

HANDBOOK

DEFERRED RETIREMENT OPTION PLAN



The intent of this booklet is to provide you with information on the Deferred Retirement Option Plan (“DROP”) program. This document is intended to summarize governing provisions found in the Los Angeles Administrative Code. If there is a difference between this document and the legal text outlined in the City Charter, the Los Angeles Administrative Code, the Internal Revenue Code or other laws, the legal text prevails.

If you have questions concerning the DROP program, please contact Los Angeles Fire and Police Pensions, DROP/Service Pensions Section at (213) 279-3100 or (844) 88-LAFPP.

TABLE OF CONTENTS

WHAT IS DROP?	04	DEATH OF A DROP MEMBER	17
DROP ELIGIBILITY	04	Designation of Beneficiary	17
ENROLLING IN DROP	05	Nonservice-Connected Death	17
Before You Enter...		Service-Connected Death	17
Purchase Prior Service!	05	MISCELLANEOUS PROVISIONS	18
Your DROP Entry Date	05	Amendments to DROP	18
How to Enter	06	Dissolution of Marriage and DROP	18
DROP PARTICIPATION PERIOD	07	Compliance with Applicable Provisions of the Internal Revenue Code	19
Status While in DROP	08	DROP FREQUENTLY ASKED QUESTIONS	21
DROP ACCOUNT	09	Entering DROP	21
Benefit Calculation and Accumulation	09	Your DROP Account	23
Distribution and Basis Recovery	09	DROP Participation	23
Lump Sum Payment	10	Your Status in DROP	23
Rollover	10	Changes in Your Salary or Separation from Service	26
Combination Lump Sum Payment and Rollover	10	Injury, Disability or Death	27
Viewing Your DROP Account	11	Marriage and Domestic Partnerships ..	30
EXITING DROP	12	Exiting DROP	30
Before You Exit... Plan Ahead!	12	Taxes and Social Security	31
Steps to Exit	12	Additional FAQs for Members Entering DROP on or after February 1, 2019	32
DROP AND YOUR HEALTH/DENTAL SUBSIDY BENEFITS	15	APPENDICES	
INJURED OR DISABLED WHILE IN DROP ..	16	Appendix A: Los Angeles Administrative Code, Division 4, Chapter 21 - DROP ...	34
Injury on Duty (IOD)	16	Appendix B: Special Tax Notice Regarding Your Rollover Options Under a Governmental 401(a) Plan	44
Disability Pension	16		

WHAT IS DROP?

The Deferred Retirement Option Plan (“DROP”) is a voluntary program that allows you to have your monthly pension benefit deposited in an interest-bearing account while you continue to work in your current department and receive your salary and benefits as an active employee.

DROP was implemented effective May 1, 2002.

At the end of your DROP period, when you are officially required to terminate sworn employment with the Fire, Police, Harbor, or Airport Department, you will begin to receive your monthly pension payments based upon your years of service (YOS) and salary at the time you entered DROP, and any cost of living adjustments applied to your pension while in DROP. You will also receive your accumulated DROP account balance as either a lump-sum payment, a rollover to a tax-qualified plan, or a combination of these.

Consider the age at which you plan to exit DROP, take distribution of your DROP account and the related tax consequences before making a decision to enroll. Keep

in mind, your decision to participate in DROP is irrevocable. (You have through the day preceding your DROP entry effective date to change your mind after you apply for DROP. Thereafter, you *cannot* exit DROP without terminating employment.)



DROP ELIGIBILITY

You are eligible to enter DROP if you meet the following requirements:

If you are an active member of this tier...	You may enter DROP when...
Tier 2 or Tier 4	You have at least 25 years of service
Tier 3, Tier 5 or Tier 6	You have at least 25 years of service; and are at least age 50

ENROLLING IN DROP

Before You Enter... Purchase Prior Service!

If you decide to purchase any prior service time such as, Lost Service Time (Tier 2), Workers’ Compensation State Rate Time, recruit training time (Tiers 3, 4, 5, and 6) or time under the Public Service Purchase (PSP) Program, the purchase must be completed prior to your enrollment/participation in DROP in order for that time to be counted toward your years of service.

Note: Only whole years of non-PSP service are counted for health subsidy purposes. Please review the *How To: Purchase Military or Public Service* information on our website (lafpp.lacity.gov) for important details on the PSP Program.

Your DROP Entry Date

You must be on active duty status on your DROP entry date. For purposes of this DROP provision, active duty status includes working on light-duty status, but excludes sick, vacation, injured-on-duty, administrative leave and all other types of non-working status. A list of Active and Not Active payroll variation codes for determining DROP entry date eligibility, as defined by the City Administrative Officer, is provided in the following tables:

ACTIVE			
AR – Adjustment in Rate	LD – Light Duty	OS – Overtime	PF – Overtime
DS – Military Leave*	LP – Leave with Pay	OT – Overtime	UB – Union Business
HW – Hours Worked	ML – Military Leave*	PA – Overtime	
HY – Smoothing for HW <i>(System Generated)</i>	MP – Military Leave*	PB – Overtime	

*The military leave codes may appear only as a lump sum for the week or payroll period, rather than on individual days. However, this is acceptable for DROP purposes

NON-ACTIVE		
AW – Absent without Pay	HO – Holiday	SK – Sick Leave
BL – Bereavement Leave	ID – Injury on Duty	SP – Suspension
CU – Catastrophic Time Used	JD – Jury Duty	SS – Sick Leave
DO – Day Off	LW – Leave without Pay	TO – Overtime Off
FH – Floating Holiday	PM – Preventive Medicine	TS – Overtime Off
FI – Family Illness	RP – Relieved from Duty	VC – Vacation

You must have an active duty payroll code on your DROP entry date, as recorded in the City's payroll system. In the event your payroll status on your DROP entry date is defined as Not Active, your DROP entry date will automatically be advanced to the next qualifying entry date. You will be notified in writing of your approved DROP entry date.

How to Enter

Schedule your DROP entry appointment with the Los Angeles Fire and Police Pensions (LAFPP), DROP/Service Pensions Section no more than 60 days but not less than 3 days prior to your intended effective date of participation in DROP. You must submit your application to enroll in DROP by appointment only.

Fire or Police Members:

Contact LAFPP's DROP/Service Pensions Section by calling (213) 279-3100. You will receive counseling services to help you select an entry date, as well as generate your Letter of Intent.

Harbor or Airport Members:

First make an appointment with your employing department's Human Resources Unit by calling (310) 732-3480 (Harbor) or (424) 646-5900 (Airport). At that appointment, a retirement liaison will provide you with a Letter of Intent to enter DROP and other retirement information.

After obtaining your Letter of Intent, and in order to submit your application to enroll, you must schedule a DROP entry appointment with LAFPP's DROP/Service Pensions Section by calling (213) 279-3100. **You may submit an application to enroll in DROP only after obtaining a Letter of Intent from Harbor or Airports Human Resources or Retirement Liaison.**



DROP PARTICIPATION



Status while in DROP

While you are in DROP, you are considered "retired" for pension purposes only. Therefore, you will no longer earn years of service credit and will no longer be eligible for a refund of your member contributions. However, you must continue to make pension contributions until you reach the maximum years of service for your tier.

For all other purposes, you are still considered "active" by your employing Department. Therefore, your rights,

privileges and benefits, including health benefits, will remain the same as they were before you entered DROP.

Participation Period

For members who entered DROP prior to February 1, 2019:

- You may participate in DROP for a maximum of 5 years/60 months.
- The participation period cannot be extended and you must retire from the Fire, Police, Harbor, or Airport Department at its conclusion. Sick time, vacation and overtime cannot be used beyond the end of your DROP participation period.

For members who enter DROP on or after February 1, 2019:

- You may participate in DROP for 5 years/60 months, however, your participation in DROP will be suspended for any calendar month in which you do not spend at least 112 hours on "active duty" status and you will be ineligible for the monthly pension deposit to your DROP account for that calendar month. This includes the first and last months of participation.

EXCEPTION: If you sustain a serious injury on duty and are admitted to the hospital for a minimum of 3 consecutive days as a direct result of that injury, your participation will not be suspended during the first 12 calendar months following the date of injury. Your employing department will determine whether the injury meets the requirements and will record this information on your payroll and timekeeping records accordingly.

- If your DROP participation is suspended, you are eligible to participate in DROP for up to 30 additional months beyond your original 5-year/60-month participation period. Your participation period can only be extended for as many months as your participation was suspended. No interest will accrue or be credited to your DROP account following the initial 5-year/60-month participation period, including any periods of participation suspension.
- A list of payroll variation codes for determining “active duty” status under this provision, as determined by the City Administrative Officer and labor organizations, is provided in the following table.

PAYROLL CODES THAT QUALIFY FOR “ACTIVE DUTY” STATUS FOR MONTHLY DROP PARTICIPATION / DEPOSIT ELIGIBILITY

DS – Differential Pay	KT - Old Overtime Off at Time and One Half (Police)	PM – Preventive Medicine	VF – Platoon Duty Vacation
HO – Holiday Hours	LD – Light Duty	TO – Overtime Taken Off (1.5)	VS – Special Duty Vacation
HW – Actual Hours Worked	LP – Leave with Pay	TS – Overtime Taken Off (Straight)	
JD – Jury Duty	ML – Military Leave Without Pay	UB – Union Business	
KS – Old Overtime Off at Straight Time (Police)	MP – Military Leave With Pay	VC - Vacation	

- At the end of your DROP participation period, you must retire from the Fire, Police, Harbor, or Airport Department. Sick time, vacation and overtime cannot be used beyond the end of your DROP participation period.



DROP ACCOUNT

Benefit Calculation and Accumulation

As a DROP participant, you will have your own DROP account in which your monthly service pension will be credited each month. Your monthly service pension is calculated on the day you enter DROP. This means you stop accruing years of service credit, and any increases or decreases in salary will not affect your service pension. Every month that you participate in DROP, your entire monthly service pension amount will be deposited into your DROP account, along with any cost of living adjustments you are eligible for (maximum of +/-3% while in DROP). In addition, your DROP account will earn interest at 5% per year. Interest earned will be credited to your account semi-annually, on June 30 and December 31.



Distribution and Basis Recovery

At the end of your DROP participation and upon retirement/termination of employment, you will soon begin receiving your monthly service pension based on service and pay at the time of entry into DROP, including any cost of living adjustments that had been credited. You will also receive the accumulation of monthly service pension deposits and interest applied to your DROP account as a lump-sum cash payment, a rollover to a tax-qualified plan, or a combination lump-sum payment and rollover.

