prior to February 1, 1997, and the other is applied to benefits earned after January 31, 1997. COLA adjustments can be negative but your benefit cannot be less than your initial amount at the time of retirement.

COLA on Pre-February 1, 1997 benefit

The COLA adjustment generally equals the change in the Consumer Price Index (CPI). The COLA adjustment is limited to 4%. The percentage adjustment is compounded based on your pre-February 1, 1997 accrued benefit. The COLA increase is proportionally adjusted in the initial year of retirement. You must be retired by March 1st to be eligible for a July COLA adjustment during the first year.

COLA on Post-January 31, 1997 benefit

The COLA adjustment equals 60% of the adjustment in the CPI and cannot exceed 2.5%. The percentage adjustment is applied to the current benefit (compound increase) based on your post-January 31, 1997, accrued benefit. You must be retired (receiving payments) by January 1st to be eligible for a July COLA in the year you retire and the COLA adjustment is not prorated in the year you retire.

<u>Example of COLA Adjustment</u>

The following is a sample COLA illustration based on the following information:

Date of Retirement:	September 1, 2005
Initial Monthly Benefit:	$3,350.48
Earned before February 1, 1997:	$2,687.14
Earned after February 1, 1997:	$ 663.34

This retiree was eligible for COLAs on July 1, 2005. The 2005 COLA adjustments were calculated as follows:

1. COLA on Pre-February 1, 1997 Accrued Benefit

Initial Pre-February 1, 1997 accrued benefit = $2,687.14

Ratio of Consumer Price Indices for the 12 months ending on March 2006 to the 12 months preceding the month in which the employee retired = 1.022

USE SAME EXAMPLE AS BELOW ***

Life-time to date maximum = 1.022 x Initial Benefit at time of retirement
= 1.022 x $2,687.14 = $2,746.26

104% x previous benefit amount = 1.04 x benefit prior to current COLA
= 1.04 x 2,687.14 = $2,794.63

July 1, 2006 pre-February 1, 1997 benefit = lesser of $2,746.26 or $2,794.63 = **$2,746.26**

2. COLA on Post-January 31, 1997 Accrued Benefit (retirement payments must be effective by January 1st to be eligible for July COLA)

Initial Post-January 31, 1997 accrued benefit = $663.34

Consumer Price Index for March 2006= 199.8

Consumer Price Index for March 2005 = 193.3

Adjustment in CPI = 199.8 / 199.3 - 1 = 3.4%

60% of Change = 60% x 3.4% = 2.0% (can not exceed 2.5%)

102.0% of previous benefit amount = 102.0% of benefit prior to current COLA
= 102.0% x $663.34 = $676.61

July 1, 2006 post-January 31, 1997 benefit = **$676.61**

DEFERRED RETIREMENT OPTION PROGRAM (DROP)

Upon the completion of 20 years of Actual Plan Service participants are eligible to elect to enter DROP. The Deferred Retirement Option Program calculates your pension benefit as if you actually retired on your DROP date. It accumulates the pension benefit you would have been eligible for in a bookkeeping account that grows with interest and is paid as a lump sum when you separate from employment.

There are many important rules about DROP that you need to understand before you make a DROP election. Please see **Appendix A** for additional information regarding the DROP benefit.

In addition, the County will provide you with a DROP illustration at your request if you are within three months of being eligible to elect DROP.

DISABILITY BENEFITS

If you have a total and permanent disability, you may be retired by the County. However, a disability resulting from or consisting of one of the following will be excluded:

- engaging in the illegal use of drugs or narcotics;
- engaging in any illegal or criminal enterprise or activity;
- injuries incurred on the job while under the influence of alcohol;
- a willful effort on your part to bring about injury or illness to yourself or another person.

There are three types of disability retirement: Service-Connected, Non-Service-Connected and Military Service Disability

In order to be eligible, the following conditions must be met:

- The County determines on the basis of a medical examination by one or more physicians selected by the County that:
    - You are unable to engage in any occupation or employment for remuneration or profit; or
    - You are wholly and permanently prevented as a result of your disability from continuing as an employee in your regular assignment or in some other assignment within the Fire Department.
- You were making participant's contributions immediately prior to your date of disability;

Benefits begin on the first of the month after all conditions are met, with the initial payment being prorated for the portion of the month in which you are found to be disabled.

