

**FREQUENTLY ASKED
QUESTIONS ON THE
DEFERRED RETIREMENT
OPTION PROGRAM
(DROP)**



**TOWN OF DAVIE POLICE
PENSION PLAN**

January 2021 Updated
Six Year DROP

A. QUESTIONS ON DROP PROGRAMS IN GENERAL

1. WHAT DOES THE TERM “DROP” STAND FOR?

DROP is an acronym for deferred retirement option program or a delayed retirement option plan.

2. WHAT IS A DEFERRED RETIREMENT OPTION PROGRAM (DROP)?

A DROP 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 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 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-1980's to:

- a. Encourage police and fire personnel who could retire early (after 20 years of service) to continue working.
- b. Allow a partial lump sum distribution option in the pension plan.
- c. Provide the employer with a predictable turnover picture.

DROPs now exist in Louisiana, Arkansas, Oklahoma, Maryland, Missouri, and Florida on the state and local level as well as locally in Texas, Colorado, and California. Originally popular with police and fire plans, they now exist for teachers and general public employees as well.

4. DOES A DROP REPRESENT A SEPARATE RETIREMENT PLAN?

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

5. ARE ALL DROPS ALIKE?

No. There is no rigid structure that must be followed for these programs. The design of these programs varies greatly and can be crafted to meet the needs of the employees, the pension plan, and the plan sponsor.

6. IS A DROP AVAILABLE AS A BENEFIT FEATURE WITHIN THE DAVIE POLICE PENSION FUND?

Yes, a DROP first became available as a retirement option to members of the Davie Police Pension Plan with the adoption of Ordinance No. 98-11 in March of 1998. **The DROP was recently amended by Ordinance No. 2020-014.**

7. HOW DOES THE DAVIE DROP 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 Police Officer. For all non-pension benefits, you will continue to be treated as an active Police Officer. **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 normal retirement (20 years of service, regardless of age), you are eligible to enter the DROP. When you enroll in the DROP, you agree to “lock-in” your service and benefit levels as of the effective date of your participation. Although you continue to work as an active Police Officer, 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 Police Officer.

Upon exercising the right to enter the DROP, your creditable service, compensation, and accrued pension benefit will become “locked-in”. The amount of your pension benefit will be determined based on the average of your last three (3) years of service immediately preceding participation in the DROP -OR- the average of the best 5 years of the last 10 years.

You can participate in DROP for a maximum of six (6) years. During your participation in the DROP, your normal retirement benefit payments are added to your account each month. A DROP participant’s account shall be credited or debited, as appropriate, with investment earnings/losses at a rate equal to the Pension Plan’s actual investment return, net of investment expenses.

Initial Here _____

Alternatively, a member may elect to self-direct their DROP account, at their own risk, using the self-directed investment program offered by Voya Retirement Insurance and Annuity Company. THIS IS A ONE-TIME IRREVOCABLE DECISION. When you leave the Police Department, you choose how you want to receive your DROP account balance from available distribution methods.

The self-directed DROP is described in a separate package available from the Plan Administrator. Members shall bear all expenses associated with the self-directed DROP program.

The DROP ordinance was amended in 2017 by Ordinance 2017-028 to provide that all accrued leave pay-outs will be transferred/frontloaded to a member's DROP account, subject to the caps and limitations contained in the operative collective bargaining agreements. Upon separation from service, any remaining leave balances will be paid into the member's DROP account.

B. ELIGIBILITY AND PARTICIPATION QUESTIONS

1. WHO IS ELIGIBLE TO PARTICIPATE IN DROP?

All active members of the Davie Police Pension Plan are eligible to participate in the DROP upon attaining twenty (20) years of credited service, regardless of age **-or-** having ten years of service and attained age fifty-five (55). As discussed below, the DROP has strict time requirements for the submission of a timely DROP application. A member who does not enter the DROP prior to attaining twenty-four (24) years of credited service is precluded from full term DROP participation.

2. WHAT ARE THE TIME LIMITS UNDER WHICH A MEMBER MUST ELECT TO PARTICIPATE IN DROP?

Members may enter the DROP at any time after reaching their Normal Retirement Date (NRD). Effective October 1, 2020, DROP Participants may remain in the DROP for a maximum of six years so long as their tenure does not exceed thirty total years with the Town.

