

DROP Processing Session

AGENDA

1. Definition of DROP
2. Employment while in DROP.
3. Required documents and forms.
4. DROP pension benefits.
5. Status changes and cancellation of DROP.
6. Starting DROP and retiring from DROP.

What is DROP?

- Deferred Retirement Option Program
- Participation is completely voluntary.
- Entry into DROP is irrevocable after DROP Entry Date.
- DROP requires separation from employment within 5 years.
- You may terminate your employment at any time within 5 years.

DROP Eligibility

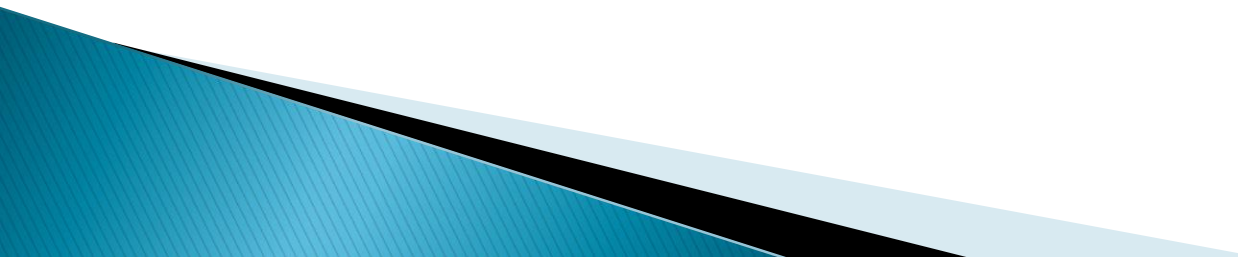
To be eligible to enter DROP, You must be

- An Active employee of the City of Cincinnati
- A contributing member of CRS;
- A member of Active Employee Class covered by the Collaborative Settlement Agreement (CSA), and;
- Have at least 30 years of verified service credit.

What remains the same while I'm in DROP?

- ▶ You are still an active employee.
- ▶ You continue to receive normal City Payroll.
- ▶ You and your dependents remain on other benefits through Risk Management (health insurance, life insurance, etc)
- ▶ You continue to make the 9% pre-tax contributions to CRS.
- ▶ You continue to accrue time off at your current rate.
- ▶ You must continue to abide by all policies and procedures for your department and the City.
- ▶ If you are part of a labor-management group (AFSCME, CODE), you remain in that group and are entitled to any support or benefits from those groups.
- ▶ You are still permitted to take promotions.
- ▶ You are still permitted to contribute to an existing 457 plan.

What changes while I'm in DROP?

- ▶ You will not accrue any more service credit with CRS.
 - ▶ Any increases in pay will not count towards your pension benefit.
 - ▶ Your pension benefit is locked in.
 - ▶ Your vacation and sick balances are reduced to a maximum of 40 total hours once you enter DROP.
 - ▶ Your 9% CRS contributions will be deposited into your DROP account, instead of the CRS Trust. 25% of your contributions is deducted from this as a participation fee.
 - ▶ You are required to retire within 5 years of the date of entry into DROP.
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DROP Employment

- You are NOT retired while in the DROP program. You are still an active employee with all of the rights and responsibilities you had prior to DROP entry.

REQUIRED

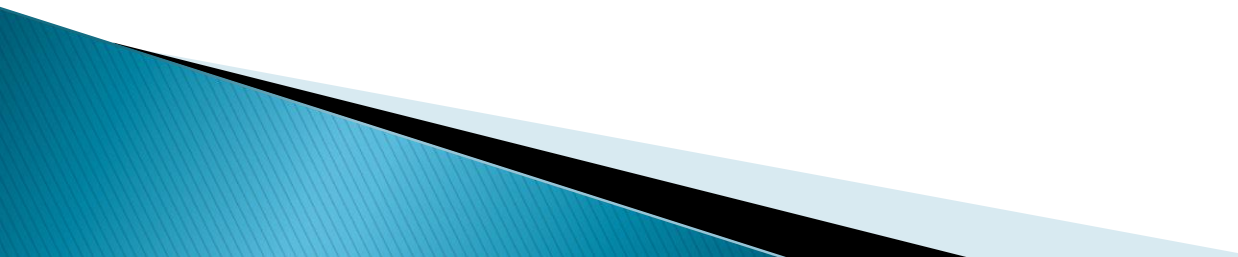
DROP Documents/Vital Records

- Participant Birth Certificate
- Participant Social Security Card

IF YOU ARE/WERE MARRIED, CRS WILL ALSO NEED:

