

**MUNICIPAL EMPLOYEES'  
RETIREMENT SYSTEM  
OF LOUISIANA**

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**DROP**

**THE DEFERRED  
RETIREMENT OPTION  
PLAN (DROP).**

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**WHAT IS IT?**

**HOW DOES IT WORK?**

**DO YOU UNDERSTAND IT?**

**IS IT FOR YOU?**

Municipal Employees' Retirement System of Louisiana  
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225-925-4816.**

## THE BASICS

If you are eligible for a normal retirement (not an early retirement), you may participate in DROP. (You may not use credit in another Louisiana public retirement system, reciprocally recognized by our system, to attain eligibility to enter DROP.)

A member of Plan A may either retire or enter DROP if he has credit for at least twenty-five years of Plan A service at any age or has credit for at least ten years of service and is at least sixty years of age.

A member of Plan B may either retire or enter DROP if he has credit for at least thirty years of service at any age or has credit for at least ten years of service and is at least sixty years of age.

You may participate in DROP at any time after you become eligible for normal retirement. You must specify the length of time that you intend to participate in the plan, which may not exceed three years, and you may only participate in DROP once.

When you enter DROP your active membership in the system ends. Although your employer continues to pay employer contributions based on your earnings while you are in DROP, you do not pay employee contributions while in DROP.

While you are in DROP, the monthly benefits that would have been paid to you if you had quit your job (retired) and applied for normal retirement will be deposited into your DROP account at the retirement system.

If you quit your job at the end of your DROP participation, the monthly amount that was being deposited into your DROP account while you were in DROP will be paid directly to you each month and deposits into your DROP account will stop. AND, you may either withdraw any or all of the amount that has accumulated in your DROP account or convert the amount in your DROP account to a true annuity. If you do not withdraw all of the funds in your DROP account, you may elect to withdraw a certain amount on a monthly or yearly basis until your account is depleted. OR, you may continue to work and earn an additional benefit. You may rollover any withdrawal from your DROP account into a qualified retirement plan or an Individual Retirement Account (IRA).

## WHEN MAY I PARTICIPATE IN DROP?

If you are eligible to retire, you are eligible to participate in DROP. (See THE BASICS)

When you become eligible to retire, you may do one of three things: (1) you may quit your job, apply for retirement, and the retirement system will begin paying you your monthly retirement benefit; (2) you may continue to work, continue to be paid your regular salary, and continue to make employee contributions to the retirement system, in which case you will continue to earn retirement credit; or, (3) you may enter DROP, continue to work, and be paid your regular salary. (It should be noted that you may not use credit in another Louisiana public retirement system, reciprocally recognized by our system, to attain eligibility to enter DROP.)

You do not earn retirement credit while you are in DROP.

If you enter DROP, you must tell the retirement system how long you intend to participate in DROP and that participation may not be for more than three years. You may not change the length of your DROP participation. The only way to exit DROP early is to terminate employment.

You may only participate in DROP once.

## WHAT HAPPENS WHEN I ENTER DROP?

The first change you will notice when you enter DROP is that you do not make employee contributions to the retirement system while you are in DROP. The employee contributions that were being withheld from your salary before you entered DROP will not be withheld from your earnings while you are in DROP. So, when you enter DROP, you will see an immediate increase in your take-home pay. (Your employer continues to pay employer contributions based on your earnings while you are in DROP.) You do not earn retirement credit for your service while you are in DROP.

When you enter DROP, you must select one of the methods of benefit payments and, if you select an optional mode of benefit payments (Option No. 2, 3, or 4), you must select the option beneficiary. *THESE SELECTIONS MAY NOT BE CHANGED AFTER YOU ENTER DROP. NEITHER THE METHOD OF BENEFIT PAYMENTS NOR THE OPTION BENEFICIARY MAY BE CHANGED AFTER YOU ENTER DROP.*

At the retirement system office, several things happen when you enter DROP. The first is that we compute the retirement benefit that we would have paid to you, based on your salary and length of service at that time, if you had quit your job instead of continuing to work and participating in DROP. Then, we set up your DROP account. Finally, for each month that you continue working and are in DROP, we will deposit into your DROP account the monthly retirement benefit that we would have paid to you if you had quit your job when you entered DROP (retired) instead of continuing to work and participating in DROP.

You may not withdraw funds from your DROP account until you quit your job.

