MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF LOUISIANA

EXPLANATION OF YOUR RETIREMENT/DROP BENEFIT

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MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF LA (MERS)

RETIREMENT/DROP ELIGIBILITY REQUIREMENTS

PLAN A TIER 1

25 years at any age
10 years at age 60
20 years at any age actuarially reduced

PLAN A TIER 2

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

30 years at any age
10 years at age 60

PLAN B TIER 2

7 years at age 67
10 years at age 62
30 years at age 55
20 years at any age actuarially reduced

RETIREMENT/DROP OPTIONS

- MAXIMUM – Largest possible benefit paid to the retiree until he dies and all benefit payments stop upon the retiree's death. The beneficiary or estate does not receive any benefits upon death of the retiree, unless the retiree has not received an amount equal to their accumulated employee contributions at the date of retirement, in which case any remaining balance 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 somewhat 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 somewhat 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 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 reviewed by the retirement system's Actuary and then approved by the system's Board of Trustees.

- **NOTE: ONCE YOUR APPLICATION HAS BEEN SUBMITTED, THERE IS A VERY LIMITED TIME TO CHANGE THE OPTION SELECTED OR NAMED BENEFICIARY. IF YOU SELECTED THE MAXIMUM OPTION AND YOUR BENEFICIARY DIES BEFORE THE RETIREE, ANOTHER BENEFICIARY MAY BE CHOSEN. IF YOU SELECTED AN OPTION OTHER THAN THE MAXIMUM AND THE OPTION BENEFICIARY DIES BEFORE YOU, ALL BENEFIT PAYMENTS STOP UPON YOUR DEATH.**
- AUTOMATIC COST-OF-LIVING (COLA) OPTION –Upon application for retirement or participation in DROP, any member may elect to receive an actuarially reduced retirement benefit to receive an annual 2.5% cost-of-living adjustment. Such election shall be irrevocable and shall be effective annually on the retirement anniversary date of the retiree who is age 55 or older. This option is not applicable to disability retirement benefits.

Deferred Retirement Option Plan (DROP)

- If you are eligible for 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.
- 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. 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. 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 benefits that would have been paid to you if you had terminated and applied for normal retirement will be deposited into your DROP account at the retirement system.
- 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) or convert your DROP balance to a true annuity. 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, or Automatic COLA Option);

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. You should remember that your original retirement benefit was computed 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 compute your additional benefit. You may not withdraw any funds from your DROP account until you actually 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 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, 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 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, 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 option.

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 of 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 (https://www.mersla.com/active-members/webform/drop-end-early-and-retire) 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 after you begin DROP participation is a matter between you and your employer. Indicating that you will participate in DROP for the next three (3) years does not insure or guarantee that you will be allowed to continue your employment for those next three (3) years. 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 it 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, 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 Certified Public Accountant 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 financial institution.

12. Are there costs or other disadvantages to participate in DROP?

    There may be costs or disadvantages to participation in DROP. Each individual must decide on his/her 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 (33 1/3 years of service in Plan A and 50 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 (3) years, he is giving up an additional 9% on his benefit. For example, assume a member of Plan A has credit for twenty-five (25) years of service and he enters DROP for the next three (3) 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 (3) 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 (25) years of service. Joe decides to continue in active membership in the retirement system for six (6) more years instead of participating in DROP, thereby earning retirement credit for thirty-one (31) 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 (3) years and then continues working for three (3) more years. By that time, Mike's average compensation has also increase to $30,000. Both Joe and Mike retire at the end of year six (6).

Here are how the numbers match up.

Joe, who did not participate in DROP, retires at the end of year six (6) (with credit for thirty-one (31) 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 (3) years, then worked three (3) more years, retires at the end of year six (6) with an annual retirement benefit of $21,450. However, Mike does have a DROP account balance of $56,250. (If Mike was a saver, 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 (10) years later (10 years after the end of year 6), 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 did not 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 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.

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 as well. Although MERS does not counsel members as to which mode of benefit payments they should select, the analysts do what they can to make sure that a member has the information he or she needs to make an intelligent, well reasoned, and thought-out decision.

- Once a member is within three (3) years of retirement eligibility, he or she may request an estimate of what his or her 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 (https://www.mersla.com/active-members/page/retirementdrop-estimate) or see your employer's MERS contact.

- 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:

MERS
7937 Office Park Boulevard
Baton Rouge, LA 70809

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

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