Service-Connected Disability Retirement

If your disability is the result of bodily injury or disease arising out of and occurring in the course of your employment, it will be considered Service-Connected.

The Service-Connected disability benefit equals the greater of your accrued benefit or 66 2/3% of your Final Average Basic Pay.

Non-Service-Connected Disability Retirement

If you meet the disability requirement prior to your Normal Retirement Date, but the disability is not duty-related you will qualify for a Non-Service-Connected Disability.

If you are able to be gainfully employed in a non-public safety position, the Non-Service-Connected Disability benefit equals the greater of your accrued retirement benefit or 20% of Final Average Basic Pay.

If you are not able to be gainfully employed in any occupation or employment the Non-Service-Connected Disability benefit equals the greater of your accrued retirement benefit or 66 2/3% of Final Average Basic Pay.

Military Service Disability Retirement

A participant who has total a <u>permanent</u> disability as a direct result of performing military service may be eligible for a county disability retirement provided that:

- The military service qualified as credited In-Plan military service;
- The claimant has been discharged from the military and awarded a monthly military disability pension;
- The claimant is prevented from continuing in the participant's regular assignment within the Department as a result of this disability

Other Disability Provisions

You cease to qualify for a disability pension if:

- the County determines on the basis of a medical examination by one or more physicians selected by the County that you no longer have a total and permanent disability that incapacitates you from duty, or you have sufficiently recovered, but refuse to resume your regular occupation as an employee or to be re-employed by the County in some other position for which you are suited by, or which is appropriate to your training and experience; or
- you refuse to undergo a medical examination requested by the County, provided you may not be required to undergo a medical examination more than once a year.

Medical examinations only apply during the first five years after your disability pension has been in effect.

PRE-RETIREMENT DEATH BENEFITS

If you die before you terminate employment with the County, your spouse or unmarried children under the age of 18 may be eligible for the benefits described below. If you have no spouse or eligible children, your beneficiary may receive the lump sum benefit. You must be making contributions at the time of your death to be eligible for these benefits.

Spouse's/Children's Benefit

Your surviving spouse (or eligible children, if no surviving spouse) becomes eligible to receive monthly death benefit payments, beginning on the first day of the month coinciding with or next following your death. Benefits end on the date your spouse dies. If the spouse's benefit ends, eligible children begin receiving benefits until age 18 or marriage, whichever occurs first. The amount of the annuity is:

- 66 2/3% of your final average basic pay (or your accrued benefit if greater) if your death is the direct result of the active performance of your duties, or
- your accrued retirement benefit if your death was not the direct result of the active performance of your duties, including a participant whose death occurs as a result of performing military service that qualifies as credited in-plan military service.

A minimum of 60 monthly payments are guaranteed.

Once the annuity payments end, if the total payments made to your spouse and/or eligible children are less than the amount of your contributions plus interest on your date of death, the difference will be paid in a lump sum to your beneficiary.

Lump Sum Benefit

If there is no surviving spouse or unmarried minor children, a lump sum payment will be made to your beneficiary or estate. The amount of the lump sum will be the sum of the amount of your contributions plus interest and 50% of your Final Average Basic Pay provided you have one or more years of credited service.

BREAKS IN SERVICE

If you leave County employment prior to attaining retirement eligibility, you will receive a refund of your total contributions and accrued interest.

However, if you were involuntarily terminated and reinstated you may receive credit for your prior service by repaying your withdrawn contributions. If credited service is granted for the period of your absence, employee contributions for that period must be repaid within 90 days of being reinstated.

If any of the above situations apply, you can contact the Office of Personnel, Employee Benefits section for more information on your exact situation.

Temporary Absence

A temporary absence due to illness, accident or authorized leave of absence will not be considered a termination of service, as long as this absence does not exceed one year. An adjustment in credited service may be required.

Absence from employment because of active duty with the armed forces of the United States is counted as credited service if you return to active service with the County within 90 days after becoming eligible for release from active duty.

Reemployment after Retirement

Returning to a County Employer

Anne Arundel County policy requires that there be a minimum 30-day break in employment between the person's date of retirement with the County and their subsequent date of re-hire. This break applies to ALL retired County employees regardless of their age at their date of retirement or employment classification upon re-hire.

