



MUNICIPAL EMPLOYEES'
RETIREMENT SYSTEM
OF LOUISIANA

Explanation of Your Retirement/DROP Benefit

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RETIREMENT/DROP ELIGIBILITY REQUIREMENTS

PLAN A TIER 1

Hire Date before 01/01/2013
25 years at any age
10 years at age 60
years at any age, actuarially reduced

PLAN A TIER 2

Hire Date On or After 01/01/2013
7 years at age 67
10 years at age 62
30 years at age 55
20 years at any age, actuarially reduced

PLAN B TIER 1

Hire Date before 01/01/2013
30 years at any age
10 years at age 60

PLAN B TIER 2

Hire Date On or After 01/01/2013
7 years at age 67
10 years at age 62
30 years at age 55
20 years at any age, actuarially reduced

BENEFIT CALCULATION FORMULA:

Final Average Compensation x Accrual Rate x Years of Service = Maximum Benefit

Plan A Accrual Rate: 3.0%

Plan B Accrual Rate: 2.0%

RETIREMENT/DROP OPTIONS

- **MAXIMUM** – Largest possible benefit paid to the retiree until death and all benefit payments stop upon the retiree's death. The beneficiary or estate does not receive monthly benefits upon death of the retiree. If the retiree has not received benefits equal to their accumulated employee contributions at the date of retirement, the remaining balance of employee contributions shall be paid to the retiree's beneficiary or, if none, his estate.
- **OPTION 2** – A reduced benefit paid to the retiree throughout life. Upon their death, the same benefit shall continue throughout the life of the retiree's beneficiary named at retirement. This reduction is based on the age of the retiree and the option beneficiary at the time of retirement. The reduction is a complicated computation and may only be done by the retirement system office.
- **OPTION 4.2** – Same as Option 2, except that the benefit payable to the retiree shall increase to the Maximum if the named beneficiary dies before the retiree.
- **OPTION 3** – A reduced benefit paid to the retiree throughout life. Upon their death, one-half (1/2) of the benefit shall continue throughout the life of the retiree's beneficiary named at retirement. The reduction is a complicated computation and may only be done by the retirement system office.

- **OPTION 4.3** – Same as Option 3, except that the benefit payable to the retiree shall increase to the Maximum if the named beneficiary dies before the retiree.
- **OPTION 4** – Allows for some other benefit amount paid either to the member or to the person(s) he designates provided that the other benefit is the actuarial equivalent to the retiree's maximum benefit. All Option 4 selections must be calculated by the retirement system's actuary and approved by the system's Board of Trustees.

In addition to the above option choices, a member may choose an **AUTOMATIC COST-OF-LIVING ADJUSTMENT (COLA)** upon application for retirement or participation in DROP. Choosing an automatic COLA results in an actuarially reduced retirement benefit to fund the annual 2.5% cost-of-living adjustment. Such election is irrevocable and is effective annually on the retirement anniversary date of the retiree who is age 55 or older. This choice is not applicable to disability retirement benefits.

Deferred Retirement Option Plan (DROP)

- If you are eligible for normal retirement (not an actuarially reduced 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.
- 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 DROP, which may not exceed three (3) years, and you may only participate in DROP once. You may not change the length of your DROP participation. The only way to exit DROP early is to terminate employment.
- When you enter DROP your active membership in the retirement system ends. Your employee contributions to the retirement system stop while you are in DROP. Therefore, when you enter DROP, you will see an immediate increase in your take-home pay unless you direct those funds to a deferred compensation account or other tax deferred retirement account. (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.
- While you are in DROP, the monthly benefit that would have been paid to you if you had terminated and applied for normal retirement will be deposited into your DROP account.
- If you terminate employment 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. Your total DROP balance will be transferred by MERS into your account at Empower Retirement. You may either withdraw any or the entire amount that has accumulated in your DROP account (20% will be withheld for Federal taxes). If you do not withdraw all the funds in your DROP account, you may elect to withdraw a certain amount on a monthly or yearly basis (20% will be withheld for Federal taxes) until your account is depleted.

