POLICE AND FIRE PENSION FUND

ONE WEST ADAMS STREET, SUITE 100
JACKSONVILLE, FLORIDA 32202-3616
"We Serve. . .and We Protect"

Telephone: (904) 255-7373
Fax: (904) 353-8837

John Keane
Executive Director -
Administrator

January, 2010

Dear Member:

Thank you for your interest in the DROP Plan. Here are a few points we feel need to be stressed.

WE ARE here to help you with your retirement options, and we are able to do our job best if you call and schedule your appointment. Our office is open Monday thru Friday from 8:00am to 5:00pm, except for official holidays. ***WE ARE***... here to ***"serve and to protect"*** you, your family, and your financial future.

WE ARE NOT personal financial advisors to our members, nor are we tax consultants, tax planners, or tax consequence advisors, estate planners, life annuity or insurance benefit counselors, certified Financial Planners, or Investment Advisors.

WE ARE NOT selling you any type of professional service.

WE CAN answer your technical questions concerning DROP benefits, provide you with a copy of the DROP Section in the Ordinance Code, provide you with a copy of the Rules and Regulations of the Police and Fire Pension Board governing the DROP Plan, after their formal adoption by the Pension Board. ***WE CAN*** calculate your current Pension Benefit, certify your retirement eligibility date, and furnish you information we have concerning your credited service date.

WE CANNOT give you any tax advice, recommend ***your*** decision to ***you,*** provide a pension benefit estimate on a future date, or answer ***"what if"*** questions except by referring you to the Ordinance Code.

WE WILL provide you with ***written*** answers to all your ***written*** questions about the DROP program within our guidelines.

Additional information on DROP is available on our web site at *jaxpfpf.coj.net.*

Sincerely,

John Keane

John Keane
Executive Director - Administrator

CITY OF JACKSONVILLE
POLICE AND FIRE PENSION FUND
DEFERRED RETIREMENT OPTION PROGRAM (DROP)

On August 11, 1998 the City Council passed legislation (Ordinance 97-1103-E) which established a new benefit program for all eligible Members of the Police and Fire Pension Fund. The provisions of this benefit program have subsequently been amended on nine occasions with the enactment of Ordinance 98-990-E (November 24, 1998), Ordinance 1999-44-E (January 26, 1999), Ordinance 1999-472-E (June 1, 1999), Ordinance 2000-936-E (December 5, 2000), Ordinance 2000-1164-E (February 22, 2001), Ordinance 2002-445-E (June 11, 2002), Ordinance 2003-303-E (April 8, 2003), Ordinance 2003-618-E (June 24, 2003), and Ordinance 2004-377-E (May 25, 2004). The Deferred Retirement Option Program (DROP) will allow Members to have their retirement benefits deposited on a bi-weekly basis into their DROP account, earning interest on such deposits, while simultaneously continuing to work (but not earning additional credit for retirement). The purpose of this program is to provide a way for retirees to accumulate additional savings while continuing employment. Similar programs have previously been implemented by a few other states and some Florida employers. The DROP became effective on January 9, 1999 following the filing of certain documents with the City Council Secretary with respect to a request that had been submitted to the Internal Revenue Service for a review, indicating that the DROP will not adversely affect the qualified status of the Police and Fire Pension Fund. A favorable review has since been secured from the IRS.

This booklet has been prepared to assist you in understanding the provisions of the DROP Program established for the Police and Fire Pension Fund and in your determination as to whether DROP participation will be beneficial for you. While this booklet attempts to address the subject of DROP and the types of questions which have arisen here and in other jurisdictions that have gone through the same process, the answers are by no means exhaustive or exclusive. **NO GUARANTEE OR CONTRACT IS CREATED BY THIS BOOKLET.** In the event that the information contained in this booklet is found to conflict with the DROP Ordinance or federal law, the language in the DROP Ordinance and the federal law shall be the final authority.