Your decision to retire must not be conditioned upon an offer of re-employment. In fact, no offer of re-employment should be discussed by you and your employer prior to retirement

If you are reemployed with an Anne Arundel County Government employer after you retire, certain types of employment are subject to an earnings limit and your retirement benefit may be reduced by $1.00 for every $2.00 you earn as an employee. Prior to accepting employment with the County, you should contact the Benefits Office to discuss any potential impact on your retirement allowance**.**

<u>Exceptions to the Earnings Limitation</u>

Exceptions to the earnings limitation are if the employee (other than a DROP retiree) is retired from the County as a classified employee and is reemployed by the County as:

An exempt employee under §802(a)(14) of the Charter; which would be a person assigned to an hourly rate position for temporary help, provided that the person is not compensated for more than 1500 hours per calendar year;

An employee of the Sheriff in a position that requires the employee to be certified as a Police Officer by the Police Training Commission if the employee was certified as a Police Officer by the Police Training Commission at the time the employee retired;

An employee of the State's Attorney in a position that requires the employee to be certified as a Police Officer by the Police Training Commission if the employee was certified as a Police Officer by the Police Training Commission at the time the employee retired; or the employee retired from the County as an exempt employee;

Under the County Pension Code § 6-2-101, 6-2-104, or 6-2-105 in a position that is not exempt from the provisions of the Fair Labor Standards Act, 29 U.S.C §207 et eq. and is reemployed by the County as an exempt employee under§802(a)(14) of the Charter.

Reemployment for DROP Retirees

Retirees of the County DROP program are subject to an earnings limitation regardless of the type of employment accepted with a County employer after retirement. The exceptions discussed above DO NOT apply to DROP retirees.

INTERNAL REVENUE CODE LIMITATIONS AND PLAN AMENDMENTS

This plan is considered a "qualified plan". This means that it meets the qualification requirement of the Internal Revenue Code. For example, Section 415 limits the annuity benefit at age 62 to $180,000 per year in 2007. These restrictions may not impact your benefit but the plan may be amended from time to time to conform to changes in the Anne Arundel County Code or State law. This plan is not subject to the Employees Retirement Income Security Act (ERISA).

The County reserves the right to amend the plan at any time.

QUALIFIED DOMESTIC RELATIONS ORDER (QDRO)

A QDRO is an Order ,signed by a Court appointed authority, that requires the Plan to pay benefits to an Alternate Payee. Model Orders for each Plan are available upon request. Should you have any questions concerning a QDRO, please contact the Personnel Office.

ADMINISTRATIVE INFORMATION

Please contact the Office of Personnel's Pension Section at 2660 Riva Road, Annapolis, Maryland 21401; 410-222-7400, if you have any questions regarding this plan.

Disability Leave Conversion Chart

40/80 Hours			MONTHS	84 Hours			MONTHS
# Of Hours		Decimal Equivalent		# Of Hours		Decimal Equivalent	
0	87	0.0000	**0**	0	91.4	0.0000	**0**
88	263	0.0833	**1**	92.4	277.1	0.0833	**1**
264	439	0.1667	**2**	278.1	461.9	0.1667	**2**
440	615	0.2500	**3**	462.9	646.7	0.2500	**3**
616	791	0.3333	**4**	647.7	831.5	0.3333	**4**
792	967	0.4167	**5**	832.5	1,016.3	0.4167	**5**
968	1143	0.5000	**6**	1,017.3	1,201.1	0.5000	**6**
1144	1319	0.5833	**7**	1,202.1	1,385.9	0.5833	**7**
1320	1495	0.6667	**8**	1,386.9	1,570.7	0.6667	**8**
1496	1671	0.7500	**9**	1,571.7	1,755.5	0.7500	**9**
1672	1847	0.8333	**10**	1,756.5	1,940.3	0.8333	**10**
1848	2023	0.9167	**11**	1,941.3	2,125.1	0.9167	**11**
2024	2199	1.0000	**12**	2,126.1	2,309.9	1.0000	**12**
2200	2375	1.0833	**13**	2,310.9	2,494.7	1.0833	**13**
2376	2551	1.1667	**14**	2,495.7	2,679.5	1.1667	**14**
2552	2727	1.2500	**15**	2,680.5	2,864.3	1.2500	**15**
2728	2903	1.3333	**16**	2,865.3	3,049.1	1.3333	**16**
2904	3079	1.4167	**17**	3,050.1	3,233.9	1.4167	**17**
3080	3255	1.5000	**18**	3,234.9	3,418.7	1.5000	**18**
3256	3431	1.5833	**19**	3,419.7	3,603.5	1.5833	**19**
3432	3607	1.6667	**20**	3,604.5	3,788.3	1.6667	**20**
3608	3783	1.7500	**21**	3,789.3	3,973.1	1.7500	**21**
3784	3959	1.8333	**22**	3,974.1	4,157.9	1.8333	**22**
3960	4135	1.9167	**23**	4,158.9	4,342.7	1.9167	**23**
4136	4311	2.0000	**24**	4,343.7	4,435.2	2.0000	**24**