- 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 2, 3, 4.2, 4.3); you must select an option beneficiary. THESE SELECTIONS MAY NOT BE CHANGED AFTER YOU ENTER DROP.
- If you continue to work after you have participated in DROP, you will resume active membership in the retirement system, payments to your DROP account will stop, your DROP balance will be transferred by MERS to your account at Empower Retirement, employee contributions will be withheld from your earnings, and you will earn an additional benefit. Your original retirement benefit was calculated when you entered DROP.
- 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 terminate employment. However, the combination of your original benefit and your additional benefit may not exceed the final average compensation used to calculate your additional benefit.
- You may not withdraw any funds from your DROP account until you terminate employment. When you do terminate employment, you may withdraw funds from your DROP account as explained above.
- You must begin receiving a required minimum distribution amount determined by the IRS when you reach 70 ½ years of age. Empower Retirement will notify you of this amount on a yearly basis.

QUESTIONS ABOUT DROP

1. 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, your estate. 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.

2. 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, your estate. 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.

3. If I participate in DROP, when will I become eligible for a cost-of-living (COLA) increase?

If you participate in DROP, you may not receive a COLA increase while you are participating and you may not receive such an increase until, at the earliest, one year after you terminate employment and retire. This COLA does not include a salary increase from your employer. COLAs are not guaranteed unless you chose the automatic COLA.

4. Does my DROP account earn interest?

Your DROP account balance will earn interest after you terminate participation in the plan and continue to work or if you terminate employment and leave any or all your DROP account funds on deposit with Empower Retirement. After you terminate DROP participation you may control the investment choices of your account at Empower.

5. If I participate in DROP, do I need to complete a retirement application when I terminate employment?

No. It does not matter whether you terminate employment while you are participating in DROP, terminate employment 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 terminate employment. You will need to complete a DROP End Early & Retire form that can be obtained from our website or by calling our office.

6. May I end my participation in DROP earlier than I indicated when I entered DROP participation?

Yes, but only by terminating employment.

7. If I am currently participating in DROP or have completed DROP and left my funds on deposit with Empower Retirement, can I find out how much money is in my DROP account?

Yes, you can logon to your account at Empower Retirement or call 800-701-8255.

8. Are the funds in my DROP account subject to being divided pursuant to a community property settlement if I divorce or am divorced?

Yes.

9. 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 during your DROP participation is a matter between you and your employer. If your employment ceases during your DROP participation, so does your participation in DROP.

10. 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 a lump-sum distribution of your DROP account is paid to you, federal law requires 20% to be withheld from 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 IRS as such. If you elect to withdraw a certain dollar amount from your DROP account on an annual or monthly basis, 20% is withheld from each annual or monthly withdrawal for federal taxes and reported to the IRS. MERS encourages you to seek the advice of a professional tax preparer or a CPA concerning taxation of your DROP distributions. Note: Any funds paid to you by MERS or from your DROP account by Empower Retirement is not subject to Louisiana State Tax.

11. May I rollover a distribution from my DROP account into another qualified instrument?

Yes. If a lump-sum DROP distribution is rolled-over into an Individual Retirement Account (IRA) or other qualified retirement plan, the distribution by Empower Retirement is a non-taxable distribution. A non-taxable distribution will also be reported to the IRS and will be subject to Louisiana State income taxes when withdrawn from your IRA or other qualified retirement plan.

REMINDERS

- Be very careful when you decide which mode of retirement benefit payments you wish to receive. It is a decision that will be with you for the rest of your life and possibly for the rest of someone else's life. MERS does not counsel members as to which option they should select. We provide the details for you to make an informed decision.
- When you are within three (3) years of retirement eligibility, you may request an estimate of what your retirement benefits will be. The estimate will set forth the Maximum benefit, and the Option 2, 3, 4.2, and 4.3 benefits. To obtain an estimate of retirement benefits, you may download the form from our website or see your employer's MERS contact. At any point in your career, you may calculate benefit estimates on the MERS Self Service portal.
- 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 in writing. Address correspondence to:

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This document was prepared for informational purposes only and is valid as of July 2022. If there is any conflict between this document and the statutes that govern retirement, the statutes take precedence.