- Participant Marriage License *(if applicable)*
- Participant Divorce Decree *(if applicable)*
- Optionee Birth Certificate *(if applicable)*
- Optionee Social Security Card *(if applicable)*
- Optionee Death Certificate *(if applicable)*

REQUIRED Forms

- Option Election Form
 - DROP Disclosure Form
 - Updated Beneficiary Form
 - Lump Sum 457 Plan Deferral Form (*if electing to defer*)
 - Spousal Waiver of Benefits (*for Regular Life option only*)
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Pension Benefits

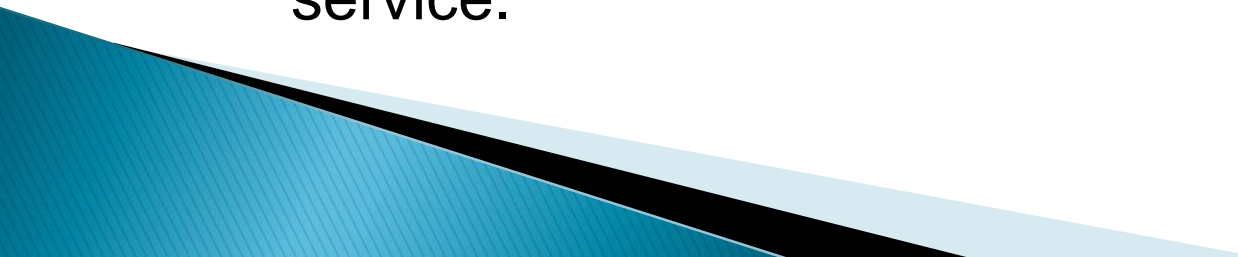
CRS is a Defined Benefit Plan.

Pension benefits are determined by a mathematical formula:

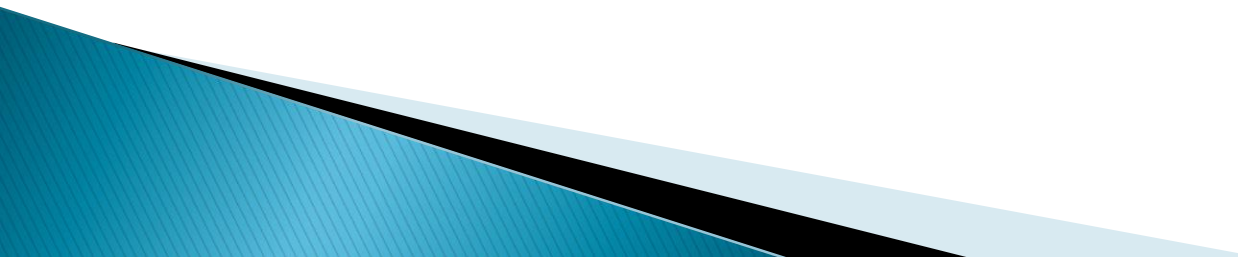
Service Credit* x Multiplier x Highest Average Salary

*Service Credit =
paid hours through your last day of service
prior to DROP Entry Date.