3. WHEN WILL PARTICIPATION IN THE DROP BEGIN?

A member desiring to participate in the DROP is required to submit a timely DROP application prior to reaching twenty-four (24) years of service credit. Once submitted, the DROP application shall take effect on the first day of the month following the date of application.

Initial Here _____

Applications must be filed with the Board (with a copy provided to the Town) not less than five days prior to the effective date. **A member's election to participate in the DROP shall be irrevocable.**

4. HOW LONG CAN I PARTICIPATE IN THE DROP?

Effective October 1, 2020, an eligible member may participate in the DROP for a maximum of six years. A member is required to terminate employment with the Police Department and to terminate their DROP participation upon the completion of the six-year DROP period.

A member with twenty (20) years of service may participate in the DROP for six years. A member who does not enter the DROP prior to attaining twenty-four (24) years of credited service is precluded from full term DROP participation.

5. IN THE EVENT THAT AN ELIGIBLE MEMBER DECIDES TO PARTICIPATE IN THE DROP, WHAT MUST HE OR SHE DO?

An eligible member may elect to participate in the DROP by complying with the election 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 properly completed DROP application and all related forms required by the Board of Trustees for service retirement.
- b. Selection of DROP participation and retirement dates. Such retirement date shall be a binding application for retirement, establishing a deferred retirement date.
- c. A written notification advising the Town of Davie of the date on which the DROP shall begin for the member. The notification to the Town of Davie must be submitted at least five days prior to the effective date.
- d. **The DROP participant must make their DROP Investment selection with either (a) Pension Plan's Investment Portfolio or (2) Self-Directed Investment Option.**

6. CAN I TERMINATE MY EMPLOYMENT 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, but should notify the Pension Board and their supervisor of the intended separation date. Once a DROP participant has separated from service, DROP payments will continue as monthly pension paid directly to the member and the member will be entitled to the entire balance in his/her DROP account.

7. WHILE I CONTINUE TO WORK DURING THE DROP PERIOD 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.

8. DO I HAVE TO DECIDE AT THE TIME I ENROLL IN DROP HOW LONG I WILL PARTICIPATE AND KEEP WORKING FOR THE TOWN?

Yes. However, for purposes of preserving maximum flexibility, many 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.

C. EMPLOYMENT STATUS QUESTIONS AND CONTRIBUTION REQUIREMENTS

1. ARE YOU COVERED BY SOCIAL SECURITY WHILE YOU PARTICIPATE IN DROP?

Yes.

2. IS THERE ANY SPECIAL MEMBERSHIP DESIGNATION IN THE PENSION FUND ONCE AN ACTIVE MEMBER BEGINS PARTICIPATION IN THE DROP?

Yes. Upon participation in the DROP, the member shall be deemed a retiree of the Pension Fund.

Initial Here _____

3. IS A DROP PARTICIPANT CONSIDERED TO BE AN ACTIVE EMPLOYEE OR A RETIREE?

A DROP participant shall be a retiree under the Pension Fund for accumulation of increased pension benefits, but for purposes of employment with the Town, the DROP participant shall be treated as any other active employee with respect to their ability to enjoy the availability of salary increases, promotions, employee benefits and programs related thereto. **If you become disabled after participating in the DROP, you will NOT be entitled to receive a disability benefit from the pension plan since you are already retired.** In the event of death or disability, you may be eligible for separate statutory benefits under state law, which are not paid by the pension plan.

4. ARE YOUR ACTIVE EMPLOYEE BENEFITS AFFECTED WHILE YOU ARE IN DROP?

Generally speaking, no. You continue to accrue sick leave, holiday leave and annual leave. At the conclusion of DROP participation, the member will receive a payout of accrued leave. In addition, you may continue to participate in **the Town's Section 457 deferred compensation program. Since you are still a member of the Police Department, the law provides that you remain eligible to vote in any Pension Fund elections.**

5. 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 as a Police Officer 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. Once acted upon by the Board of Trustees, the election to retire becomes irrevocable.