All funds in the DROP account are likely to be taxable, in full, upon distribution. However, you may have some “basis recovery” due to the fact that employee pension contributions may have been made on an after-tax basis for the following reasons: pension contributions were collected after-taxes from July 1, 1982 to December 21, 1996; purchases of service credit made by lump sum payment or payroll deduction; and, the voluntary 2% “opt-in” pension contributions to vest future retiree health subsidy increases by some members of Tiers 2-5. “Basis recovery” is the process by which your after-tax employee pension contributions are returned to you, free of taxes, as part of your pension benefits. Based on an Internal Revenue Code provision, you may have the opportunity to accelerate recovery of a portion of your



eligible after-tax pension contributions through payment as a tax-free lump sum distribution.

Lump Sum Payment

If you elect to receive a lump-sum payment of your DROP account balance, the taxable portion will be subject to a mandatory 20% federal tax. However, a portion of any after-

tax pension contributions you made to the Plan may be distributed to you tax-free.

Note for Tier 4 members: In addition to any applicable tax, if you are not age 50 or older in the year in which you exit DROP, you will be assessed an early withdrawal penalty by the IRS and the State of California when you receive your lump-sum payment.

Rollover

You may defer payment of taxes on the taxable portion of your DROP account balance by rolling it over to one qualified account, such as the City’s Deferred Compensation plan or an Individual Retirement Account (IRA). You will then be subject to the rules of such plan when you take distribution of your funds.

Note: If your DROP account balance includes any non-taxable amount, you may elect to receive a partial lump-sum payment of that portion, tax free. Otherwise, if you elect to roll over your entire balance to a single plan/financial institution, the qualified account you designate must accept non-taxable funds – the City’s Deferred Compensation plan does not. If you roll over any non-taxable portion, you must also roll over your entire taxable portion.

Combination Lump Sum Payment & Rollover

You have the option to take a portion of your DROP account balance in a lump-sum payment and roll over the remaining balance to a qualified account.

Should you elect a full or partial lump-sum distribution of the taxable portion of your DROP account balance, LAFPP **must** withhold 20% for federal income taxes, but a 2% California state withholding is optional. Keep in mind that your tax liability for the year could be more. To avoid the mandatory 20% federal withholding, you must elect to rollover the full taxable amount of your DROP account to a tax-qualified plan.

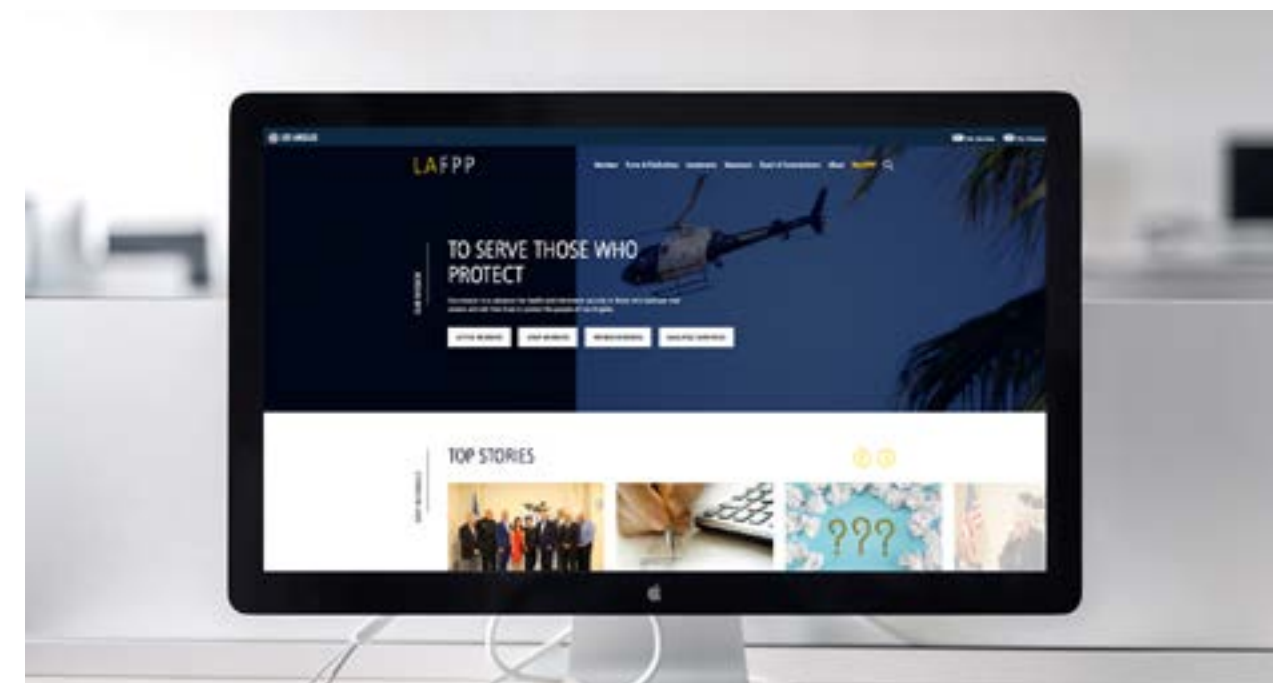
We urge you to consult with your tax and/or financial advisor prior to making your DROP distribution election so that you are aware of any financial consequences that could affect your distribution decision. We cannot advise you regarding your tax liability.

LAFPP must receive completed distribution election forms and documentation requested by DROP/Service Pensions staff no later than 90 calendar days after the DROP exit date. In accordance with the “Special Tax Notice Regarding Your Rollover Options” (Appendix B), if you fail to meet the 90-day deadline, as a default, LAFPP will distribute your DROP account as a lump sum cash payment only, subject to a mandatory 20% federal tax withholding for the entire account balance. Any after-tax contributions will be recoverable solely from your monthly pension payments. **No interest will be applied to your DROP account once you have terminated your participation in DROP.**

Viewing Your DROP Account

As a DROP participant, semi-annual DROP account statements (June 30 and December 31) will be made available to you online through MyLAFPP, your member self-service web portal.

MyLAFPP, which is available from the homepage of our website (<https://lafpp.lacity.gov>), provides access to review your DROP balance, view semi-annual statements, beneficiary information, service purchases and calculate an estimate of the accumulated balance you will receive when you exit DROP.



EXITING DROP

Before You Exit...Plan Ahead!

You are encouraged to plan ahead **before you exit DROP**. There are some important decisions to make, people to contact and important paperwork to have on hand. You should give considerable thought to how you want your DROP account distributed **and** any applicable tax consequences and fees. You may also want to contact your health plan administrator about your retirement health and dental plan options and any special enrollment requirements at least one year prior to exiting DROP.

Steps to Exit

Reviewing the following steps in advance will help simplify your transition into retirement:

- Schedule an appointment with your Department’s retirement/human resources liaison** at least 90 days prior to your desired DROP exit date. Your liaison will provide you with an **Exit Letter of Intent**.

Fire Personnel (213) 978-3750	Harbor Personnel (310) 732-3486
Police Personnel (213) 486-6610	Airport Personnel (424) 646-5900

- Schedule an “Exit Consultation” with the LAFPP DROP/Service Pensions Section** at least 45 days prior to your desired DROP exit date by calling (213) 279-3100. Once your appointment is scheduled, you will be emailed a DROP Exit Package. This package includes:
 - Special Tax Notice Regarding Your Rollover Options Under a Governmental 401(a) Plan – See Appendix B
 - DROP Distribution Summary
 - DROP Distribution Election Request
 - DROP Distribution Election and Rollover Form for the Taxable Portion (Not Yet Taxed) of the DROP Funds
 - Financial Institution Rollover Information for Taxable Portion of DROP Funds
 - DROP Distribution Election and Rollover Form for the Non-Taxable Portion (Basis Recovery) of the DROP Funds
 - Financial Institution Rollover Information for Non-Taxable Portion of DROP Funds
 - LAFPP Direct Deposit Authorization for Deferred Retirement Option Plan (DROP)

- Service Pension Information for Members Exiting DROP (See FAQ’s – page 30)
- Direct Deposit Information
- Direct Deposit Form
- Federal and California State Tax Withholding Information
- Income Tax Withholding Form



3. Prepare for your Exit Consultation

- Decide how you wish to receive your DROP account balance. We encourage you to consult with your tax and/or financial advisor, so you are aware of any tax or financial consequences that could affect your distribution decision.
- Prepare to receive your monthly pension plan payments by completing the Income Tax Withholding Form and Direct Deposit Form.
- Be prepared to submit proof of the termination of any prior marriages or State-Registered domestic partnerships, if not submitted when you entered DROP.
- Bring your California Driver’s License or Department Picture ID.

Note: For members who entered DROP prior to February 1, 2019, DROP distribution election documents must be submitted to the LAFPP DROP/Service Pensions Section no later than the first business day of the month of your DROP exit date in order to receive payment the last business day of your exit month.

For members who enter DROP on or after February 1, 2019, your DROP account cannot be distributed until after LAFPP has reviewed your last active payroll period in the City’s payroll system and confirmed your active duty status for that final month. Depending upon your DROP exit date, this may delay the distribution of your DROP account for a minimum of one month after your exit date.

4. Meet with a LAFPP DROP/Service Pensions Counselor to review, submit and receive the following checklist items:

- Submit your Exit Letter of Intent (LOI)
- Submit your DROP Distribution Election Request
- Submit completed Distribution Election and Rollover Forms (Taxable and Non-Taxable Portions of the DROP Funds)

- Submit Financial Institution Rollover Information (Taxable and Non-Taxable Portions of the DROP Funds)
- Submit completed LAFPP Direct Deposit Authorization For Deferred Retirement Option Plan (DROP)
- Submit completed Direct Deposit Form for your monthly pension payments
- Submit completed Income Tax Withholding Form
- Receive an estimate of your DROP balance at exit and monthly service pension benefit, including any community property division(s)
- Review pension roll deadlines

In addition, an LAFPP Medical and Dental Benefits Counselor will meet with you to discuss:

- Health plans available to retirees
- Health Subsidy – Medicare and Non-Medicare
- Dental Subsidy
- Health Insurance Premium Reimbursement Program

5. Take Distribution of Your DROP Account – Your DROP account distribution will be mailed to you, directly deposited to your bank account and/or rolled over to an IRA or tax-qualified plan of your choice on the last business day of the month (see the Note on item #3 above regarding the timing of distributions).

Note: Late submission and/or changes to your DROP exit date will delay distribution of your DROP account. DROP balances do not accrue interest once you have exited DROP.