This booklet addresses frequently asked questions concerning the DROP Program that has been implemented for the benefit of police officers and firefighters of the City of Jacksonville. Such frequently asked questions are organized under the following sections:

A. Questions on DROP Programs in General.
B. Eligibility and Participation Questions.
C. DROP Program Effective Date and Beginning Date.
D. Employment Status Questions and Contribution Requirements.
E. Accumulation of Benefits under the DROP Program.
F. Payment of Benefits under the DROP Program.
G. Tax Circumstances under DROP.
H. DROP Decision Considerations.

A. QUESTIONS ON DROP PROGRAMS IN GENERAL

1. WHAT DOES THE PHRASE "DROP" STAND FOR?

DROP is an acronym for deferred retirement option program. Some jurisdictions also refer to DROP as a delayed retirement option plan.

2. WHAT IS A DEFERRED RETIREMENT OPTION PROGRAM (DROP)?

A DROP is a form of retirement benefit that allows an employee to continue working while accumulating a savings account consisting of the benefits that would have been received had the employee actually retired. In other words, it is a chance to earn two incomes at the same time, with one of them being saved and invested without current tax liability. From a technical standpoint, a DROP program represents a method of providing for the deferred receipt of retirement benefits from a defined benefit plan.

3. WHERE AND WHEN DID DROP PLANS ORIGINATE?

DROP arrangements first started with several public safety plans in Louisiana during the mid-1980's to:

a. Encourage police and fire personnel who could retire early (after 20 years of service) to continue working.
b. Allow a partial lump sum distribution option in the pension plan.
c. Provide the employer with a predictable turnover picture.

DROP plans now exist in Louisiana, Arkansas, Oklahoma, and Florida on the state and local level as well as locally in Texas, Colorado, and California. Originally popular with police and fire plans, they now exist for teachers and general public employees as well.

4. DOES A DROP PROGRAM REPRESENT A SEPARATE RETIREMENT PLAN?

No. A DROP program simply represents a distribution option within a traditional defined benefit pension plan. It is not a separate qualified retirement plan.

5. ARE ALL DROPS ALIKE?

No. There is no rigid structure that must be followed for DROP programs. The design of DROP programs vary greatly and can be crafted to meet the needs of the employees, the pension plan, and the plan sponsor.

6. IS A DROP PROGRAM AVAILABLE AS A BENEFIT FEATURE WITHIN THE JACKSONVILLE POLICE AND FIRE PENSION FUND?

Yes. A DROP Program first became available as a retirement option to Jacksonville Police Officers and Firefighters effective January 9, 1999.

7. HOW WILL JACKSONVILLE’S DROP PROGRAM WORK?

DROP is designed to allow you to accumulate a lump sum cash amount for retirement without affecting your normal monthly retirement benefit as of the date you became a DROP participant. Under DROP, you technically “retire”, yet continue to work as an active Police Officer or Firefighter. For all non-pension benefits, you will continue to be treated as an active Police Officer or Firefighter.

Here’s how it works. Once you reach the service requirements for a “standard 20 years of service” retirement, you are eligible to enroll in DROP. When you enroll in DROP, you agree to “lock-in” your service and benefit levels as of the effective date of your participation. From a service and benefit standpoint, it is as if you had retired on this date. You continue to work as an active Police Officer or Firefighter, though, and the Pension Fund credits your normal monthly retirement benefit (based on your service as of the date you entered DROP) into your DROP account. You also continue to earn your normal pay as an active Police Officer or Firefighter.

You can participate in DROP from the effective date of your participation for a period of up to 5 years if you have less than 30 years of service. Participants with 30 years of service or greater, but less than 32, are also permitted to participate in the DROP; however, their period of DROP participation is limited to periods of less than 5 years. As long as you participate in DROP, your normal retirement benefit payments are added to your account each month, plus your account earns interest. When you leave the Sheriff’s Office or Fire Department, you choose how you want to receive your DROP account balance from available distribution methods.

B. <u>ELIGIBILITY AND PARTICIPATION QUESTIONS</u>

1. WHO IS ELIGIBLE TO PARTICIPATE IN DROP?

All Members of the Police and Fire Pension Plan who are contributing to the Plan through payroll deduction (i.e. active members) are eligible to participate in the DROP providing such Members are eligible to receive normal retirement benefits (which is attained upon the completion of twenty years of credited service). However, Members who have recorded 32 or more years of service are not eligible to participate in the program.