6. WHAT WILL MY PENSION CONTRIBUTION REQUIREMENTS BE DURING MY PERIOD OF DROP PARTICIPATION?

As an active employee participating in the Police Pension Plan you are currently required to make pension contributions in the amount of 9% of earnings as defined by the Plan (base pay, assignment pay, plus longevity). Upon DROP participation, your pension contribution requirements will be reduced to \$0 and your monthly pension check will be paid into the DROP account until you terminate employment.

Initial Here _____

D. ACCUMULATION OF BENEFITS UNDER THE DROP PROGRAM

1. HOW ARE MY RETIREMENT BENEFITS ACCUMULATED IN MY DROP ACCOUNT?

Once you decide to enroll into DROP your monthly retirement benefit is calculated based upon your service and benefit levels as of the date you entered the DROP. 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?

A DROP participant's account shall be credited or debited, as appropriate, with investment earnings/losses at a rate equal to the Pension Fund's actual investment return, net of investment expenses. To defray the costs of the DROP plan, each DROP participant's account will be charged an administrative fee of \$10.00 per month, which shall be deducted from the member's DROP account.

Alternatively, a member may elect to self-direct their DROP account, at their own risk, using the self-directed investment program offered by Voya Retirement Insurance and Annuity Company.

By entering into the DROP plan, a DROP participant authorizes the Pension Board and its investment professionals to invest the member's DROP monies in the same manner as other assets in the Pension Fund. **By participating in the DROP, a DROP participant agrees to hold the Board of Trustees, the Pension Plan, Plan Administrator(s), Pension Plan vendors and the Town of Davie free from any and all claims associated with my irrevocable decision and any investment losses to my DROP account.**

3. CAN I PURCHASE ADDITIONAL SERVICE CREDIT WHILE PARTICIPATING IN DROP?

No. Once participation in DROP begins, your retirement is final and you cannot add service credit, unless otherwise agreed through future labor negotiations with the Town made specifically applicable to DROP participants.

Initial Here _____

E. PAYMENT OF BENEFITS UNDER THE DROP PROGRAM

1. HOW IS THE DROP ACCOUNT MONEY PAID OUT AND DISTRIBUTED?

When you terminate employment, your DROP account will be paid as you choose in one of the following ways, within ninety (90) days following termination of employment:

- a. Lump Sum - the DROP participant receives the entire account balance less taxes;
- b. Annual installments - the DROP participant chooses an annual amount to be paid every year until the DROP account balance is paid in full;
- c. Equal monthly installments - the DROP participant chooses a monthly amount to be paid every month until the DROP account balance is paid in full;
- d. Combination of lump sum and periodic payments - the DROP participant elects to receive a lump sum payment and to receive a monthly or annual check thereafter until the DROP account balance is paid in full; or
- e. Direct Rollover - The funds are paid directly to the custodian of an individual retirement account (IRA) or eligible retirement plan as defined in Section 402(c)(8)(B) of the Internal Revenue Code.

DROP participants are encouraged to notify the Pension Board prior to a member's separation from service. Upon notification that a DROP participant will be separating from service, the Pension Administrator shall notify the Town and the Board's actuary of the anticipated termination date.

DROP termination shall be effective on the last day of the calendar month coincident with or next following the actual date of employment termination.

In the event that a DROP participant separates from service prior to the end of the month, the official date of DROP termination shall be the last day of the calendar month coincident with or next following the actual date of employment termination, as set forth above.

Initial Here _____

2. CAN THE DROP DISTRIBUTION METHOD BE ALTERED AFTER THE INITIAL SELECTION OF A PAYMENT OPTION?

Yes. 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 the notice. Where the member has selected any method of periodic distribution (i.e., annual installments, equal monthly installments, any combination of lump sum and periodic payments) the member is permitted to change the form of payment upon written notice to the Board. Once a member has received a rollover or complete lump sum distribution, the member is not permitted to make any changes, since all monies have been distributed.

3. HOW OFTEN CAN A PAYMENT CHANGE REQUEST BE SUBMITTED?

The Pension Code 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 enact administrative rules on this subject, if the Board determines that limitations are appropriate. If administrative rules were adopted by the Board, the rules would be required to uniformly apply to all Participants.