Calculating Pension Benefit

- Your monthly Pension Benefit amount is calculated based on your paid earnings and your service credit as of the day prior to your DROP Entry Date.
 - Your Monthly Pension Benefit amount WILL NOT be re-calculated to incorporate any additional service or earnings paid to you AFTER your DROP Entry Date
 - Gross Monthly Pension Benefits are contributed to your DROP account in the Retirement Trust.
 - The DROP account is not payable to you until you have terminated your employment, completed all required documentation, and officially RETIRED from service.
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Selecting Benefit Option

- DROP applicants must select a pension payment option and designate an Optionee (*if applicable*).
 - Applicants who are married must designate their legally married spouse as Optionee, unless that spouse signs a Benefit Waiver.
 - If applicant is not married, they may choose Single Life Option or designate an Optionee.
 - Optionee and payment selections become irrevocable upon DROP Entry Date.
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HOW TO READ AND UNDERSTAND YOUR BENEFIT ESTIMATE OPTIONS

AVAILABLE OPTIONS	ACTUARIAL ADJUSTMENT	GROSS MONTHLY PENSION FOR OPTIONEE/SPOUSE		
↓	↓	↓		
Payment Option	Form Factor	To Retiree If Both Alive	To Surviving Optionee	To Retiree If Optionee Dies First
Option 1 100% CA	0.8442720	\$2,704.20	\$2,704.20	\$2,704.20
Option 2 50% CA	0.9147170	\$2,929.83	\$1,464.92	\$2,929.83
Option 3 66 2/3% True J&S	0.9041360	\$2,895.95	\$1,930.73	\$1,930.73
Option 4 80% True J&S	0.8792040	\$2,816.10	\$2,252.88	\$2,252.88
Single Life Annuity	1.0000000	\$3,203.00	\$0.00	\$3,203.00

	↑	↑
	GROSS MONTHLY PENSION WHILE BOTH STILL ALIVE	GROSS MONTHLY PENSION FOR RETIREE

WHAT DOES THIS MEAN?

WHAT YOUR CHOICES ARE	HOW THE CHOICES CHANGE BASED ON GENDER OF RETIREE AND SPOUSE, AGE, ETC	WHAT THE OPTIONEE/SPOUSE IS PAID MONTHLY BEFORE TAXES AND DEDUCTIONS IF RETIREE DIES FIRST		
Payment Option	Form Factor	To Retiree If Both Alive	To Surviving Optionee	To Retiree If Optionee Dies First
Option 1 100% CA	0.8442720	\$2,704.20	\$2,704.20	\$2,704.20
Option 2 50% CA	0.9147170	\$2,929.83	\$1,464.92	\$2,929.83
Option 3 66 2/3% True J&S	0.9041360	\$2,895.95	\$1,930.73	\$1,930.73
Option 4 80% True J&S	0.8792040	\$2,816.10	\$2,252.88	\$2,252.88
Single Life Annuity	1.0000000	\$3,203.00	\$0.00	\$3,203.00

WHAT THE RETIREE RECEIVES MONTHLY AS LONG AS BOTH ARE ALIVE, BEFORE TAXES AND OTHER DEDUCTIONS

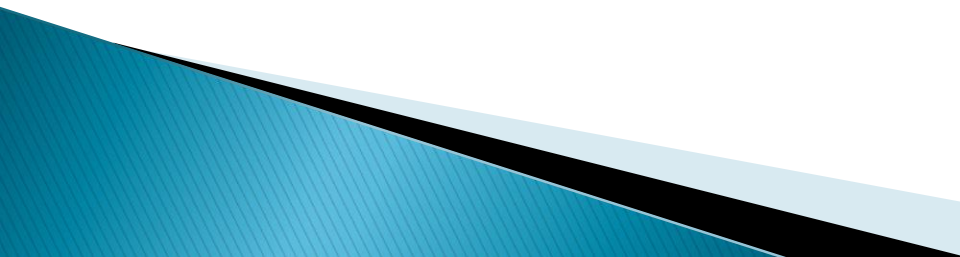
WHAT THE RETIREE IS PAID MONTHLY BEFORE TAXES AND DEDUCTIONS IF THE OPTIONEE DIES FIRST

Beneficiary vs. Optionee

Beneficiaries:

- Designation of the beneficiary shall be limited to a person, a trust, the member's estate, or other legal entity.
- A Beneficiary receives any undistributed contributions in your account at the time of your death.
- Beneficiaries do not necessarily receive your ongoing pension benefit.
- Beneficiaries can be changed at any time.