2. WHAT ARE THE TIME LIMITS UNDER WHICH A MEMBER MUST ELECT TO PARTICIPATE IN THE DROP?

Election to participate may be made on a date following the date on which a Member first reaches the minimum normal retirement benefit after the completion of twenty years of credited service. The Member may elect participation into DROP at any time following the completion of twenty years of credited service, but such election must be made prior to the Member attaining 32 years of service. In other words, the member may elect to participate at any time after the completion of twenty years of service (minimum normal retirement benefit of 60%) but before the completion of thirty-two years of service (two years beyond the date that the maximum retirement percentage of 80% is attained). A Member who fails to make an election prior to accruing 32 years of service shall forfeit all rights to participate in the DROP. Please note that these restrictions are authorized under the DROP Ordinance to be imposed based upon the member's "years of credited service at the time of DROP election" rather than the credited years of service that may be acknowledged for a member for purposes of determining retirement benefits. This distinction means that a member could potentially have retirement benefits calculated with 30 years of service and still participate in DROP for the full five year authorization period as long as the participant submitted an application (or election) for DROP participation (during the normal enrollment period for a particular quarterly DROP class) at a date that was prior to the member's attainment of 30 years of service. You may obtain more information on this subject by reviewing Pension Bulletin #4 which is available from the Pension Office.

3. WHEN WILL PARTICIPATION IN THE DROP BEGIN?

The beginning date for participation in a quarterly DROP class shall commence on the first day of the first full bi-weekly pay period in January, April**,** July, or October of each year subsequent to the date of election. The Charter DROP class commenced on January 9, 1999.

4. HOW LONG CAN I PARTICIPATE IN THE DROP?

An eligible Member may elect to participate in the DROP for a period not to exceed a maximum of 130 full bi-weekly pay periods (60 months) following the date on which the Member begins participation in the DROP. However, certain limits will apply for the maximum period of DROP participation where a member has earned credited service of 30 years or more:

Years of Service	Maximum DROP Period
20 but less than 30 years	130 bi-weekly pay periods
30 but less than 31 years	78 bi-weekly pay periods
31 but less than 32 years	52 bi-weekly pay periods
Greater than 32 years	Not eligible to DROP

5. IN THE EVENT THAT AN ELIGIBLE MEMBER DECIDES TO PARTICIPATE IN THE DROP, WHAT MUST HE OR SHE DO?

An eligible Member may elect to participate in the DROP by complying with the election process and the administrative rules established by the Board of Pension Trustees. Such requirements shall include, but shall not be limited to the following:

a. A written election to participate in the DROP.
b. Selection of DROP participation and retirement dates. Such retirement date shall be a binding application for retirement, establishing a deferred retirement date.
c. A written notification advising the Member's employer of the date on which the DROP shall begin for the Member.
d. A properly completed DROP application for service retirement.

6. CAN A PARTICIPANT RETIRE BEFORE THE END OF THE DROP PERIOD?

Yes. A DROP participant can retire at any time before the end of the specified DROP period. The then current level of DROP payments would continue as monthly pension payments and the participant would be entitled to the entire balance in his/her DROP account.

7. WHILE I CONTINUE TO WORK DURING THE DROP PERIOD DO I HAVE ACCESS TO MY DROP ACCOUNT BEFORE THE END OF THE DROP PERIOD?

No. In order to receive any payment from the DROP account, you must actually separate from service. It would violate both local and federal law to receive a distribution while still an active employee.

8. DO I HAVE TO DECIDE AT THE TIME I ENROLL IN DROP HOW LONG I WILL PARTICIPATE AND KEEP WORKING FOR THE CITY?

Yes. However, for purposes of preserving maximum flexibility, most individuals may find it advantageous to elect to participate for the maximum period of time even if they feel that their actual period of DROP participation may in all likelihood end at an earlier date. You can always terminate employment and retire prior to the end of your selected DROP participation period; however, once selected, you are not permitted to work beyond your originally stipulated DROP ending date even if such date fell short of the maximum period allowed for DROP participation.