It is extremely important to note that adverse tax consequences may arise from a change in the distribution methodology. Under section 72 of the Internal Revenue Code, there is a ten percent (10%) early distribution penalty for payments received from a pension plan prior to age 59½ unless they are in the form of substantially equal payments, generally for life or life expectancy, or are in the form of a roll-over. Changes in the methodology also carry a chance of disqualifying all prior payments and subjecting the employee to the penalty. The penalty also does not apply if retirement and separation from service with the Town of Davie occurs in or after the year in which the employee turns 50.

4. CAN A DROP PARTICIPANT ELECT TO LEAVE ALL DROP FUNDS IN THE DROP ACCOUNT INDEFINITELY?

No, as discussed above, the Pension Code requires that DROP participants select a method of payment within 90 days after separation from the Town. This provision, however, does not require that all DROP monies be distributed within an arbitrary time period. Where the participant has selected a method of periodic distribution, the member's monies remain in the DROP account until depleted. While monies remain in the DROP account, the account balance will earn the rate of return achieved by the Fund, net of investment expenses and the \$10 per month administrative fee.

5. IF THE DROP PARTICIPANT ELECTS EQUAL MONTHLY INSTALLMENTS, DOES THE ACCOUNT BALANCE EARN INTEREST?

Yes. A participant's DROP account balance under any method of periodic distribution shall be credited with investment earnings or losses on a monthly basis, until the DROP account balance has been distributed to the DROP participant.

Due to the work involved in determining the Pension Fund's monthly rate of return based on third party data supplied by the Pension Fund's investment consultant and custodian, the member's actual DROP account balance will generally not be available until approximately one month after the date of separation. After the account balance has been determined, the member shall be provided with the account balance, as calculated by the Board's actuary.

6. WHAT HAPPENS TO YOUR DROP ACCOUNT AND ACCUMULATED LEAVE TIME IN THE EVENT OF YOUR DEATH WHILE IN DROP?

In the event of your death during the DROP period, all DROP and accumulated leave balances shall be payable to your designated beneficiary. If you have not designated your beneficiaries, the DROP and accumulated leave balances will be paid to your estate.

7. 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 MAY OTHERWISE BE AVAILABLE?

No. The prohibition against DROP participants from 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 police officers from other sources (i.e., workers' compensation, federal programs authorized under the Public Safety Officers' Benefits Act, and death benefits available to police officers under Florida Statute Sections 112.19 and 121.191, respectively).

8. WHAT EFFECT DOES A DROP PLAN HAVE ON ELIGIBILITY FOR A DISABILITY PENSION?

In order to be a participant in the DROP plan, and to have retirement benefits paid to your DROP account, the employee can no longer be an active member of the Fund. Since the employee is not an active member of the Fund, 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.

9. 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 Town, 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.

F. TAX CIRCUMSTANCES UNDER DROP

1. 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).

2. IF I DECIDE TO ROLLOVER MY DROP BENEFITS WHAT CAN I ROLL THEM INTO?

The tax 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.

Initial Here _____

3. HOW IS YOUR DROP DISTRIBUTION TAXED?

If you authorize the Pension Fund 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 will be subject to the 10% “early distribution” tax penalty rules if you are less than 50 years old when you separate from service with the Town of Davie.
- 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.

G. WAIVER AND COVENANT NOT TO SUE

1. AM I REQUIRED TO WAIVE ANY LEGAL RIGHTS TO SUE WHEN I ENTER THE DROP?

Yes. The DROP application required to be signed in order to participate in the DROP contains a waiver provision, covenant not to sue, and an acknowledgment that the DROP participant has carefully read the form and agreed not to sue the Town, Board of Trustees, or their officers, agents and employees for any claim arising out of the decision to participate in the DROP, including a release of rights to sue under applicable Federal and Florida age discrimination statutes.

Initial Here _____

2. WHAT RIGHTS AM I WAIVING?

Page 5 of the DROP application contains the following waiver, covenant not to sue and acknowledgment, and is required to be signed and notarized:

Waiver

I release the Town and the Board of Pension Trustees from any and all claims based on my election to participate in DROP and my agreement to retire and terminate my employment with the Town upon completion of my participation in DROP. I release the Town and the Board of Pension Trustees from any and all such claims under the Florida and Federal Age Discrimination in Employment laws and Civil Rights laws as these laws relate to my participation in DROP and my agreement to terminate employment with the Town upon the completion of my participation in DROP.