DROP AND YOUR HEALTH/DENTAL SUBSIDY BENEFITS

While participating in DROP, your health and dental benefits are administered the same as they were before you entered DROP. Once you exit DROP and terminate employment, your health and dental premiums become your responsibility. However, to minimize your out-of-pocket expense, you may be eligible to receive a health and/or dental subsidy benefit if you are at least age 55 at the time of your DROP exit.

Los Angeles Fire and Police Pensions administers the health and dental subsidy benefits. For information on subsidy eligibility requirements, please contact the Medical and Dental Benefits Section at (213) 279-3115. Please note, in order to receive a health or dental insurance subsidy, you must be enrolled in an LAFPP Board-approved plan (i.e., a plan offered by LAFRA, LAPRA, UFLAC and/or LAPPL) or participate in the Health Insurance Premium Reimbursement Program.

INJURED OR DISABLED WHILE IN DROP

Injury on Duty

If you are injured on duty (IOD) while in DROP and you remain on IOD status at the conclusion of your DROP period, you must exit DROP at that time. However, you are permitted to continue on IOD status with your employing Department, but you will not be eligible to receive distribution of your DROP account until your retirement status is determined. **Keep in mind that interest will not be applied to your DROP account once you have exited the program.**

If you subsequently decide to take a disability retirement, you are required to forfeit your DROP account. However, if you elect to take a service retirement and distribution of your DROP account, you will be required to repay any IOD pay earned after the last day of your participation in DROP.

Additional IOD provisions for participants who enter on or after February 1, 2019:

While in DROP, if you should incur a serious injury on duty and are admitted to the hospital for a minimum of three (3) consecutive days or longer as a direct result of that injury, your participation will not be suspended during the first twelve (12) calendar months following the date of injury and you will continue to receive your DROP monthly deposit. Upon conclusion of the twelfth month following the date of injury you must spend at least 112 hours on active duty status in order to receive the DROP monthly deposit.

Your participation in DROP will be suspended for any calendar month in which you do not spend at least 112 hours on active duty status. You will be eligible to participate in DROP for a maximum of thirty (30) additional months beyond your original 60-month participation period. Your participation can only be extended for as many months as your participation is suspended. **No interest will accrue nor be credited to your DROP Account after completion of the sixtieth (60) month following your DROP entry date.**

Disability Pension

If you apply for and receive a disability pension while participating in DROP, your length of service and pay adjustments, etc., are restored and brought current as if you never entered DROP. However, you **must** forfeit your entire DROP account should you receive the disability pension. **Once you have taken distribution of your DROP account, you are no longer eligible to apply for or receive a disability pension.**

DEATH OF A DROP MEMBER

Designation of Beneficiary

We encourage you to name a beneficiary for your DROP account should you die prior to actual retirement and not leave a surviving spouse/domestic partner. If you do not designate a beneficiary and you are married, your spouse will automatically be the beneficiary. If you are not married and do not designate a beneficiary, your DROP account shall be distributed as a lump-sum to your estate.

Nonservice-Connected Death

Should you die of nonservice-connected causes, the normal post-retirement survivor pension benefits provided by your tier will be paid to your qualified survivor(s), in addition to the proceeds of your DROP account.

Service-Connected Death

If your death is determined to be service-connected, in lieu of the survivor benefits described above, your Qualified Surviving Spouse/Domestic Partner may choose to forfeit your DROP account and collect a "Service-Connected" survivor pension based on your salary and years of service as if you never entered DROP.



MISCELLANEOUS PROVISIONS

Amendments to DROP

Per the Los Angeles Administrative Code, the City must conduct an actuarial study at least every five years to determine whether DROP is maintaining cost neutrality and/or meeting the City's goals of retaining sworn personnel. However, any changes to the provisions of DROP after you have entered will not apply to you. Your agreement to enter DROP will be subject to the provisions in effect on the day you entered.

Dissolution of Marriage and DROP

Some or all of your DROP account and/or subsequent monthly pension benefit may be subject to division of community property pursuant to your dissolution judgment or order. This means your former spouse may have a claim to a portion of your DROP account and may be entitled to a share at the time the proceeds from your DROP account are distributed. You may wish to check with your attorney regarding this issue. **Your DROP account will not be distributed until your dissolution(s) is(are) on file with LAFPP.**

Recent court orders are more likely to address the community property division of a member's service pension entitlement and his/her DROP account. While most orders issued in the past only address the division of the member's service pension entitlement, the Public Pensions General Counsel Division of the City Attorney's Office has advised Los Angeles Fire and Police Pensions that such a division would likewise apply to the member's DROP account (since the funds contained in the DROP account consist of the member's service pension entitlement). However, the City Attorney will need to review the language in *your* court order.

You are encouraged to submit a copy of your court order (signed by the attending judge) to us before you decide to enter DROP or, if issued while in DROP, upon receipt. The City Attorney's Office will review the order and prepare a memorandum for us, indicating how your DROP account should be divided.

If you are currently paying your former spouse his/her share of your pension from your paycheck while you continue to work ("Gillmore order"), the DROP account may well be your separate property. However, a copy of the order should still be submitted to us so that the City Attorney can review it and make the final determination. Also, if you believe you were

awarded all the interest in your pension and thus should get all of your DROP account, the order will still need to be reviewed.

Some members who are paying spousal support to a former spouse believe that this payment exempts their DROP account from community property division. Again, this will depend upon the wording of the order, which must be reviewed by the City Attorney. If you will be returning to court to look at this issue, we recommend that you have any proposed order reviewed by the City Attorney's Office prior to entry.

If you are going through dissolution of marriage now – or should you go through one in the future – it is recommended that the order specifically address who receives the DROP account or how it is to be divided. Sample provisions provided by the Public Pensions General

Counsel Division of the City Attorney's Office make reference to the DROP account.

If for any reason the City Attorney's Office advises that your court order is not sufficiently clear to determine how your DROP account is to be divided, you may have to go back to court.

The Public Pensions General Counsel Division of the City Attorney's Office can be contacted at (213) 978-6800 should your attorney have any questions.



Compliance with Applicable Provisions of the Internal Revenue Code

DROP must comply with the requirements of the Internal Revenue Code. As such, the guidelines for DROP balance rollovers and applicable tax deferrals that are detailed in this handbook meet the provisions of the Code. In addition, Section 415 of the Code limits the amount of benefits a defined benefit plan, such as LAFPP, can pay its members. The limit for each individual is determined by the limit established by the IRS and in effect during the calendar year in which he/she retires. In the case of DROP members, the determination is based on the year in which the member enters DROP. This annual benefit limit may be adjusted by the IRS annually for cost of living adjustments.

Not all LAFPP DROP participants, retirees or survivors are affected by the Section 415 limit. However, determination of whether your pension benefit will be subject to this limit can only be made when you get ready to exit DROP. If it is determined that your pension benefit is limited under Section 415, **you are still entitled to and will receive your full benefit if you are a member of Tiers 2, 3, 4 or 5.** However, your monthly pension benefit will be distributed to you in two separate payments. The portion of your monthly pension benefit that exceeds the Section 415 limit will be issued in a separate payment through the City's Excess Benefit Plan. (Tier 6 members are not covered by the City's Excess Benefit Plan. Los Angeles City Charter Section 1720 restricts benefits payable to Tier 6 members to the Internal Revenue Code Section 415 limitations.)

DROP FREQUENTLY ASKED QUESTIONS

This information is designed to provide a quick reference tool for information about DROP and is intended to assist you in making the decision whether or not to participate in the program. It should be used as a supplemental document and not a replacement for the provisions outlined in the Los Angeles Administrative Code (LAAC). Should any discrepancy between this information and the LAAC arise, the provisions in the LAAC shall prevail.

ENTERING DROP

1. Why do I have to sign the various releases, waivers and covenants that are contained in the DROP election application? What happens if I refuse to sign them?

The various releases, waivers and covenants are designed to protect you, LAFPP and the City. We have done our best to disclose to you all of the advantages, as well as disadvantages, of DROP. You must sign all required forms in order to participate in DROP.

2. Can the provisions of DROP be changed?

Yes, but if you are already in DROP, you will not be affected by any changes to the DROP ordinance.

3. What is the effective date of my DROP participation?

The same date you elect to make your service pension effective. You must be on active duty status on your DROP entry date.

4. What constitutes "active duty status" for purposes of entering DROP?


For purposes of entering DROP, active duty status includes light-duty status, but excludes sick, vacation, injured on duty, administrative leave and all other types of non-working status. (See charts on page 5 for more information.) If you are on a non-working status, your intended effective date of DROP participation will be adjusted to reflect the date you return to active duty/working status. The City Administrative Officer has determined which payroll codes constitute active duty status for purposes of this provision.

5. What if I want to revoke my DROP election?

To revoke your entry into DROP, you must **submit a DROP Revocation Notice no later than the day prior to your DROP entry effective date**: The Notice may be submitted in-person, during regular business hours, at 701 E. 3rd Street, Suite 200, Los Angeles, CA 90013, **by fax** directed to (213) 628-7716, or **by email** sent to dropsp@lafpp.com. It must be received before the close of business at 4:30 p.m., or if faxed or emailed, by 11:59 p.m. The effective date of revocation is established only upon receipt of the Notice prior to the DROP entry effective date and upon signature thereupon by LAFPP administrative staff. If you do not revoke your election before your DROP entry effective date, your decision to enter DROP and to terminate sworn employment at the end of the DROP period will be **irrevocable**. Consult with outside advisors (e.g., your own attorney, accountant, tax advisor or other professional) prior to making your decision to enter DROP.

6. When do I choose a beneficiary for my DROP account?

We encourage you to designate your beneficiaries for your DROP account when you enter DROP. You may change your beneficiary designation at any time prior to exiting DROP. As your marital status or family circumstances change, it is advisable that you review your designations to ensure that the person(s) named as your DROP beneficiary(ies) is/are the person(s) you want named. Overlooking this matter may have very serious and undesirable consequences.

 **Note:** Your choice of a beneficiary cannot defeat any community property interest awarded to a former spouse in a dissolution.

7. Can I receive a refund of my pension contributions?

No. Once you have enrolled in DROP, you are no longer eligible for a refund of pension contributions.

YOUR DROP ACCOUNT

8. How much interest will my DROP account earn?

Interest is earned at an annual percentage rate of 5% and your account will be credited with interest earned semi-annually, on June 30 and December 31. No interest shall accrue after you terminate DROP participation.

9. Will I be able to take a loan from my DROP account?

No. The provisions of DROP do not allow you to take a loan from your DROP account.