Optionees:

- An Optionee is an individual designated by you at DROP entry to receive an ongoing pension benefit following your death.
 - Only one Optionee may be selected. Divorce or death of the optionee will not permit the naming of another optionee should you remarry.
 - If you are legally married, you must select your legally married spouse as your Optionee – unless your spouse signs a Benefit Waiver.
 - Your Optionee and your Beneficiary may or may not be the same person.
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Beneficiary vs. Optionee cont...

We highly recommend only one primary and one alternate beneficiary.

If you feel inclined to name multiple people as your beneficiaries (primary or alternate), be aware that we cannot pay anything to anyone until everyone listed presents themselves for identification. Consider a trust or estate as your primary if you are unmarried, or as your alternate if you have a legally married spouse.

HOW DO I DECIDE WHAT'S BEST FOR ME AND MY OPTIONEE?

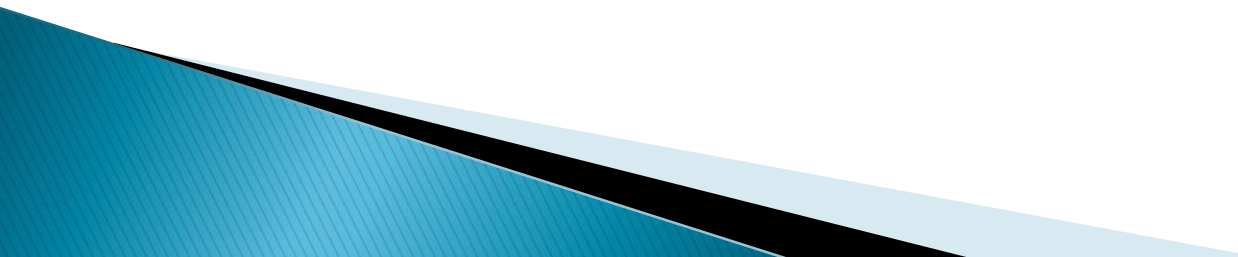
- TAKE INTO ACCOUNT YOUR ENTIRE SITUATION: YOUR HEALTH, YOUR SPOUSE'S HEALTH, WHAT YOUR SPOUSE HAS AVAILABLE IN TERMS OF INSURANCE AND PENSION/RETIREMENT BENEFITS, ETC
- HAVE A SERIOUS DISCUSSION WITH YOUR OPTIONEE/SPOUSE ABOUT EXPECTATIONS AND FUTURE OUTLOOK
- TAKE ALL OF THIS INFORMATION TO A FINANCIAL ADVISOR FOR ADVICE ON WHAT IS BEST FOR YOU AND YOUR SPOUSE.

PLEASE KEEP IN MIND THAT OUR OFFICE CANNOT PROVIDE LEGAL OR FINANCIAL ADVICE. WE CAN EXPLAIN THE FACTS, BUT WE ARE NOT ABLE TO HELP YOU MAKE A DECISION. THIS IS A VERY PERSONAL DECISION AND NO TWO SITUATIONS FOR RETIREES AND THEIR SPOUSES IS ALIKE.

DROP and Health Care

	Active Employee in DROP	Retiree
Which plan are you in enrolled in?	Continue with Employee Health Care through Risk Management	Sign up for Retiree Health Care at Retirement Session during the Retirement Process
Who are eligible dependents?	<ul style="list-style-type: none"> You Your spouse (equal partner) Children (natural, step, legally adopted, placed for adoption, covered under child support, legal custody, disabled before age 26 – covered for life) 	<p>You</p> <p>Your legally married spouse</p> <p>Children (natural, legally adopted, disabled by age 19 – covered for life)</p>
Children past 19th birthday?	Can be covered until age 26	Can be covered until age 24 if a full-time student. Must submit verified class schedule biannually.
Disabled dependents?	Must be declared disabled before age 26	Covered for duration of pension. Must be totally or permanently disabled by age 19, as determined by Social Security Administration.
Medicare B?	Exempt from enrollment while employed by City.	You and spouse are required to enroll in the three months preceding your 65 th birthday. Medicare enrollment is mandatory for CRS health care coverage.

Active Healthcare vs Retiree Healthcare continued...