Covenant Not to Sue

I will not sue the Town or the Board of Pension Trustees or their employees, officers and agents for any claim arising out of my election to participate in DROP, my participation in DROP or my decision to retire and terminate Town employment upon the completion of my participation in DROP.

Acknowledgment

I acknowledge receipt of this Election to Participate Form. By signing this form, I am acknowledging that I have carefully read this form and that I understand the Election Form. In addition, I am acknowledging that I do not challenge or disagree with any of the representations or statements made in this Election Form and that I have signed my name voluntarily. I further acknowledge that the initials located in the bottom left corner of the pages of this application are my initials.

H. TRANSFER OF ACCUMULATED LEAVE BALANCES

1. AM I REQUIRED TO TRANSFER ACCUMULATED LEAVE INTO THE DROP?

The DROP ordinance was amended in 2017 by Ordinance 2017-028 to provide that all accrued leave pay-out will be transferred/frontloaded to a member's DROP account, subject to the caps and limitations contained in the operative collective bargaining agreements. Upon separation from service, any remaining leave balances will be paid into the member's DROP account.

Initial Here _____

2. WHAT ARE THE APPLICABLE IRS LIMITS?

Section 415 of the IRS Code contains maximum benefit limitations on qualified plans. For 2021, the annual benefit limit is \$230,000. Because DROP benefits are required to be recognized under Section 415, it is possible that a member's DROP account could be impacted.

The DROP ordinance was amended in 2017 by Ordinance 2017-028 to recognize that Plan benefits may be impacted by the annual benefit limits under Section 415 of the Internal Revenue Code. Prior to entering DROP you will be provided with an estimate from the Plan's actuary. If the actuary estimates that your benefit may be impacted by Section 415, you will be advised to seek further guidance from a tax professional.

Depending on a member's benefit level, it may be possible to reduce or eliminate the impact of the Section 415 benefit limits by selecting an actuarially equivalent optional form of benefit, or by reducing my DROP participation period. Members are encouraged to discuss these options with a tax professional.

The Town has not established an "excess benefit plan" and has no obligation to do so. As a result, the member assumes any risk of potential reduction in pension benefits due to the potential impact of Section 415 of the Internal Revenue Code.

I. DROP DECISION CONSIDERATIONS

1. WHAT ARE SOME ADVANTAGES OF DROPS?

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 will see the required pension contribution reduced from a rate of 9% of pay to 0% of pay. By reducing such contributions, the employee's take-home pay will be 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.

2. WHAT ARE SOME DISADVANTAGES OF DROPS?

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 end of the DROP period. If the Plan benefits change after you DROP, those benefits may not be available to you. If you get a raise or a promotion after you enter the DROP, that salary increase will not count toward your pension. Once you enter the DROP, your retirement benefits are calculated under the Plan and are fixed as of the date of entry into the DROP.

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 judiciously, 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 which would materially impact the funds available under the DROP. DROP participants may address this issue by electing a direct rollover to an eligible retirement plan or an IRA.

If a DROP participant becomes injured after entering the DROP, he or she will not be eligible to receive disability benefits from the Pension Plan, since DROP participants are already “retired”. A DROP participant, however, would remain eligible for other disability and death benefits payable from other sources (i.e., workers’ compensation, federal programs authorized under the Public Safety Officers’ Benefits Act, and death benefits available to police officers under Florida Statute Sections 112.19 and 121.191, respectively).

You are also advised that as a condition for participation in the DROP, you are required to waive any future claims against the Town of Davie and the Board of Trustees of the Pension Plan based on your decision to participate in the DROP. You are also required to waive any claims under Florida and Federal age discrimination laws. You will also be required to agree not to sue the Town, the Board of Trustees, or their agents or employees for **“any claim arising out of my election to participate in DROP, my participation in DROP or my decision to retire and terminate Town employment upon the completion of my participation in DROP”**.

3. SHOULD I PARTICIPATE IN 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 Fund. To assist in this decision, the Pension Office 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.

4. 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 Office 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. For more information, you may contact the Plan Administrator, Precision Pension Administration, at (954) 636-7170.

I hereby acknowledge that I have read and understand these Frequently Asked Questions.

By: _____

DATED: _____

Initial Here _____