10. Can I get an estimate of how much money my DROP account will accumulate?

Visit our website at <https://lafpp.lacity.gov> and access MyLAFPP, our Internet-based member information portal. Click on the “Log In” button in the MyLAFPP box. Once you are logged into MyLAFPP, you can calculate an estimate of how much money will accumulate in your DROP account.

11. When can I see information on the balance in my DROP account?

Semi-annual DROP statements are available on our website the first week of January and July in MyLAFPP. Additionally, you can log in to MyLAFPP to view your balance at any time.

DROP PARTICIPATION

YOUR STATUS IN DROP

12. Will I receive any service credit for retirement benefit calculation purposes for the time I am in DROP?

No. Service credit is determined as of the time you enter DROP and no additional credit will be given for any time while you are in DROP. Any prior service time such as Lost Service Time (Tier 2), Workers’ Compensation State Rate Time, recruit training time (Tiers 3, 4, 5 and 6) or time under the Public Service Purchase (PSP) Program, must be purchased prior to enrollment in DROP in order for that time to be counted toward your

years of service credit. Also, you may want to consider working to the end of the payroll period immediately prior to your date of retirement/DROP entry date if you wish to receive credit toward your years of service for that pay period.

13. Will I pay contributions into the retirement system while I’m in DROP?

Yes. To maintain the requirement in the LAAC that DROP be cost neutral, both your contributions and the City’s contributions will continue while you are in DROP. Your contributions will continue at the rate and for the length of time specified for your tier, as shown in the chart below. Additionally, members of Tiers 2 - 5 who elected to pay the 2% “opt-in” contributions will continue to make these contributions until they have done so for 25 years. All member contributions go into the LAFPP Service Pension Fund and are not applied to your DROP account.

If you are in this tier ...	Your pension contribution percentage is ...	Your contributions stop after you complete ...
Tier 2	7%	30 years of service
Tier 3 or Tier 4	8%	30 years of service
Tier 5	8% or 9%*	33 years of service
Tier 6	9% plus 2%**	33 years of service 25 years of service

* Members will contribute 8% and the City will contribute 1% if the Pension Plan is at least 100% actuarially funded for pension benefits. If the Plan’s funding for pension benefits is below 100%, Tier 5 members will contribute 9%.

** Additional contributions to support funding of retiree health benefits.

14. While I’m in DROP, will my pension contributions cease when I reach the maximum years of service (YOS) for my tier?

Yes. Although you no longer earn YOS credit as a DROP participant, YOS does count toward the maximum number of years in which you must make pension contributions. For example, a Tier 3 member entering DROP upon completing 28 YOS would cease making contributions after two years of participation in DROP.

15. What happens to my sick, vacation and overtime accruals when I enter DROP?

While you are in DROP, you are still considered an active employee for purposes of sick, vacation and overtime accrual. Your operating Department will make payouts of unused sick, vacation and overtime when you terminate employment with the City. Sick, vacation and overtime cannot be used beyond the end of your DROP participation period.

16. Will I receive cost of living adjustments to my pension payments?

Yes. Cost of living adjustments (COLAs) for your tier will be applied to your monthly service pension while you are in DROP; however, the amount of the COLA is capped at +/- 3% for all tiers, as shown below. Note that in the event of a negative COLA, your pension will never be adjusted to less than your original pension amount.

If you are in this tier ... Your maximum COLA percentage while you are in DROP is...

Tier 2*, Tier 3 or Tier 4	+/-3%
Tier 5 or Tier 6	+/-3% with a COLA bank**

* COLA is uncapped for retired Tier 2 members after they officially retire (no longer participate in DROP).

** Any increase in the local Consumer Price Index (CPI) above 3% is put in the “COLA bank”. The COLA bank is drawn from in future years, whenever the CPI does not reach at least 3%. In such years, some or all of the COLA bank balance is drawn upon to increase the COLA up to the maximum of 3%.

17. Can I participate in both DROP and the City’s Deferred Compensation program?

Yes. As long as you are an active employee receiving a salary you may contribute to Deferred Compensation, a retirement savings program administered by the City’s Personnel Department. Deferred Compensation is a deduction taken from your active salary while your DROP account is a retirement benefit administered by LAFPP.



CHANGES IN YOUR SALARY OR SEPARATION FROM SERVICE

18. What happens if I am promoted while in DROP?

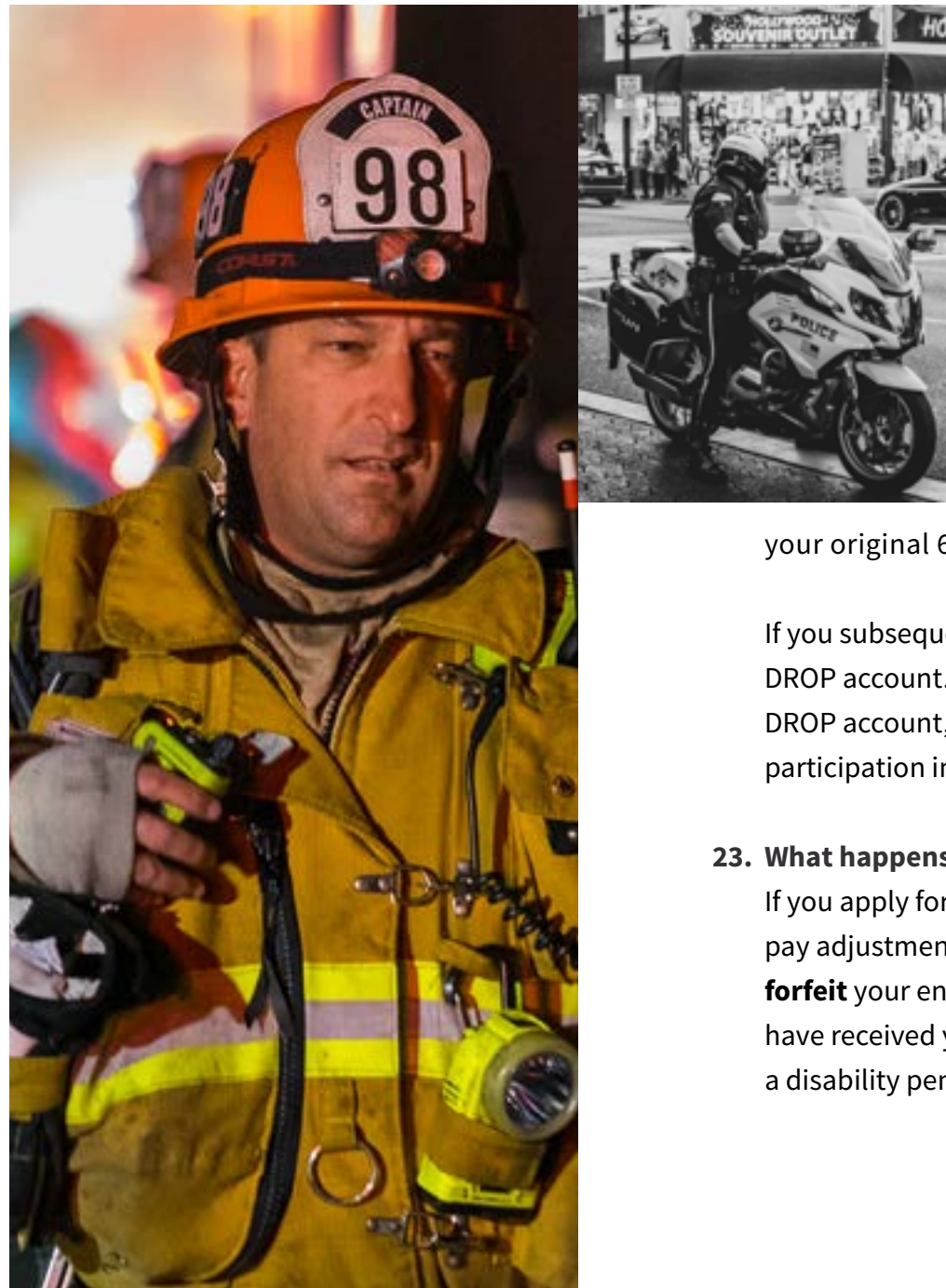
The amount of your retirement benefit, both the amount credited to your DROP account and the amount you will eventually receive as a monthly pension when you terminate employment and retire, are frozen at the time of entry. Therefore, your DROP account and pension will not reflect the additional pay from your promotion. If you think a promotion may be forthcoming, you may want to consider delaying your entry into DROP. You may wish to also consider that your monthly pension entitlement, if in Tiers 3, 4 or 5, is based upon the calculation of a 12-month Final Average Salary, and if in Tier 6, upon a 24-month Final Average Salary.

19. What happens if I am demoted while in DROP?

The amount of your retirement benefit, both the amount credited to your DROP account and the amount you eventually receive as a monthly retirement allowance, will not be affected by any reduction in your salary that accompanies the demotion.

20. What happens if I am terminated while in DROP?

Being fired automatically terminates your participation in DROP. At your request, distribution of your DROP account will be withheld while the appeal of your discharge is pending. Should you be reinstated, you may continue to participate in DROP if the account has been withheld, and the original period of DROP participation will continue but cannot exceed the original 5-year/60-month limit (plus any additional months where your DROP participation was suspended, applicable to members who enter DROP on or after February 1, 2019 – up to 30 additional months). If the DROP funds have been distributed, you cannot return to sworn employment or continue in DROP even if your termination is overturned.



21. What happens if I resign while in DROP?

Resigning from sworn employment with the City will automatically terminate your participation in DROP and you will be deemed to have retired. You will begin receiving your monthly retirement benefit and will have to decide how you wish to have your DROP account distributed. (See Question 29 for more information.)

INJURY, DISABILITY OR DEATH

22. What if I am on injured on duty (IOD) status while in DROP?

In the event you are injured on duty any time during your DROP participation period and you happen to remain on IOD status on your mandatory DROP exit date, you must still exit the program, unless you entered DROP on or after February 1, 2019. You are allowed

to continue on IOD status with your Department. If you continue on IOD status after exiting DROP, you will not become eligible to receive distribution of your DROP account until your retirement status is determined. **Once you have exited the program, interest will stop accruing to your DROP account.**

If you entered DROP on or after February 1, 2019, and your DROP participation was suspended due to an on-duty injury (or you otherwise did not meet the 112-hour minimum for active duty status in one or more calendar months), you will be eligible to participate in DROP for as many months as your participation is suspended for a maximum of thirty (30) additional months beyond your original 60-month participation period.