FOR EXAMPLE, assume “Bob” is eligible to retire with a monthly retirement benefit of \$1,000. Bob may (1) quit his job, apply for retirement, and the retirement system will pay him \$1,000 a month; (2) continue to work, earn his regular salary, make employee contributions to the retirement system, and earn additional retirement credit (which will increase his \$1,000 monthly benefit); or (3) enter DROP and continue to work and earn his regular salary while participating in DROP without having employee retirement contributions withheld. If Bob enters DROP for a three year period of participation, he will continue to work the next three years, he will earn his regular salary during that time and no retirement system employee contributions will be withheld from that salary, and the retirement system will deposit \$1,000 into Bob’s DROP account each month for the next thirty-six months while Bob is in DROP.

### **WHAT HAPPENS WHEN I FINISH PARTICIPATING IN DROP?**

When you complete your DROP participation, you may either quit your job (retire) or continue working.

If you quit your job, the retirement system will stop making deposits into your DROP account and will begin to pay your retirement benefit (the amount that was being deposited into your DROP account) directly to you each month. AND, you may either withdraw any or all of the amount that has accumulated in your DROP account or convert the amount in your DROP account to a true annuity. If you do not withdraw all of the funds in your DROP account, you may elect to withdraw a certain amount on a

monthly or yearly basis until your account is depleted. You may rollover any withdrawal from your DROP account into a qualified retirement plan or an Individual Retirement Account (IRA).

If you continue to work after you have participated in DROP, you will resume active membership in the retirement system, payments into your DROP account will stop, employee contributions will be withheld from your earnings, and you will earn an additional benefit. You should remember that your original retirement benefit was computed when you entered DROP. If you continue working after DROP, you will earn an additional benefit that will be added to your original benefit. If you continue to work for less than three years, the additional benefit will be based on what your average salary was when you entered DROP. If you continue to work for three years or more, the additional benefit will be based on your earnings during the time you continued to work. The additional benefit is based on the regular retirement accrual factor (3% for each year of service in Plan A, 2% for each year of service in Plan B). The combination of your original benefit and your additional benefit will be paid to you when you eventually quit your job. However, the combination of your original benefit and your additional benefit may not exceed the salary figure used to compute your additional benefit. You may not withdraw any funds from your DROP account until you actually quit your job. When you do actually quit your job, you may withdraw funds from your DROP account as explained above.

FOR EXAMPLE, at the end of the three years that Bob has participated in DROP, the amount of \$36,000 has been deposited into his DROP account. Bob now has several options. First, he may either quit his job or continue working. If Bob quits his job (retires), the retirement system will stop making deposits into his DROP account and, instead, will start paying Bob \$1,000 each month. AND, Bob may either withdraw \$36,000 from his DROP account or he may convert that amount to a true annuity. (If Bob converts his DROP account to an annuity, an amount in addition to his \$1,000 monthly benefit will be paid to him each month; the additional amount varies from case to case and depends on the type of annuity selected and the individual’s age, marital status, sex, and other factors.) Or, Bob may withdraw \$1,000 a month from his DROP account for the next thirty-six months. Or, Bob may withdraw \$12,000 from his DROP account and then withdraw \$1,000 each

month for the next twenty-four months. Or, Bob may rollover any withdrawal from his DROP account into a qualified retirement plan or an Individual Retirement Account (IRA).

Or, at the end of the three years that Bob has participated in DROP, he may continue working, in which case employee contributions will be withheld from his earnings and he will earn an additional benefit that will be added to his original \$1,000 monthly benefit, both of which will be paid to him when he eventually does quit his job. He may not withdraw anything from his DROP account until he actually quits his job.

### **WHAT HAPPENS IF I DIE WHILE I AM PARTICIPATING IN DROP?**

If you die while you are participating in DROP, a lump sum equal to your DROP account balance will be paid to your named beneficiary or, if none, to your estate. If you elected the maximum method of benefit payments when you entered DROP and your DROP account balance is less than what you contributed to the retirement system, the difference will be paid to your named beneficiary or, if none, to your estate. Or, if you elected one of the optional modes of benefit payments when you entered DROP, a monthly benefit will be paid to your named option beneficiary after your death.