C. DROP PROGRAM EFFECTIVE DATE AND BEGINNING DATE

1. WHAT WAS THE EFFECTIVE DATE OF THE DROP ORDINANCE?

The DROP Ordinance (97-1103-E), as amended, was originally enacted by the City Council on August 11, 1998 and approved by the Mayor on August 17, 1998. However, the Ordinance did not become effective until such time as the Council Secretary was presented with copies of certain documents with respect to a request that had been submitted to the Internal Revenue Service for a review indicating that the DROP would not adversely affect the qualified status of the Police and Fire Pension Fund. The Police and Fire Pension Fund presented such required documentation to the Council Secretary prior to January 9, 1999, which was the commencement date of the first group of DROP participants.

2. WHAT IS THE PURPOSE OF THE "FAVORABLE LETTERS" FROM THE INTERNAL REVENUE SERVICE?

DROP programs are not formally reflected in federal pension laws and regulations. As a consequence, many municipalities have submitted a request for a "letter ruling" and/or "determination letter" to the Internal Revenue Service to review the proposed DROP program for the purpose of securing an authorization assessment as to whether the program meets the federal regulations and would not adversely impact the qualified status of the pension plan proposing various DROP features. The Police and Fire Pension Fund followed this cautious and prudent course of action of seeking the review and comment of the IRS.

3. HAS THE POLICE AND FIRE PENSION FUND RECEIVED A RESPONSE FROM THE INTERNAL REVENUE SERVICE WITH RESPECT TO THE REQUEST FOR A "DETERMINATION LETTER" IN CONJUNCTION WITH THE DROP PROGRAM MADE AVAILABLE TO MEMBERS?

Yes. The Fund has received a response from the IRS that approval would be granted subject to the inclusion of technical language referencing various Internal Revenue Code provisions. These required provisions were incorporated into the City's Ordinance Code upon the enactment of Ordinance 1999-44-E on January 26, 1999.

4. ONCE THE DROP ORDINANCE BECAME EFFECTIVE, WHEN WAS THE DROP PROGRAM AVAILABLE FOR INITIAL PARTICIPATION?

The beginning date of each participant's DROP period shall be the first full bi-weekly pay period of each calendar quarter. Accordingly, the beginning date of the initial DROP period was January 9, 1999, which is the first day of the pay period ending January 22, 1999.

D. EMPLOYMENT STATUS QUESTIONS AND CONTRIBUTION REQUIREMENTS

1. ARE YOU COVERED BY SOCIAL SECURITY WHILE YOU PARTICIPATE IN DROP?

No.

2. IS THERE ANY SPECIAL MEMBERSHIP DESIGNATION ONCE AN ACTIVE MEMBER BEGINS PARTICIPATION IN THE DROP?

Yes. Upon participation in the DROP, the Member shall be deemed a "Qualified Member" of the Police and Fire Pension Fund, as such term is used in the Ordinance Code.

3. IS A DROP PARTICIPANT CONSIDERED TO BE AN ACTIVE EMPLOYEE OR A RETIREE?

A DROP participant shall be a retiree under the Pension Plan for purposes of entitlement for increased pension benefits, unless otherwise prescribed, but for purposes of employment with the City, the DROP participant shall be treated as any other active employee with respect to their ability to enjoy the availability of salary increases, promotions, employee benefits and programs related thereto.

4. ARE YOUR CITY OF JACKSONVILLE ACTIVE EMPLOYEE BENEFITS AFFECTED WHILE YOU ARE IN DROP?

Generally speaking, no. You continue to accrue sick leave if you are eligible to do so now, and you continue to accrue vacation time. Any other time or day accrual for which you are presently eligible also continues. Your insurance coverage also continues uninterrupted and unchanged, at current active employee rates. In addition, you may continue to participate in the City's Section 457 deferred compensation program. Since you are still a member of the Jacksonville Sheriff's Office or Fire Department, the law provides that you remain eligible to vote in any Pension Fund elections. You are also eligible to serve on the Board of Trustees and the Pension Advisory Committee.

5. CAN YOU ENTER THE DROP AND LATER CHANGE YOUR MIND OR MUST A DROP PARTICIPANT ACTUALLY RETIRE AT THE END OF THE DROP PERIOD?