If you subsequently decide to take a disability retirement, you are required to **forfeit** your DROP account. However, if you elect to take a service retirement and distribution of your DROP account, you will be required to repay any IOD pay earned after the last day of your participation in DROP.

23. What happens if I join DROP and then become disabled?

If you apply for and receive a disability pension, your years of service credit and active pay adjustments, etc., are restored as if you never entered DROP. However, you must **forfeit** your entire DROP account should you receive the disability pension. Once you have received your DROP account funds, you are no longer eligible to apply for or receive a disability pension.

24. What happens if I die while in the DROP Program?

Nonservice-Connected Death: Should you die of nonservice-connected causes, the normal post-retirement survivor pension benefits provided by your tier will be paid to your qualified survivor(s), in addition to the proceeds of your DROP account.

Service-Connected Death: If your death is service-connected, in lieu of the survivor benefits described for a nonservice-connected death, your Qualified Surviving Spouse/Domestic Partner may choose to forfeit your DROP account and collect a “Service-Connected” survivor pension based on your salary and years of service as if you never entered DROP.

Please note: If you were not married or did not file a Declaration of Domestic Partnership with LAFPP one year prior to entering DROP, your surviving spouse/domestic partner would not be considered a “qualified survivor”. However, if your death is deemed service-connected by the LAFPP Board, your surviving spouse/domestic partner could become “qualified” by electing to forfeit your DROP account and collect a “Service-Connected” survivor pension based on your salary and years of service. *(In order to qualify for a survivor pension in the event you die in the line-of-duty, your spouse must be married to you or your domestic partner must be declared with the Plan as of the date of your service-connected death.)*

MARRIAGE AND DOMESTIC PARTNERSHIPS

25. What happens if I marry while I’m in DROP?

Your marriage will be deemed to be a marriage occurring post-retirement, and your spouse will not be eligible for survivor benefits. To qualify your surviving spouse for pension benefits, you must be married to him/her at least **one year prior** to entering DROP.

If you have a domestic partner and would like for him/her to qualify for pension benefits, you must file a confidential affidavit with LAFPP or register your partnership with the State of California at least **one year prior** to entering DROP. Please note that there are special requirements to register a domestic partnership with the State of California. Further information may be obtained from any county clerk or at the Office of the Secretary of State.

26. Will my post retirement spouse/domestic partner be entitled to any survivor benefits?

Under the Survivor Benefit Purchase Program, a Retired Plan Member may elect to provide a survivor benefit to a spouse or domestic partner by reducing his/her monthly pension benefit. The continuance percentage choices range from 30% to 100% in 5% increments. The benefits do not vest until one year from the date of the member’s election, and the election is irrevocable. **Since DROP members are Active employees, you cannot elect this program until you are retired and have exited DROP.** For more information regarding this program, please call the Retirement Services Section at (213) 279-3125 or visit our website, <https://lafpp.lacity.gov>.



27. What happens if my marriage is dissolved prior to or while I’m in DROP?

Some or all of your DROP account may be community property depending on your dissolution judgment or order. Your former spouse may have a claim to a portion of the DROP account and may be entitled to a share when you exit DROP and the DROP account is distributed. Whether this applies in your case depends on the court orders and judgment. You may wish to check with your own lawyer regarding this issue.

Note: Until you actually terminate sworn employment with the City of Los Angeles and become eligible to receive a monthly pension benefit, no monies shall be paid from your DROP account. There are no provisions within the Fire and Police Pension Plan to permit payment of any retirement benefit until you terminate sworn City employment.

EXITING DROP

28. When I terminate participation in DROP, do I have to retire at that time?

Yes. DROP requires that when you terminate participation in the program, you also terminate sworn City employment. You must schedule an appointment with your Department's retirement/human resources liaison to start the service pension process:

Fire	(213) 978-3750	Port Police	(310) 732-3486
Police	(213) 486-6610	Airport	(424) 646-5900

You must also schedule an "Exit Consultation" with the DROP/Service Pensions Section by calling (213) 279-3100. At your consultation you will submit completed distribution election forms, direct deposit and tax forms, in order to receive distribution of your DROP account and your monthly service retirement allowance. It is suggested that you schedule your exit consultation at least 45 days prior to your intended exit date to ensure adequate time for processing your account.

29. What are my distribution options when I exit DROP?

At the time you leave DROP, you must choose between (1) a lump sum cash payment of your DROP account balance, (2) a rollover of the balance in your DROP account to an IRA or other tax-qualified retirement plan, or (3) a combination of a partial rollover to an IRA or tax-qualified retirement plan and a lump sum cash distribution of the balance. When you are approaching the end of your DROP participation period, you will need to contact LAFPP for further information and to select your distribution option. There may be significant income tax ramifications to your election, so you may wish to contact your personal financial or tax advisor.

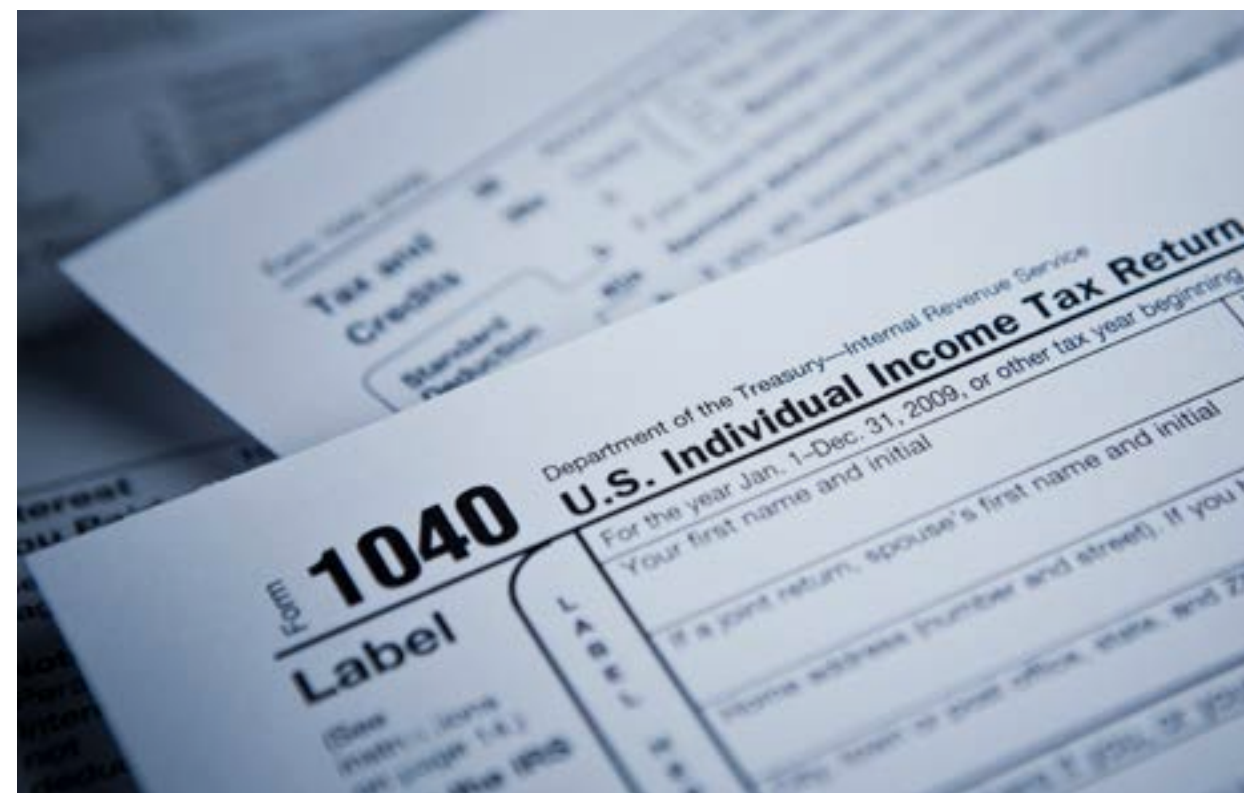
30. Will my Health and Dental benefits be affected when I exit DROP?

Retiree health and dental subsidy benefits are maximized with 25 years of service. Since you must have 25 years of service to enter DROP, you will not be affected. However, you must be **at least 55 years of age at the time you exit DROP** and be enrolled in an LAFPP Board-approved health and/or dental plan in order to receive a subsidy. Please contact our Medical and Dental Benefits Section at (213) 279-3115 for more information regarding health and dental subsidies.

TAXES AND SOCIAL SECURITY

31. Are there any income tax consequences to my entering DROP?

Yes. The distribution of your DROP account is subject to federal and state tax laws in effect at the time you receive your distribution. You may defer income taxes by rolling over 100 percent of your taxable DROP account proceeds into a tax-qualified plan or to an IRA. We encourage you to consult with your personal tax advisor both before you enter DROP and before you exit DROP.



32. What is the Windfall Elimination Provision?

If you are eligible to receive a Social Security benefit, it may be reduced by your service pension benefit due to the Windfall Elimination Provision. The amount of the reduction depends on your earnings and number of years in jobs in which you paid Social Security taxes, and the year you are age 62 or become disabled. Please contact the Social Security Administration at (800) 772-1213 or visit their Web site at www.ssa.gov if you have questions.

ADDITIONAL FAQs FOR MEMBERS ENTERING DROP ON OR AFTER FEBRUARY 1, 2019

33. Is the 112-hours of active duty status counted in calendar or work hours?

Work hours.

34. What time counts as “active duty status”?

You can use actual hours worked (HW), vacation (VC), preventive medicine (PM) and overtime taken off (TO) as part of the 112 hours. A complete list of payroll codes that qualify for “active duty status” is shown on page 8.

35. What time does not count as “active duty status”?

Sick time (SK), family illness (FI) and Injury on Duty/Workers’ Comp time will not count toward your 112 hours on active duty status. There is an exception, however, if you are hospitalized for 3 or more days as a direct result of an on-duty injury.

36. Does overtime count toward my “active duty status” hours?

You cannot use overtime toward your active duty status hours, but if you bank your hours and take them as TO, those hours will count.

37. If I don’t meet the monthly 112-hour active duty status requirement, will I be immediately terminated from the DROP Program?

No. A participant can work up to the full 5 years of DROP. Within the 5 years, any month with less than 112 active duty status hours is not eligible for DROP pension accrual (i.e., your participation is suspended for that month). The months ineligible for pension accrual can be made up at the end of the 5-year original DROP period, for up to a maximum of 30 additional months beyond the original participation period.