### **WHAT HAPPENS IF I CONTINUE TO WORK AFTER I PARTICIPATE IN DROP AND I DIE WHILE CONTINUING TO WORK?**

If you continue to work after you participate in DROP and you die while you are continuing to work, a lump sum equal to your DROP account balance will be paid to your named beneficiary or, if none, to your estate. If you elected the maximum method of benefit payments when you entered DROP and your DROP account balance is less than what you contributed to the retirement system, the difference will be paid to your named beneficiary or, if none, to your estate. Or, if you elected one of the optional modes of benefit payments when you entered DROP, a monthly benefit will be paid to your named option beneficiary after your death.

### **IF I PARTICIPATE IN DROP, WHEN WILL I BECOME ELIGIBLE FOR A COST-OF-LIVING INCREASE?**

If you participate in DROP, you may not receive a cost-of-living increase while you are participating and you may not receive such an increase until, at the earliest, one year after you quit your job (retire).

### **DOES MY DROP ACCOUNT EARN INTEREST?**

Your DROP account balance will earn interest after you terminate participation in the plan if you continue to work or if you quit your job and leave any or all of your DROP account funds on deposit at the retirement system. Your DROP account balance will earn interest at the actual rate of return earned on the funds left on deposit. That interest will be determined by the amount in your DROP account on June 30th of each year and will be credited to your account or paid to you after that date. If you withdraw all of the funds in your DROP account prior to June 30th, your account will not earn any interest that year. The rate of interest varies from year to year; historically the rate has been similar to a money market fund.

### **IF I PARTICIPATE IN DROP, DO I NEED TO COMPLETE A RETIREMENT APPLICATION WHEN I QUIT MY JOB?**

No. It doesn't matter whether you quit your job while you are participating in DROP, quit your job when you complete your DROP participation, or you continue to work after you participate in DROP, you do not need to complete a retirement application when you finally quit your job. Your application to participate in DROP is treated as your application to retire. *REMEMBER, WHEN YOU ENTER DROP, YOU MUST SELECT ONE OF THE METHODS OF BENEFIT PAYMENTS AND, IF YOU SELECT AN OPTIONAL MODE OF BENEFIT PAYMENTS (OPTION NO. 2, 3, OR 4), YOU MUST SELECT THE OPTION BENEFICIARY. THESE SELECTIONS MAY NOT BE CHANGED AFTER YOU ENTER DROP. NEITHER THE METHOD OF BENEFIT PAYMENTS NOR THE OPTION BENEFICIARY MAY BE CHANGED AFTER YOU ENTER DROP.*

**MAY I END MY PARTICIPATION IN DROP EARLIER THAN I INDICATED WHEN I ENTERED DROP PARTICIPATION?**

Yes, but only by terminating employment..

**IF I AM IN DROP OR HAVE BEEN IN DROP AND LEFT MY FUNDS IN MY DROP ACCOUNT ON DEPOSIT WITH THE SYSTEM, CAN I FIND OUT HOW MUCH MONEY IS IN MY DROP ACCOUNT?**

Yes. Write the retirement system office and we will let you know. Making sure to include your social security number.

**ARE THE FUNDS IN MY DROP ACCOUNT SUBJECT TO BEING DIVIDED PURSUANT TO A COMMUNITY PROPERTY SETTLEMENT IF I DIVORCE OR AM DIVORCED?**

Yes.

**DOES PARTICIPATION IN DROP SECURE OR GUARANTEE MY JOB SECURITY AND CONTINUED EMPLOYMENT FOR THE LENGTH OF TIME I SPECIFIED THAT I WOULD PARTICIPATE IN DROP?**

No. Your continued employment after you begin DROP participation is a matter between you and your employer. Indicating that you will participate in DROP for the next three years does not insure or guarantee that you will be allowed to continue your employment for those next three years. If your employment ceases during your DROP participation, so does your participation in DROP.

**DO I HAVE TO PAY TAXES ON MY DROP ACCOUNT? WHAT ABOUT IF I WITHDRAW FUNDS FROM MY DROP ACCOUNT?**

You do not pay taxes on funds in your DROP account until you withdraw them.

If we pay a lump-sum distribution of your DROP account to you, we are required by federal law to withhold 20% of the distribution for federal income taxes and the distribution is a taxable event in the calendar year the distribution is paid to

you and will be reported to the Internal Revenue Service as such. If you elect to withdraw a certain dollar amount from your DROP account on an annual or monthly basis, we also are required to withhold 20% of each annual or monthly withdrawal for federal taxes and report each distribution to the IRS. We encourage you to seek the advice of a professional tax preparer or a Certified Public Accountant concerning taxation of your DROP distributions.