- ▶ Annual deductibles and (OOP) out-of-pocket costs reset when you move from Active City to CRS healthcare coverage.
 - ▶ Consider this when exiting DROP to Retirement and any healthcare costs you may be expecting in the near future.
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DROP and COLAs

DROP participants remain eligible for regular cost-of-living adjustments (COLAs) provided by City Employee labor agreements.

Participants do not qualify for Retiree COLAs during their DROP participation period. You will not receive any COLAs on your DROP benefit while you are still employed.

IN ADDITION:

The 3-year Retiree COLA Suspension Period begins after your Retirement Effective Date. You will not receive a Cost of Living Adjustment until the 4th anniversary of your retirement from service.

SSA and Windfall Elimination

- ▶ If you have 40 or more quarters in Social Security, sign up for an account at:
 - ▶ www.SSA.gov
- ▶ This will allow you to see what your projected Social Security Benefit will be when you are eligible to receive one. This is part of your whole retirement picture and needs to be taken into account when deciding your options at DROP entry.
- ▶ **TWO THINGS TO BE AWARE OF:**
- ▶ WINDFALL ELIMINATION PROVISION (WEP)
- ▶ GOVERNMENT PENSION OFFSET

Spousal Waiver

If you are married and want to choose a Single Life option, Ohio Law requires your spouse to waive their right to your retirement benefit.

Remember, retiree healthcare coverage for the pensioner ends when the monthly pension payments end.

Every employee's situation is different. This is a great time to talk to a financial advisor for guidance on your options and risks based on your individual and family situation.

Divorce & Marriage During DROP

Your marital status matters because you must name your legally married spouse as your Optionee UNLESS your spouse signs a Spousal Benefit Waiver

Withholding marital status or marital status changes may constitute fraud.

Canceling DROP

Once you submit a signed DROP enrollment application, you have until 4:00 PM on the last **business** day of the month before your DROP Entry Date to cancel your participation in DROP.

Requests to cancel (rescind) your DROP application must be made by submitting a rescission form to our office by scan/email, ID mail, or dropped off in person. The rescission form is located on our website at www.Cincinnati-oh.gov/retirement.

Emails must be sent to: Retirement@Cincinnati-oh.gov

Written notices mailed to the Retirement Division, 801 Plum Street, Room 328, Cincinnati, OH 45202 (or via Interdepartmental Mail)

Changing your DROP date

If you decide to change your DROP entry date, you are still required to submit a rescission form for your original date. A new application must be completed, and the new entry date must coincide with the current DROP calendar. For example, if your DROP entry date is May 1, You cannot rescind on the last business day of April, and re-apply for June 1. Your earliest entry date will be either July or August 1, based on the current calendar.