APPENDIX
A

Anne Arundel County Government
Deferred Retirement Option Program

For Members of

The Fire Service Retirement Plan
(Effective January 1, 2001)
(Revised January 2016)

This booklet has been prepared to assist you in understanding the provisions of DROP and determining whether this program will be beneficial for you. While this booklet attempts to summarize the provisions of DROP and answer questions you may have as to how it will work, it is by no means exhaustive or exclusive. **NO GUARANTEE OR CONTRACT IS CREATED BY THIS BOOKLET.** In the event that the information in this booklet conflicts with Anne Arundel County Code or federal law, the language of Anne Arundel County Code and the federal law will be the final authority.

What is DROP?

DROP stands for Deferred Retirement Option Program. DROP is a voluntary program that provides an alternative way for you to earn and receive a portion of your retirement benefits. A key feature of DROP is the individual account that will be created when you enter the program. Your DROP account will be credited with:

- The monthly retirement benefits that you would have collected if you had retired instead of entering DROP (adjusted for any retiree COLA)
- Interest on your DROP account- If your entry into the DROP program is on or after July 1, 2010, 4.25% annual interest, compounded monthly (calendar basis) based on the amount in the account at the beginning of each calendar month. This is equivalent to an approximate monthly interest rate of 0.34745%, which provides an effective annual yield of 4.25%. Interest is not applied to the DROP account during the sixth year of DROP participation.

What is my employment status while I am in DROP?

Except for the fact that a monthly benefit is paid into a DROP account, you are considered an active employee, e.g., you remain eligible for promotions, pay increase and benefits, such as annual and sick leave. However, DROP participation is not a guarantee of continued employment. You are subject to all County laws and Department regulations regarding employment.

NOTE: You will not continue to accrue additional pension credit nor will any salary increases effective after your DROP entry date be used in the calculation of your retirement benefit.

County Code Provisions can supercede this booklet

Like other retirement plan provisions, the rules are contained in the County Code. Care has been taken to make sure this booklet follows the County Code. However, County law will control the administration of the DROP program.

Who is eligible for DROP?

You must be an active member of the Fire Service Retirement Plan to participate in DROP. Service such as accrued disability leave **does not** count for DROP eligibility purposes.

Participants in the Fire Service Retirement Plan with 20 years of actual County service are eligible to join DROP regardless of age.

You may apply to participate as long as you are an active employee and have not previously participated in the DROP. The application must be submitted to the Personnel Officer not less than 30 days and not more than 90 days prior to the requested date you wish to join DROP (your DROP participation date). All DROP participation dates will begin the first day of a calendar month.

You may apply before you have 20 years of actual county service so long as you are eligible to participate by the DROP effective date you have requested.

Is there a limit on the number of employees that can join DROP?

The Fire plan limit will be four new DROP members each month.

If more participants request to join than are allowed, those with the most seniority shall be allowed to join first. Participation will be determined based on the seniority of the employees who submitted applications by the 30 days prior to the “first of the month” DROP effective date. The pool of eligible applicants is limited to those requesting the effective date and not those who have applied for future dates (e.g. those making a request on July 1 for an effective date of September 1 will not be counted when considering eligibility for the August 1st DROP effective date).

How long can I participate in DROP?

The initial DROP period is for three years. The DROP participation period may be extended by no more than three additional one year terms. You must separate from County employment at the end of your DROP participation period.

Generally you must be in DROP for at least three years to get the DROP benefit. Exceptions (described below) are made if you terminate employment during the first three years due to disability or death.

You must retire and leave County service at the end of your three year DROP period if you do not (1) *timely* complete a form for an additional year of DROP participation or (2) elect out of DROP during the first three years (as described below).

How does DROP work?