**MAY I ROLLOVER A DISTRIBUTION FROM MY DROP ACCOUNT INTO ANOTHER QUALIFIED INSTRUMENT?**

Yes. On August 15, 1999, it became possible to rollover a lump-sum or a partial lump-sum distribution from your DROP account into another qualified retirement plan or an Individual Retirement Account (IRA). If a lump-sum DROP distribution is rolled-over into an IRA or other qualified retirement plan, the distribution by the retirement system is a non-taxable distribution.

**ARE THERE COSTS OR OTHER DISADVANTAGES TO PARTICIPATE IN DROP?**

There may be costs or disadvantages to participation in DROP. Each individual case must be decided on its own. You should weigh the costs and benefits carefully when deciding whether to enter DROP, especially if you have not yet earned a 100% benefit (thirty-three and one-third years of service in Plan A and fifty years of service in Plan B), if you anticipate sizable or significant increases in your earnings in the near future, or if you anticipate continuing to work after you participate in DROP. Remember that when you enter DROP, you must select your method of benefit payments at that time and the selection you make then may not be changed at a later date even if there are unexpected changes in your life situation during the time that you are in DROP.

One potential disadvantage is that you do not earn retirement credit while you are participating in DROP. If a member of Plan A participates in DROP for three years, he is giving up an additional 9% on his benefit. For example, assume a member of Plan A has credit for twenty-five years of service and he enters DROP for the next three years. His benefit is 75% of his then average final compensation. If, instead of participating in DROP, he had continued in active membership for the three years he was in DROP, his benefit would be 84% of his then average final compensation.

This brings up the second possible cost or disadvantage of participating in DROP. Salary increases you receive while you are in DROP, if any, do not increase your retirement benefit.

The following comparison may help you understand these factors. (This example uses a member of Plan A, but the same principles apply in Plan B.) Assume that at the beginning of Year One, Joe and Mike have identical average compensation rates of \$25,000 per year and both have credit for twenty-five years of service. Joe decides to continue in active membership in the retirement system for six more years instead of participating in DROP, thereby earning retirement credit for thirty-one years of service. During that time his average compensation increases to \$30,000. Mike decides to enter DROP in Year One. He participates in DROP for three years and then continues working for three more years. By that time, Mike's average compensation has also increased to \$30,000. Both Joe and Mike quit working (retire) at the end of Year Six.

Here's how the numbers match up.

Joe, who did not participate in DROP, retires at the end of Year Six (with credit for thirty-one years of service) with an annual retirement benefit of \$27,900. Joe has no DROP account balance.

Mike, who participated in DROP and did not pay employee contributions for three years, then worked three more years, retires at the end of Year Six with an annual retirement benefit of \$21,450. However, Mike does have a DROP account balance of \$56,250. (If Mike was smart, he also did not spend those employee contributions that were not withheld from his earnings while he was in DROP and he has invested those amounts instead.)

Ten years later (ten years after the end of Year Six), Joe will have received \$279,000 in benefit payments; Mike will have received \$214,500.

Who has the best deal, Joe or Mike? It depends on what their individual circumstances are. Maybe Joe didn't need access to a lump-sum of cash when he retired, but he wanted more current income at that time. Maybe Mike needed to be able to pay for a child's advanced education costs or finish paying for his house at the time he retired. Did Mike spend his DROP money and now it is gone, or did he invest it wisely and let it grow? Each individual must evaluate his own situation very carefully, looking at his own unique set of facts.

**The important point is that DROP may not always be the best option for you to take. You should not be lured into DROP just because you have visions of having access to a large sum of available cash at the end. It may be right for you or it may not. Only you can decide.**

Please contact us, call, write, or send a fax, if you have other questions about DROP. We will do what we can to help.

Any questions you may have regarding your rights in the system and any other matter involving the system should be directed to the system's office, preferably in writing. Please provide your social security number and the name of your employing municipality in all correspondence. Address correspondence to:

Municipal Employees' Retirement System of Louisiana  
7937 Office Park Boulevard  
Baton Rouge, Louisiana 70809.

The system's telephone number is **225-925-4810** or **800-820-1137** and the facsimile number is **225-925-4816**.

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