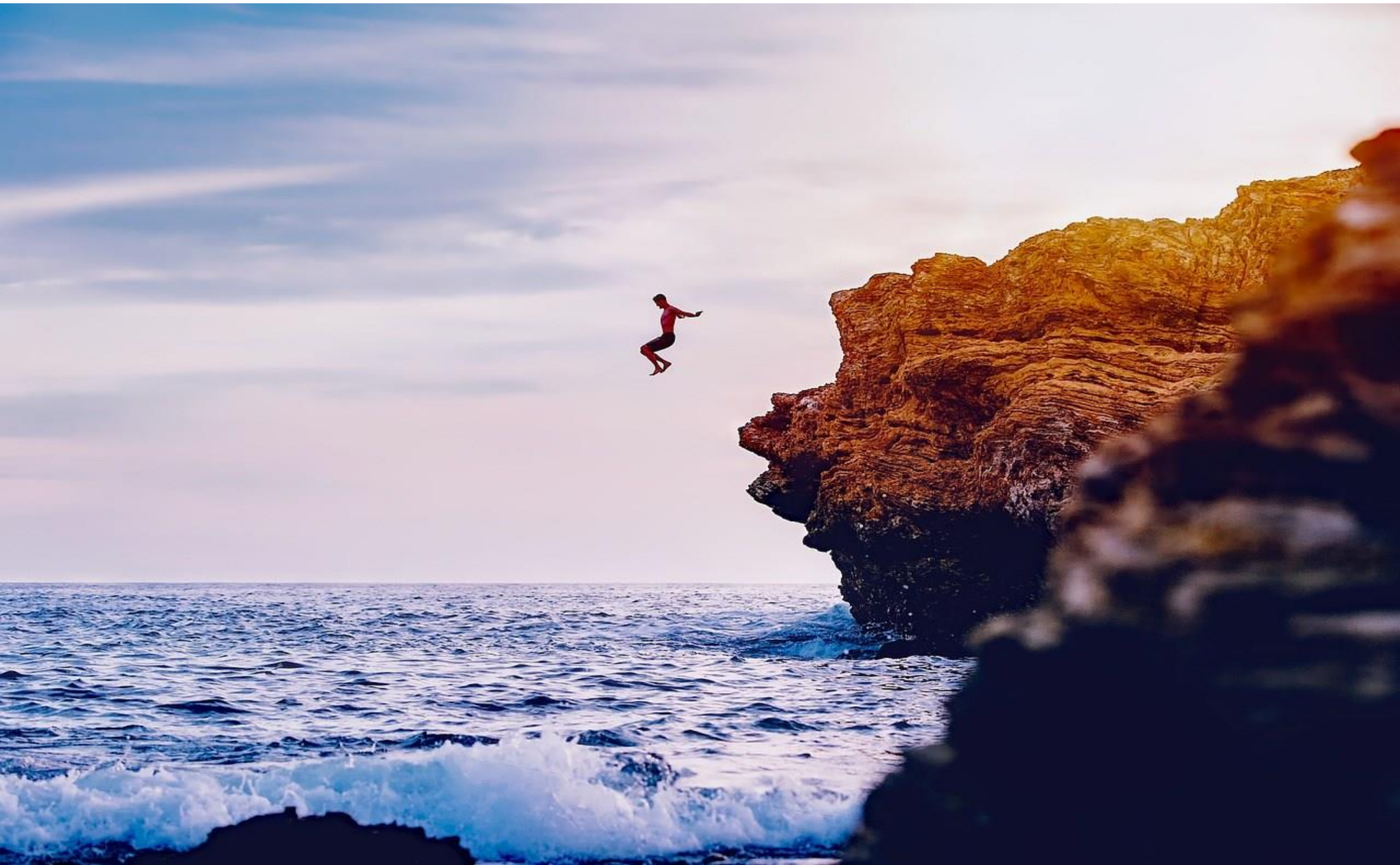
Death During DROP

DROP participation ends upon your date of death.

- Your **Optionee** will receive a Monthly Pension Benefit approximately 2 months following your death.
- Your **Beneficiary** will receive the balance of your DROP account.
- If your beneficiary and your optionee are the same person, he/she will receive both the DROP balance AND the continuing pension benefit.
- If you chose a Single Life Option, your beneficiary will receive the balance in your DROP account. No further benefits will be paid to anyone.

Should you die before completing the 2-year minimum participation, all DROP interest is forfeited.

ENTERING DROP



Entering the DROP

The date you elected on your application begins your participation in DROP.

You will continue to engage with the City as an active employee, just as you were prior to DROP entry. All rules, regulations, contracts, seniority, health insurance, benefits, expectations, discipline, step progressions, promotional opportunities, etc continue to apply to you.

The only major changes are:

- Your monthly pension benefit is calculated and will not be adjusted for any changes in income or service that occur **AFTER** your DROP entry date.
- Your 9% pre-tax contributions are re-directed into your DROP account, and not into your CRS account.
- You are **REQUIRED** to retire on the last calendar day of the month prior to your 5-year anniversary of DROP entry.

DROP Account

- DROP account funds accumulate tax free, held in the Retirement Trust until participants leave employment.
- Your monthly pension benefit amount and 75% of employee contributions from your bi-weekly paycheck are credited to DROP account.
- A DROP variable interest rate is calculated quarterly. Leaving DROP before 2 years forfeits all accumulated interest.
- The City continues paying employer contributions into CRS Trust. Employer contributions are not credited to DROP account and do not affect amount of monthly pension benefit.