38. Where does my money go if I fail to meet the 112-hour active duty requirement?

While it is common to refer to DROP credit being earned in the form of a payment or check, it is not, in fact, a payment or a check. While in DROP, you get credit in your individual DROP account once you have earned the credit; but the actual money stays in the LAFPP trust fund. If you fail to meet the 112-hour requirement during a calendar month, your DROP account will not receive pension credit for that month. However, the funds remain in the LAFPP trust fund.

39. Will the months I make up be subject to the 5% interest?

No. The 5% interest is only for the first five years in DROP. Any extension beyond the original five-year DROP period would not earn the 5% interest. Extensions beyond the five-year DROP period would receive cost of living adjustments to your pension.

40. Will my DROP account from the initial 5-year period continue to accrue interest while I’m making up any months?

No. Your DROP balance from the initial 5-year period will be frozen and not collect interest during your extended make-up time.

41. What if I enter DROP in the middle of the month or exit DROP in the middle of the month?

You must be on “active duty status” for a minimum of 112 hours in a calendar month to be credited with a DROP deposit for that month, regardless if it is at the beginning or end of your DROP participation period.

42. Will the timing of DROP payouts be impacted by these new provisions?

Yes, under the new DROP provisions LAFPP must confirm with the City’s payroll system that you met the 112-hour active duty status threshold in your final pay period. Depending upon your DROP exit date, this may delay the payout of your DROP lump sum for a minimum of 1 month beyond your exit date.

43. Will I earn interest on my DROP balance while the final pay period is being verified?

No. The terms for crediting interest remain unchanged. No interest accrues after a member’s DROP exit effective date.

APPENDIX A

**Los Angeles Administrative Code
Division 4, Chapter 21
Deferred Retirement Option Plan**

CHAPTER 21

DEFERRED RETIREMENT OPTION PLAN

Section

- 4.2100 Purpose and Duration.
- 4.2101 Eligibility, Duration of DROP Participation, and Waiver.
- 4.2102 DROP Benefits and Accounts.
- 4.2103 Additional DROP Provisions.
- 4.2104 Designation of Beneficiary.
- 4.2105 Termination of DROP Participation.
- 4.2106 Payment of Benefits.
- 4.2107 Compliance with Applicable Provisions of the Internal Revenue Code.
- 4.2108 Employment Status During DROP Participation.
- 4.2109 Authority of the Board.
- 4.2110 Suspension of Participation.

Sec. 4.2100. Purpose and Duration.

(a) Pursuant to Charter Section 1218, a deferred retirement option plan (DROP) is created and offered to members of the Fire and Police Pension Plan on a voluntary basis. DROP is an alternative method of benefit accrual in the Retirement System as set forth in this chapter.

(b) DROP is created to add flexibility to the Fire and Police Pension Plan. It provides members who elect to participate in the program access to a lump sum benefit in addition to their normal monthly retirement allowance at their actual retirement, which occurs when employment as a sworn member with the City is terminated. DROP is intended to be cost neutral regarding plan funding.

(c) The City reserves the right to suspend the right of members to enter the DROP program and to modify the program for future entrants as necessary to maintain cost neutrality and/or to meet the City's DROP goals of retaining and lengthening the careers of sworn personnel with the Police Department, Fire Department, Harbor Department, and Department of Airports. Any amendments to DROP enacted in accordance with this subsection will only affect those persons who enter DROP after the date the changes become effective.

The City has the right to complete an actuarial study of DROP in order to evaluate whether DROP continues to be cost neutral and to review DROP to determine whether DROP is meeting the City's DROP goals. An actuarial study and review of the City's DROP goals shall be completed by the City at least every five (5) years or more often. If the City determines changes to DROP are needed based on this review, the appropriate labor organizations shall meet and confer with the City immediately upon demand. Once the City and the labor organizations reach agreement, DROP shall forthwith be amended in accord with that agreement unless no changes to DROP are required.

If the City and the labor organizations do not agree upon changes to DROP within one hundred eighty (180) days of the date of the City's demand, then the City Administrative Officer shall so notify the Fire and Police Pension Plan in writing. However, if the City and the involved labor organizations mutually agree to extend negotiations for an additional period of time, not to exceed one hundred eighty (180) days, then the City Administrative Officer shall not provide this notice to the Fire and Police Pension Plan until the additional time has expired without the parties reaching agreement. Upon receipt of this written notice from the City Administrative Officer, the Fire and Police Pension Plan shall no longer allow members to enter DROP until the effective date of an ordinance enacted by the City Council amending DROP to allow new members to enter DROP while maintaining cost neutrality and otherwise meeting the City's DROP goals or until the City Administrative Officer notifies the Fire and Police Pension Plan in writing that the City has determined that no modifications to DROP are necessary at that time.

SECTION HISTORY

Chapter and Section Added by Ord. No. 174,540, Eff. 5-8-02.

Amended by: Subsec. (d) added, Ord. No. 177,900, Eff. 9-28-06; Subsec. (d), Ord. No. 179,750, Eff. 3-25-08; Subsec. (c) amended and Subsec. (d) deleted, Ord. No. 180,322, Eff. 11-7-08; Subsec. (c), Ord. No. 184,853, Eff. 4-6-17; Subsec. (c), Ord. No. 185,935, Eff. 1-23-19.

Sec. 4.2101. Eligibility, Duration of DROP Participation, and Waiver.

(a) All members of the Fire and Police Pension Plan, including the Chief of Police, Chief Engineer of the Fire Department and Port Warden if they are members of the Plan, are eligible to enter DROP no later than April 30, 2007, if they meet all other requirements. As of May 1, 2007, all members of the Fire and Police Pension Plan, except for the Chief of Police and the Chief Engineer of the Fire Department, are eligible to enter DROP if they meet all other requirements.

(b) In order to enter DROP, members must be eligible for an unreduced retirement in one of the pension tiers and meet the following minimum criteria:

Tier 2: 25 years of service

Tier 3: 25 years of service and age 50

Tier 4: 25 years of service

Tier 5: 25 years of service and age 50

Tier 6: 25 years of service and age 50

(c) Effective November 1, 2008, a member must also be on active duty status on the DROP entry date. For purposes of this provision active duty status shall include members working on light-duty status, but exclude members on sick, vacation, injured-on-duty, administrative leave, and all other types of non-working status. The City Administrative Officer shall have the authority to determine which payroll codes constitute active duty status for purposes of this provision and shall notify the Board accordingly.

(d) Any member who enters DROP on or after February 1, 2019, is subject to the suspension of participation provisions of Section 4.2110 of this Chapter.

(e) Any member who elects to participate in DROP shall voluntarily and irrevocably:

(1) Determine a beginning date upon which to enter DROP, consistent with the rules set forth by the Board of Fire and Police Pension Commissioners ("Board") and agree to terminate employment as a sworn member with the City of Los Angeles on the last day of their participation in DROP. The beginning date for DROP participation may not be backdated. Members may participate in DROP for a maximum of five (5) years, or sixty (60) months, regardless of when they enter DROP. In no event shall a member be permitted to participate in DROP more than sixty (60) consecutive months after the DROP entry date, unless the member is eligible to extend the participation period as provided in Section 4.2110(d).

(2) Cease, from and after the date the member begins participating in DROP, to accrue additional retirement benefits, either through service accruals, future pay increases, active cost of living adjustments or promotions.

(3) Agree the member's service retirement formula, including years of service and pension base, and all other eligibility conditions, including eligibility for survivor benefits, will be frozen at the time the member enters DROP.

(a) Tier 2 Members shall purchase Lost Service Time prior to entering DROP in order for that time to be counted toward the service pension.

(b) Tier 3, 4, 5 and 6 Members shall purchase eligible State Rate Workers' Compensation Time, Prior Service Time, and Academy Time prior to entering DROP in order for that time to be counted toward the service pension.

(4) Have an amount equal to one hundred percent (100%) of the service retirement benefit the member would have received if he or she had retired at the time of entering DROP placed in a nominal account ("DROP account"). This amount shall not include credit for any calendar month for which participation has been suspended.

(5) Receive benefits from the Fire and Police Pension Plan upon termination of City employment as a sworn member of the Fire, Police, Harbor, or Airport Department at the time and in the manner provided in this Chapter.

(6) Execute such waivers with respect to age and other discrimination in employment laws as are required by the City and the Fire and Police Pension Plan.

(f) Notwithstanding any other provision of this chapter, a member who has elected to participate in DROP and subsequently, while still participating in DROP, is appointed to the position of Chief Engineer of the Fire Department or Chief of Police shall be allowed to rescind that election in writing subject to the following:

(1) The member shall forfeit his or her entire DROP account.

(2) The member shall not be eligible to participate in DROP in the future.

(3) The member's service and benefits under the Plan shall be determined the same as if the member had never elected to participate in DROP.

(4) The member shall not have the right to elect to become a member of the Los Angeles City Employees' Retirement System pursuant to Section 4.2000 (j), or otherwise, but shall remain a member of the Plan for so long as the member is employed as Chief Engineer of the Fire Department or Chief of Police.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Amended by: Subsec. (a), Ord. No. 177,900, Eff. 9-28-06; Subsec. (a), Ord. No. 178,656, Eff. 5-4-07; Subsec. (d) added, Ord. No. 179,987, Eff. 7-3-08; Last Para. of Subsec. (b) added, Ord. No. 180,322, Eff. 11-7-08; Subsecs. (b) and (c), Ord. No. 183,163, Eff. 8-8-14; Subsecs. (b) - (f), Ord. No. 185,935, Eff. 1-23-19.

Sec. 4.2102. DROP Benefits and Accounts.

(a) A DROP account is a "nominal" account established within the Fire and Police Pension Plan on behalf of each DROP participant. All benefits accrued pursuant to this Chapter shall be accounted for in the DROP account. A DROP participant shall not have a claim on the assets of the Fire and Police Pension Plan with respect to his or her DROP account, nor shall there be any assets set aside for any DROP participant, which are separate from all other Pension Plan assets.

(b) All amounts credited to the member's DROP account shall be fully vested.

(c) A member's DROP account shall be credited with:

(1) an amount, credited monthly, which is equal to the monthly service pension to which the member would be entitled using the formula in the Tier in which the member is enrolled on the effective date of the member's entry into DROP. Credit shall not be awarded for any calendar month when participation in DROP has been suspended pursuant to Section 4.2110.

(2) a cost of living adjustment (COLA) each year equal to the amount prescribed in the Charter for the Tier to which the member belongs, but not to exceed three percent (3%). Tier 5 and 6 members are eligible to use their COLA banks while in DROP.