You may apply to participate in DROP in any month once you are eligible (see “Who is eligible for DROP?”), but before you separate from county employment. If you elect DROP participation, you:

- Stop earning additional retirement benefits under the Plan (except for COLAs and disability leave adjustments discussed later).
- Discontinue making retirement plan contributions effective the beginning of the next pay period after entering DROP.
- Agree to end your Anne Arundel County employment when your DROP participation ends.

When you begin DROP participation, the County calculates your monthly retirement benefit as of the date you enter DROP and begins to credit this benefit to your DROP account.

Assuming you are in DROP for at least three years, at the end of your DROP participation period, you will begin to receive the monthly retirement benefit you had earned up to your DROP entry date, adjusted for accrued/used disability leave and cost-of-living-adjustments (COLAs). You will also receive the accumulated value of your DROP account distributed in the manner you elect when you exit DROP.

What is the DROP lump sum account benefit?

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

- An amount equal to your monthly retirement benefit under the retirement plan, calculated as of the time you enter DROP and with any pension COLA adjustments that would have occurred had you retired at the beginning of your DROP participation period.

- 4.25% annual interest, compounded monthly (calendar basis) based on the amount in the account at the beginning of each calendar month. This is equivalent to an approximate monthly interest rate of 0.34745%, which provides an effective annual yield of 4.25%. Interest is not applied to the DROP account during the sixth year of DROP participation.

You may elect to receive your accumulated DROP account in one of the following ways:

- As a lump sum.

- As a direct rollover to an individual retirement account (IRA) or another eligible tax-qualified plan (*any amounts in your DROP account that are non-taxable may not be rolled over*).

- As an annuity purchased through a third party.

- Any combination of these options

You decide what to do with your DROP account when you exit DROP.
Before you decide whether to take your DROP as a lump sum, direct rollover or annuity, be sure to carefully consider the potential tax consequences. For example, using the direct rollover option may provide you the means to defer payment of income tax on the taxable portion of your lump-sum benefit by transferring it to an IRA or other eligible tax-qualified plan. However, tax laws are complicated and can change. **Therefore, 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.**

How is my DROP account invested? How much will it earn?

- Money is not actually set aside in a separate account with your name on it. A bookkeeping entry is made each month and your monthly retirement amount is recorded. Your account will be credited with 4.25% annual interest, compounded monthly (calendar basis) based on the amount in the account at the beginning of each calendar month. This is equivalent to an approximate monthly interest rate of 0.34745%, which provides an effective annual yield of 4.25%. Interest is not applied to the DROP account during the sixth year of DROP participation.

Can I change my mind after I join DROP and continue to work?

During your initial three year DROP period you may change your mind. If you elect to terminate your participation, you will be treated as if you never joined DROP for all benefit and employment purposes. Your service and salary during the DROP period will count toward your final pension benefit. However, you should be aware of the following:

- ❖ Your employee contributions will start again;
- ❖ Your pension benefit will be offset by the value of the employee contributions you would normally have paid during the DROP period;
- ❖ You may not join the DROP again;
- ❖ You no longer need to retire at the end of the DROP period.

Once you reach the end of the initial three-year period you can no longer elect out of DROP. This means Participants can work at most three more years.

What happens if I leave employment before the end of the initial three-year DROP period?

If you leave for reasons other than death or disability (as defined in the plan), this is considered an early exit from DROP. The above provisions for electing out of DROP while employed will apply. You will get no DROP lump sum but your salary and service credit will be adjusted to reflect the time you were a DROP participant. An offset for the value of missed employee contributions shall apply.

What happens if I leave employment after the end of the initial three-year DROP period but before I complete my fourth or fifth or sixth year in DROP?

A participant who terminates employment with the County after completing their first three year term of the DROP participation period and before the completion of any additional one-year term is entitled to a DROP benefit only for each full completed year of DROP participation. In addition, interest **WILL NOT** accrue on an account balance for any period of DROP participation that is less than a full year.

What do I get when I leave DROP after three years?

You receive both of the following:

- The monthly retirement benefit calculated at the time of your entry into DROP adjusted for (1) any changes in your disability leave balance and (2) COLA adjustments as if you had retired when you entered DROP.

- 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*), or (3) an annuity.

Your DROP lump sum stops earning interest on the date you terminate employment. Distribution of the lump sum is normally made as soon a practical but you may delay it until as late as age 70½.

Is my DROP benefit taxable?