DROP Account

DROP Transactions										
	Beginning Balance	Posted Date	Manual Transaction	Monthly Benefit	Member Contribution	Participation Fee	Interest	Disbursement	Adjustment	Ending Balance
View	\$11,831.51	12/1/2017		\$3,450.37						\$15,281.88
View	\$11,893.30	11/18/2017				(\$61.79)				\$11,831.51
View	\$11,646.16	11/18/2017			\$247.14					\$11,893.30
View	\$11,707.95	11/4/2017				(\$61.79)				\$11,646.16
View	\$11,460.81	11/4/2017			\$247.14					\$11,707.95
View	\$8,010.44	11/1/2017		\$3,450.37						\$11,460.81
View	\$8,072.23	10/21/2017				(\$61.79)				\$8,010.44
View	\$7,825.09	10/21/2017			\$247.14					\$8,072.23
View	\$7,886.88	10/7/2017				(\$61.79)				\$7,825.09
View	\$7,639.74	10/7/2017			\$247.14					\$7,886.88
View	\$7,615.66	10/1/2017					\$24.08			\$7,639.74
View	\$4,165.29	10/1/2017		\$3,450.37						\$7,615.66
View	\$4,227.08	9/23/2017				(\$61.79)				\$4,165.29
View	\$3,979.94	9/23/2017			\$247.14					\$4,227.08
View	\$4,041.73	9/9/2017				(\$61.79)				\$3,979.94
View	\$3,794.59	9/9/2017			\$247.14					\$4,041.73
View	\$344.22	9/1/2017		\$3,450.37						\$3,794.59
View	\$406.01	8/26/2017				(\$61.79)				\$344.22
View	\$158.87	8/26/2017			\$247.14					\$406.01
View	\$211.83	8/12/2017				(\$52.96)				\$158.87*
View	\$0.00	8/12/2017			\$211.83					\$211.83*

25% Fee (Taken from 9% Contribution each Pay Period)

CRS Pension Amount from BEFORE-TAX DEDUCTIONS Box on Pay Advice

Interest paid quarterly

Entered DROP 8/1/17

CRS Member Direct

If you haven't already done so, enroll in the online portal for CRS members –

CRSMemberDirect.org

Create a user name, password, and security answers (all are case sensitive). Keep your user name, password, and security answers in a safe place for quick reference.

LUMP SUM Cash-Out

The “lump sum” cash out is a payment of your vacation, sick, and/or comp time currently on the books.

- DROP participants must cash out (*or deposit into deferred comp*) accrued sick time, comp time, and vacation time.
- Calculations are based on your balances as of the last whole pay period prior to your DROP Entry Date.
- DROP participants may keep any combination up to 40 hours of comp, sick, or vacation time. You are not required to retain any time.
- This is a special pay, requiring specific tax withholdings if you do not deposit into deferred comp:

➤ Federal rate	22%
➤ City rate approx.	1.8%
➤ <u>Ohio State rate approx.</u>	<u>3.5%</u>
➤ Total withholding approx.	27.3%

LUMP SUM Cash-Out

Any flex time, personal day, birthday, and SUI time is automatically retained on participant's personnel record for use during continued employment.

Sick time is paid at a rate of 50%. If you are cashing out 1200 hours (max) of sick time, you will only be paid for the equivalent of 600 hours.

Any sick leave balance in EXCESS of 1200 hours is retained by the employee for use during DROP.

Participants continue to accrue sick, vacation, all other types of leave time while in DROP at their current rate.

If you cashed out the maximum amounts of sick time (1200 hours) and vacation time (480) upon entering the DROP, **you will not be able to cash out any more balances when you retire.**

LUMP SUM CASH OUT

IT IS HIGHLY RECOMMENDED THAT YOU DO NOT TAKE ANY VACATION TIME FOR THE TWO WEEKS LEADING UP TO YOUR DROP ENTRY DATE.

DOING SO COULD PUT YOU IN A NEGATIVE TIME BALANCE, AS YOU WILL BE CASHING OUT ALL BUT A MAXIMUM OF 40 HOURS.