(3) interest in the amount of five percent (5%) annually. Interest will be credited to member DROP accounts semi-annually on the dates specified by the Board. No interest shall accrue after a member terminates DROP participation. Notwithstanding whether or not participation has ever been suspended or a member is eligible to extend the original participation period, no interest shall accrue nor be credited after completion of the sixtieth (60th) month following the member's DROP entry date. This 60-month limit on interest shall apply to all DROP participants.

(d) Until a member actually terminates employment as a sworn member of the City of Los Angeles Fire Department, Police Department, Harbor Department, or Department of Airports, no money shall be paid to any persons from the DROP account. After the member terminates employment, the DROP

account shall be subject to court orders in the same manner as the monthly service pension entitlement and according to the terms of the court order.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Amended by: Subsec. (d), Ord. No. 177,214, Eff. 1-4-06; Subsec. (c)(2), Ord. No. 183,163, Eff. 8-8-14; Subsec. (d), Ord. No. 184,853, Eff. 4-6-17; Subsecs. (c)(1) and (c)(3), Ord. No. 185,935, Eff. 1-23-19.

Sec. 4.2103. Additional DROP Provisions.

(a) Member contributions shall continue as usual while the member participates in DROP at the rates specified as follows: Tier 2 = 6% or 7%, as specified in Charter Section 1420(b); Tier 3 = 8%; Tier 4 = 8%; Tier 5 = 8% or 9%, as specified in Charter Section 1222(b)(3) and Administrative Code Section 4.2014; Tier 6 = 9% or 11%, as specified in Charter Section 1714(a). Member contributions, however, shall cease when the member would have become eligible for the maximum service retirement formula established by the member's Tier, except that members who have agreed to make Additional Contributions as provided in Administrative Code Section 4.1167 shall continue to make Additional Contributions as provided therein.

(b) Member contributions will be deposited into and become part of the general assets of the Fire and Police Pension Plan. Member contributions will not be deposited into nor become part of the member's DROP account.

(c) The City will continue to make the annual contributions to the Plan under the Charter. These contributions will be deposited into and become part of the general assets of the Pension Plan. No City contributions will be credited to the member's DROP account.

(d) After a member retires and simultaneously leaves DROP, the member will thereafter receive a monthly service pension benefit based upon the years of service and pension base at the time of entry into DROP and COLAs granted while in DROP, plus future COLAs according to the member's Tier.

(e) A member who participates in DROP and who elects to apply for and is granted a disability pension after entering DROP shall forfeit his or her entire DROP account and receive his or her disability pension benefits as if the member had never entered DROP. Members waive any right to apply for or be granted a disability pension once they have taken distribution of their DROP account.

(f) Members on IOD status at the conclusion of their final month of participation must leave DROP but are permitted to continue on IOD status with their Department. Those members are not eligible to receive distribution of their DROP account until their retirement status is determined. If the member takes a disability retirement, the member shall forfeit his or her DROP account. If the member elects to take a service retirement and distribution of his or her DROP account, the member shall be required to repay any IOD pay earned after the last day of the member's participation in DROP.

(g) In the event of a member's service connected death during the period of his or her DROP participation, the member's surviving spouse or domestic partner shall have the right to elect to forfeit the

member's DROP account and collect survivorship benefits as if the member had never entered DROP, provided that the election must be made no later than one hundred eighty (180) days following the member's death. For all other deaths occurring while a member is participating in DROP, the normal post-retirement continuance benefits of the member's Tier will be available plus the proceeds of the member's DROP account.

(h) A member must be married or have a domestic partnership affidavit on file with the Fire and Police Pension Plan for at least one year prior to his or her entrance into DROP for his or her surviving spouse or domestic partner to be eligible for qualified surviving spouse/qualified surviving domestic partner pension benefits.

(i) Members, by entering DROP, are not eligible to be returned to active duty (as reactivated members) as provided in Charter Section 1410(a), Los Angeles Administrative Code Sections 4.2026(f) and 4.2200, or any other provision authorizing retired members to return to active duty as reactivated members.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Amended by: Subsec. (i), Ord. No. 177,900, Eff. 9-28-06; Subsecs. (a) and (i), Ord. No. 183,163, Eff. 8-8-14; Subsecs. (f) - (h), Ord. No. 185,935, Eff. 1-23-19.

Sec. 4.2104. Designation of Beneficiary.

(a) Subject to Subsection (c) and Section 4.2103(h), a member who elects to participate in DROP shall designate in writing, at the time of entry into DROP, a beneficiary for the DROP account. The member may change the designation at any time prior to taking the distribution of the DROP account. The member's beneficiary designation shall be applicable only to the distribution pursuant to provisions of this chapter.

(b) If the designated beneficiary predeceases a DROP participant who then dies before designating a new beneficiary, all distributions pursuant to this chapter shall be made to the estate of the DROP participant.

(c) Notwithstanding the above provisions, a member's community property obligations under applicable California law will not be affected by the beneficiary designation.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Sec. 4.2105. Termination of DROP Participation.

(a) DROP participation shall be terminated by the first occurrence of any one of the following events:

(1) upon the member's completion of the DROP participation period. The member may choose to leave DROP at any time during the participation period.

(2) involuntary termination of employment. At the member's request, distribution of the DROP account will be withheld while the appeal of the member's discharge is pending. Should the member be reinstated, the member may continue to participate in DROP if the account has been withheld. The period of DROP participation will continue under the terms of the original application.

(3) death of the member.

(4) approval of disability retirement benefits under the terms of this chapter.

(5) voluntary termination of employment prior to the completion of the DROP participation period.

(b) No interest shall accrue after any one of the events set forth in Subsection (a) terminating DROP.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Amended by: Subsec (a)(5) added, Ord. No. 183,163, Eff. 8-8-14; Subsec. (a)(1), Ord. No. 185,935, Eff. 1-23-19.

Sec. 4.2106. Payment of Benefits.

(a) Upon the simultaneous termination of DROP participation and employment as a sworn member of the City's Fire Department, Police Department, Harbor Department, or Department of Airports, a member shall be entitled to receive:

(1) a monthly retirement allowance in the amount determined under the Charter that was credited monthly to the member's DROP account at the date of termination of DROP participation, including any applicable COLA; and

(2) all amounts credited to the member's DROP account on the effective date of termination of DROP participation, subject to applicable taxes and any domestic relations court orders regarding community property distributions.

(b) The form of payment from the DROP account shall be a lump sum distribution. Members may also elect a direct rollover of the proceeds in their DROP account to an eligible retirement plan pursuant to Section 4.2107(b)(4). The Board shall set forth the rules regulating the distribution of the DROP account, including the time period within which the distribution must be taken.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Amended by: Subsec. (a), Ord. No. 177,214, Eff. 1-4-06; Subsec. (a), Ord. No. 184,853, Eff. 4-6-17.

Sec. 4.2107. Compliance with Applicable Provisions of the Internal Revenue Code.

(a) It is intended that DROP shall not jeopardize in any way the tax qualified status of the Fire and Police Pension Plan under the rules and regulations of the Internal Revenue Service. The Board shall have the authority pursuant to Section 4.2109 to adopt rules and regulations to the extent necessary or appropriate for DROP to maintain compliance with applicable Federal laws and regulations. These rules shall be adopted upon the advice and with the concurrence of the City Attorney.

(b) Notwithstanding any other provision in this chapter, benefits provided pursuant to this chapter shall be subject to the requirements of the Internal Revenue Code (Code) and regulations issued thereunder as necessary for the Retirement System to remain a tax qualified retirement plan, including, but not limited to, the following:

- (1) The limitations of Section 415 of the Code relating to the amount of benefits that can be paid.
- (2) The limitations of Section 401(a)(17) of the Code relating to the amount of compensation that can be taken into account for benefit accrual.
- (3) The limitations of Section 401(a)(9) relating to the time that benefit payments must begin.
- (4) The limitations of Section 401(a)(31) relating to the rollover of benefits.
- (5) The limitations of Section 401(a)(25) relating to “definitely determinable” benefits.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Sec. 4.2108. Employment Status during DROP Participation.

For all other purposes, a member who elects to participate in DROP shall have all of the rights, privileges, and benefits, including health benefits, and be subject to all other terms and conditions of active employment in their respective Department.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Sec. 4.2109. Authority of the Board.

In addition to the authority granted elsewhere in this chapter, the Board shall have the authority to adopt rules and regulations to the extent necessary or appropriate to administer DROP in accordance with the provisions of this chapter.

SECTION HISTORY

Added by Ord. No. 174,540, Eff. 5-8-02.

Sec. 4.2110. Suspension of Participation.

(a) Any member who enters DROP on or after February 1, 2019, shall have his or her participation in DROP suspended for any calendar month in which he or she does not spend at least one hundred twelve (112) hours on active duty status, unless the member qualifies for the exception provided by Subsection (b). This shall include the first and last months of participation. The City Administrative Officer, in consultation with the affected labor organizations, shall determine which payroll codes reflect active duty status for purposes of this provision and shall so notify the Board and all applicable employing departments.

(b) For any participant who sustains a serious injury on duty and is admitted to the hospital for a minimum of three (3) consecutive days as a direct result of that injury, participation shall not be suspended during the first twelve (12) calendar months following the date of injury. This stay of suspension shall apply for any month that the participant does not spend at least one hundred twelve (112) hours on active duty status, on account of the aforementioned serious injury. For any member who meets the requirements of this Subsection (b), upon the conclusion of the twelfth month following the date of injury the stay of suspension shall be lifted and Subsection (a) shall apply to his or her continued DROP participation.

(c) A member's employing department shall determine whether his or her injury meets the requirements of Subsection (b) and shall code the member's payroll and timekeeping records accordingly.

(d) Any member whose participation is suspended shall be eligible to participate in DROP for a maximum of thirty (30) additional months beyond the original participation period. The participation period shall only be extended for as many months as the member's participation was suspended and shall be subject to the limitation on interest accrual according to Section 4.2102(c)(3).

SECTION HISTORY

Added by Ord. No. 185,935, Eff. 1-23-19.

Disclaimer:

This Code of Ordinances and/or any other documents that appear on this site may not reflect the most current legislation adopted by the Municipality. American Legal Publishing Corporation provides these documents for informational purposes only. These documents should not be relied upon as the definitive authority for local legislation. Additionally, the formatting and pagination of the posted documents varies from the formatting and pagination of the official copy. The official printed copy of a Code of Ordinances should be consulted prior to any action being taken.

For further information regarding the official version of any of this Code of Ordinances or other documents posted on this site, please contact the Municipality directly or contact American Legal Publishing toll-free at 800-445-5588.