In general, if you have ever made after-tax contributions to the plan, a portion of your retirement benefit will be non-taxable; the balance will be subject to tax. The portion of your after-tax contributions allocated to your DROP account (calculated when you exit DROP) will not be subject to tax (*these amounts are not eligible for direct rollover*). The remaining amounts in your DROP account are taxable as ordinary income in the year in which you receive them. To defer taxes, you may roll the taxable portion of your lump sum distribution into an IRA or another eligible tax-qualified retirement plan. The County does not provide or offer tax advice. You are strongly encouraged to discuss your DROP payment with a tax or financial professional.

How does DROP affect retirement benefits?

Credited service (except for changes in your disability leave balance) and Final Average Basic Pay are frozen at DROP entry. Any salary increase while a participant in DROP (*e.g.*, due to a promotion) will not affect your monthly retirement benefits.

Your monthly retirement benefit credited to your DROP account will reflect COLAs as provided in Title 5. Your first monthly retirement benefit that you receive when you actually retire will be adjusted for COLAs as if you had retired when you entered DROP.

How do changes in disability leave affect my DROP benefits?

You continue to accrue disability leave while in DROP. Your disability leave balance will likely change between the time you join DROP and the time you retire. Changes will have no impact on your DROP lump sum. However, your credited service and final pension annuity will be adjusted (up or down) to reflect changes in your disability leave balance. Your Final Average Basic Pay shall not be adjusted.

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

- ***Group insurance (health, and life)***
- ***Social Security***
- ***Unemployment***

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 in your job classification.

While you are in DROP, benefits such as Social Security and unemployment will be the same as they are for non-DROP participants.

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

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 retire. You can continue to contribute to the 457 plan while in DROP. You may be eligible for the Special 457 catch-up provision during the three consecutive calendar years preceding the calendar year you exit DROP. To inquire further, please contact a member of the Pension Team.

What are some of the important considerations when deciding on DROP participation?

- Are you ready to make a choice to retire at the end of the maximum DROP period? There are some limits to when you can change your mind.

- Whether your total retirement benefits might be higher without DROP (*e.g.*, pay increases or additional service credits while in DROP).

- Should you just retire instead of entering DROP?

- Are you willing to commit to an additional 3 and up to 6 years of service to the County?

- Whether you need expert advice, e.g., attorney, tax professional or financial planner, before making a decision. Again, the County strongly encourages you to seek assistance and advice from a tax or financial professional.

Can I revoke my DROP decision?

Yes, up to two-weeks prior to the effective date of your DROP participation period you may revoke your application. In this case you may still elect DROP at a later date. If you are going to revoke your election, you may want to do this as soon as possible because a delay may harm other participants. If you revoke the election during the thirty-day period prior to the effective date, you will still be counted toward the limit on the number of participants allowed to participate in DROP for that month (if your seniority is high enough).

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

For service-connected deaths, your beneficiary will receive in addition to any other employment related benefits:

(1) the service-connected death benefit will be offset by the value of the employee contributions you would normally have paid during the DROP period ,plus

(2) the balance in your DROP account (plus interest) accrued during the DROP period.

For non-service-connected deaths, your beneficiary will receive your DROP lump sum.

In addition, current non-DROP annuity benefits paid to your spouse or other beneficiaries will still apply but will be based on your DROP benefit adjusted for COLAs.

What if I become disabled during DROP?

You would receive the benefit as if you had retired on disability without electing DROP but with an offset for missed employee contributions. Your benefit will be offset by the value of the employee contribution you would normally have paid during the DROP period and <u>you will forfeit the DROP Account</u>.

In the case of a service-connected disability, it is important that you consider the tax implications of your decision.

How can I estimate my DROP benefit?

A worksheet is enclosed for you to estimate your DROP benefit under a number of different scenarios.

What happens if the plan is improved after I elect DROP?

Changes that are made after your DROP participation begins will not increase your benefit unless specifically provided for in the law.

May I pursue employment with the County upon exiting DROP?

You may accept employment with the County. However, under current law, your retirement benefit will be reduced by $1.00 for every $2.00 earned by you upon rehire. This is true regardless of the type of employment you accept with the County (ex. contractual, permanent). You may be eligible to join the pension system and earn additional pension credit.

Where can I get more information?

The Pension Team is here to answer all of your questions. We may be reached at 410-222-7400 or you may send us correspondence to Mail Stop 9101 or PO Box 6675, Annapolis, MD 21401.