Lump Sum Deferral

Without 457 Deferral

Type	Hours	Rate	Total
Sick (1/2 balance)	450	\$20.10	\$9,045.00
Vacation	186	\$20.10	\$3,738.60
Comp	60	\$20.10	\$1,206.00
SUBTOTAL TAXABLE			\$14,339.60
FEDERAL TAX		22%	\$3,154.00
State Tax		3.5%	\$501.89
City Tax		1.8%	\$258.11
Net Paid			\$10,425.60

With 457 Deferral

Type	Hours	Rate	Total
Sick (1/2 balance)	450	\$20.10	\$9,045.00
Vacation	186	\$20.10	\$3,738.60
Comp	60	\$20.10	\$1,206.00
SUB TOTAL			\$14,339.60
457 Deferral		85%	\$12,150.00
TAXABLE AMOUNT			\$2,189.60
FEDERAL TAX		22%	\$481.71
State of Ohio		3.5%	\$76.64
City Tax		1.8%	\$258.11
Net Paid			\$1,373.14

Do you have an Ohio Deferred Compensation or a Mission Square (fka ICMA-RC) 457 Plan Account?

- ▶ If you do not, it's not too late to sign up and start an account, if you wish to avoid the tax implications of the lump sum cash out. It can also be used to avoid a huge tax hit when you are ready to cash out your DROP account when you retire.
- ▶ Contact Ohio Deferred Compensation or Mission Square to discuss opening a 457 account.
- ▶ Contact your 457 Plan AT LEAST 30 days in advance of your lump sum payout date to notify them of your deferral amount.

DROP ACCOUNT DISTRIBUTION



Exit DROP – Enter Retirement

- To retire, you must submit the required CRS Retirement Application to your HR Liaison per CRS procedures.
- Attend a Retirement Processing Session, similar to the DROP session, to review and select Health Care options (if applicable).
- If lump sum cash-out of sick/vacation/comp time maximums were not reached entering DROP, a second lump sum will be paid upon exiting DROP. **If you maxed out on your vacation and sick leave balances entering DROP (480 VAC & 1200 SICK), you will NOT be able to cash out any remaining vacation or sick balances at Retirement.**
- Beginning 2 months after Retirement Effective Date, monthly pension benefits are paid directly to you (rather than to your DROP account).

DROP Account Distribution

Your DROP account balance can be paid out as follows:

1. Cash Distribution (Federal Tax 20% withheld on the entire amount); OR
2. Rollover to a Tax Qualified Retirement Account owned by you (such as an IRA or 401K) – no Federal Tax withheld.
3. A combination of these two – partial Cash payment and partial rollover. Federal Tax of 20% withheld on any amount that is NOT rolled over to a Tax Qualified Retirement Account.
4. A 1099R is issued for the entire amount (regardless of whether or not you rollover any portion) of your DROP account distribution for the year in which it is paid out.

DROP Account Distribution


If you rollover any portion of your DROP account balance into your 457 Deferred Compensation account (Ohio 457 or Mission Square Retirement), be advised that because those funds are an accrued benefit (they are not deferred earnings like a regular 457 contribution), they are subject to different rules for distribution under the Internal Revenue Code (Federal Law) than the account balance in your 457 account.

DROP Account Distribution

If you do not provide a completed DROP Distribution Application that will be provided at the time of retirement, a check for the taxable lump sum is mailed to your home address within 120 days of your Retirement Effective Date.

A 1099R is issued for DROP account distributions for the year it is paid.

REQUIRED Docs and Forms

- Your (and Optionee's if applicable) SS card and birth certificate.
 - Marriage License (and/or Divorce Decree if applicable)
 - Option Election Form
 - DROP Disclosure Form
 - Updated Beneficiary Form
 - Lump Sum 457 Plan Deferral Form (*if electing to defer lump sum of balances*)
 - Spousal Waiver of Benefits (*for Married Members electing Single Life option only*)
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Questions? Concerns?

Any questions? Feel free to ask now, or reach out to us at:

513-352-6296

retirement@Cincinnati-oh.gov

Refer to our website at:

www.Cincinnati-oh.gov/retirement

Thank you for joining us today!