APPENDIX B

Special Tax Notice Regarding Your Rollover Options Under a Governmental 401(a) Plan

REV. 02/07/2019

You are receiving this notice because all or a portion of a payment you are receiving from the City of Los Angeles Fire and Police Pension Plan (the "Plan") is eligible to be rolled over to an IRA or an employer plan. This notice is intended to help you decide whether to do such a rollover. You may request a paper copy of this Notice from the plan administrator at no charge to you.

Rules that apply to most payments from a plan are described in the "General Information About Rollovers" section. Special rules that only apply in certain circumstances are described in the "Special Rules and Options" section.

GENERAL INFORMATION ABOUT ROLLOVERS

How can a rollover affect my taxes?

You will be taxed on a payment from the Plan if you do not roll it over. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (generally, distributions made before age 59½), unless an exception applies. NOTE: See exception for public safety officers, page 3.

However, if you do a rollover, you will not have to pay tax until you receive payments later and the 10% additional income tax will not apply if those payments are made after you are age 59½ (or if an exception applies).

What types of retirement accounts and plans may accept my rollover?

You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or employer plan (for example, no spousal consent rules apply to IRAs and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan.

How do I do a rollover?

There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover. If you do a direct rollover, the Plan will make the payment directly to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover.

If you do not do a direct rollover, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. Generally, you will have 60 days after you receive the

payment to make the deposit. If you do not do a direct rollover, the Plan is required to withhold 20% of the payment for federal income taxes (up to the amount of cash). This means that, in order to roll over the entire payment in a 60-day rollover, you must use other funds to make up for the 20% withheld. If you do not roll over the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59 ½ (unless an exception applies).

How much may I roll over?

If you wish to do a rollover, you may roll over all or part of the amount eligible for rollover. Any payment from the Plan is eligible for rollover, except:

- Certain payments spread over a period of at least 10 years or over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary. This means that your lifetime monthly benefits are not eligible for rollover);
- Required minimum distributions after age 70 ½ (or after death);
- Corrective distributions of contributions that exceed tax law limitations; and

The Plan administrator or the payor can tell you what portion of a payment is eligible for rollover.

If I don't do a rollover, will I have to pay the 10% additional income tax on early distributions?

If you are under age 59 ½, you will have to pay the 10% additional income tax on early distributions for any payment from the Plan (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax applies to the part of the distribution that you must include in income and is in addition to the regular income tax on the payment not rolled over.

The 10% additional income tax does not apply to the following payments from the Plan:

- **Payments from a governmental plan made after you separate from service if you are a qualified public safety employee and you will be at least age 50 in the year of the separation;**
- Payments made after you separate from service if you will be at least age 55 in the year of the separation;
- Payments that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the lives or joint life expectancy of you and your beneficiary);
- Payments made due to disability;
- Payments after your death;

- Corrective distributions of contributions that exceed tax law limitations;
- Payments made directly to the government to satisfy a federal tax levy;
- Payments made under a qualified domestic relations order (QDRO);
- Payments up to the amount of your deductible medical expenses (without regard to whether you itemize deductions for the taxable year);
- Certain payments made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001 for more than 179 days; and
- Payments for certain distributions relating to certain federally declared disasters.

If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?

If you receive a payment from an IRA when you are under age 59 ½, you will have to pay the 10% additional income tax on early distributions on the part of the distribution that you must include in income, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from a plan. However, there are a few differences for payments from an IRA, including:

- The exception for payments made after you separate from service if you will be at least age 55 in the year of the separation (or age 50 for qualified public safety employees) does not apply.
- The exception for qualified domestic relations orders (QDROs) does not apply (although a special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse).
- The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.
- There are additional exceptions for (1) payments for qualified higher education expenses, (2) payments up to \$10,000 used in a qualified first-time home purchase, and (3) payments for health insurance premiums after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

Will I owe State income taxes?

California income tax withholding on your distribution is optional. You may elect either to have no state income tax withheld or to have 10% of the federal withholding amount withheld for state income tax purposes. The Plan will not withhold state taxes for any state other than California.

SPECIAL RULES AND OPTIONS

If your payment includes after-tax contributions

After-tax contributions included in a payment are not taxed. If a payment is only part of your benefit, an allocable portion of your after-tax contributions is included in the payment, so you cannot take a payment of only after-tax contributions. However, if you have pre-1987 after-tax contributions maintained in a separate account, a special rule may apply to determine whether the after-tax contributions are included in a payment. In addition, special rules apply when you do a rollover, as described below.

You may roll over to an IRA a payment that includes after-tax contributions through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs). If you do a direct rollover of only a portion of the amount paid from the Plan and at the same time the rest is paid to you, the portion directly rolled over consists first of the amount that would be taxable if not rolled over. For example, assume you are receiving a distribution of \$12,000, of which \$2,000 is after-tax contributions. In this case, if you directly roll over \$10,000 to an IRA that is not a Roth IRA, no amount is taxable because the \$2,000 amount not directly rolled over is treated as being after-tax contributions.

If you do a 60-day rollover to an IRA of only a portion of a payment made to you, the after-tax contributions are treated as rolled over last. For example, assume you are receiving a distribution of \$12,000, of which \$2,000 is after-tax contributions, and no part of the distribution is directly rolled over. In this case, if, after the initial distribution, you roll over \$10,000 to an IRA that is not a Roth IRA in a 60-day rollover, no amount is taxable because the \$2,000 amount not rolled over is treated as being after-tax contributions.

You may roll over to an employer plan all of a payment that includes after-tax contributions, but only through a direct rollover (and only if the receiving plan separately accounts for after-tax contributions and is not a governmental section 457(b) plan). You can do a 60-day rollover to an employer plan of part of a payment that includes after-tax contributions, but only up to the amount of the payment that would be taxable if not rolled over.

If you miss the 60-day rollover deadline

Generally, the 60-day rollover deadline cannot be extended. However, the IRS has the limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. Under certain circumstances, you may claim eligibility for a waiver of the 60-day rollover deadline by making a written self-certification. Otherwise, to apply for a waiver from the IRS, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information, see IRS Publication 590-A, *Contributions to Individual Retirement Arrangements (IRAs)*.

If you were born on or before January 1, 1936

If you were born on or before January 1, 1936 and receive a lump sum distribution that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, *Pension and Annuity Income*.

If you roll over your payment to a Roth IRA

If you roll over a payment from the Plan to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. However, the 10% additional income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within 5 years, counting from January 1 of the year of the rollover).

If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59 ½ (or after your death or disability, or as a qualified first-time homebuyer distribution of up to \$10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information, see IRS Publication 590-A, *Contributions to Individual Retirement Arrangements (IRAs)*, and IRS Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs)*.

If you are an eligible retired public safety officer and your payment is used to pay for health coverage or qualified long-term care insurance

If the Plan is a governmental plan, you retired as a public safety officer, and your retirement was by reason of disability or was after normal retirement age, you can exclude from your taxable income Plan payments paid directly as premiums to an accident or health plan (or a qualified long-term care insurance contract) that your employer maintains for you, your spouse, or your dependents, up to a maximum of \$3,000 annually. For this purpose, a public safety officer is a law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew.

The Form 1099-R that you receive from the Plan administrator will report the deducted insurance premium as taxable. If you want to take advantage of this exclusion, you must report the amount claimed on Form 1040. The instructions to Form 1040 explain that the taxable amount received from the Plan, reduced by the amount of qualified premiums deducted and paid by the Plan (not to exceed \$3,000), must be entered on line 16b of the Form 1040. Next to the entry, in the margin, you must write the letters "PSO." This is an annual election—you will need to report the exclusion for each year in which you want to claim the exclusion.

If you are not a Plan participant

Payments after death of the participant. If you receive a distribution after the participant's death that you do not roll over, the distribution will generally be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions (prior to age 59 ½) and the special rules for public safety officers (regarding payments used for health coverage described above) do not apply, and the special rule described under the section "If you were born on or before January 1, 1936" applies only if the participant was born on or before January 1, 1936.

If you are a surviving spouse. If you receive a payment from the Plan as the surviving spouse of a deceased participant, you have the same rollover options that the participant would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA.

An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59 ½ will be subject to the 10% additional income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 70 ½.

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the participant had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the participant had not started taking required minimum distributions from the Plan, you will not have to start receiving required minimum distributions from the inherited IRA until the year the participant would have been age 70 ½.

If you are a surviving beneficiary other than a spouse. If you receive a payment from the Plan because of the participant's death and you are a designated beneficiary other than a surviving spouse, the only rollover option you have is to do a direct rollover to an inherited IRA. Payments from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

Payments under a qualified domestic relations order. If you are the spouse or former spouse of the participant who receives a payment from the Plan under a qualified domestic relations order (QDRO), you generally have the same options and the same tax treatment that the participant would have (for example, you may roll over the payment to your own IRA or an eligible employer plan that will accept it). However, payments under the QDRO will not be subject to the 10% additional income tax on early distributions.

If you are a nonresident alien

If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, the Plan is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, *U.S. Tax Guide for Aliens*, and IRS Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities*.

Other special rules

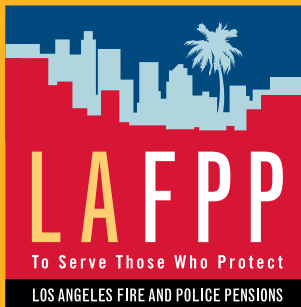
If a payment is one in a series of payments for less than 10 years, your choice whether to make a direct rollover will apply to all later payments in the series (unless you make a different choice for later payments).

If your payments for the year are less than \$200, the Plan is not required to allow you to do a direct rollover and is not required to withhold federal income taxes. However, you may do a 60-day rollover.

You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information on special rollover rights related to the U.S. Armed Forces, see IRS Publication 3, *Armed Forces' Tax Guide*. You also may have special rollover rights if you were affected by a federally declared disaster (or similar event), or if you received a distribution on account of a disaster. For more information on special rollover rights related to disaster relief, see the IRS website at www.irs.gov.

FOR MORE INFORMATION

Los Angeles Fire and Police Pensions cannot give you tax advice. We urge you to consult with a professional tax advisor before taking a payment from the Plan. Also, you can find more detailed information on the federal tax treatment of payments from employer plans in: IRS Publication 575, *Pension and Annuity Income*; IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs); IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs); and, IRS Publication 571, *Tax- Sheltered Annuity Plans (403(b) Plans)*. These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORM.






701 E 3rd St
Los Angeles, CA 90013
lafpp.lacity.gov
dropsp@lafpp.com



844-88-LAFPP
213-279-3000



 @lafirepolicpensons
 @LosAngelesFireandPolicePensions
 @lafpp