The decision about when to retire as a Police Officer or Firefighter and whether or not to enter DROP, is entirely your decision. However, once made, the election to participate in the DROP carries with it a simultaneous election to retire that is irrevocable upon approval by the Board of Trustees. In essence, the DROP participant has contractually agreed to retire as a condition of entering the DROP program. The only exception that is allowed to this rule is under a situation wherein a DROP participant subsequently becomes an elected or appointed official/employee. Under such cases, the individual is granted the option of rescinding DROP participation and the mandatory obligation to retire provided the recession is exercised within one year of the date the DROP participant became an elected or appointed official/employee. You can withdraw your DROP application at any time prior to its being approved by the Board of Trustees. That withdrawal must be in writing. Once acted upon by the Board of Trustees, the irrevocability of DROP and the obligation to retire on or before a prescribed date is in effect.

6. WHAT WILL MY PENSION CONTRIBUTION REQUIREMENTS BE DURING MY PERIOD OF DROP PARTICIPATION?

As an active employee participating in the Police and Fire Pension Fund you are currently required to make pension contributions in the amount of 7% of stipulated categories of salary. Upon DROP participation, your pension contribution requirements will be reduced to 2% of such stipulated categories of salary. The 2% contribution rate is not a fee to administer your DROP account, but rather a portion of the actuarial cost associated with the enactment of the DROP benefit.

7. WILL THE 2% PENSION CONTRIBUTION THAT I WILL CONTINUE TO MAKE DURING MY PERIOD OF DROP PARTICIPATION BE CREDITED TO MY DROP ACCOUNT?

No. The 2% pension contribution that will continue during the period of DROP participation will serve as one of the sources of revenue that have been earmarked to fund the actuarially determined cost of the DROP program.

8. **WILL MY 2% PENSION CONTRIBUTION THAT WILL CONTINUE DURING THE PERIOD OF DROP PARTICIPATION BE TREATED ON A PRE-TAX BASIS?**

   Yes. The 2% pension contribution will be on a pre-tax basis in the same manner as your former 7% pension contribution which is treated as "picked-up" amounts under 414(h)(2) of the Internal Revenue Code.

E. ACCUMULATION OF BENEFITS UNDER THE DROP PROGRAM

1. **HOW ARE MY RETIREMENT BENEFITS ACCUMULATED IN MY DROP ACCOUNT?**

   Once you decide to enroll into DROP, your monthly retirement benefit is calculated based upon your service and average salary levels as of the date you entered the DROP. Instead of having this monthly retirement benefit paid directly to you or deposited in your bank, it will be credited into your DROP account, where it will earn interest, tax deferred, for as long as you participate in the DROP. Your retirement benefits will be paid into your DROP account on a bi-weekly basis on the same schedule as used for retirees.

2. **HOW IS INTEREST CALCULATED AND CREDITED TO MY DROP ACCOUNT?**

   Balances in your DROP account during your period of DROP participation will earn interest at an annual rate of return of 8.40%. Interest will be compounded at a monthly rate that replicates an 8.40% annual rate of return and such interest is distributed on a monthly basis on behalf of the participant using the 30 day month/360 day year method of calculation. All interest calculations shall be administered in accordance with rules prescribed by the Board of Trustees. You may obtain more information on this subject by reviewing Pension Bulletin #1 which is available from the Pension Office.

3. **DOES ANYTHING ELSE GO INTO YOUR DROP ACCOUNT BESIDES YOUR NORMAL MONTHLY RETIREMENT PAYMENTS?**

   Yes. If you are eligible for a pension cost-of-living adjustment (COLA) that is distributed during your participation in the DROP, your monthly pension benefit being remitted to your DROP account will be adjusted accordingly. However, DROP participants are not eligible to receive the adjustment supplement (or Health Insurance Subsidy) otherwise available to retirees until you terminate employment. In addition, DROP participants are not eligible to receive bonus check distributions that are periodically distributed to retirees and beneficiaries until you terminate employment.

4. **CAN I PURCHASE ADDITIONAL SERVICE CREDIT WHILE PARTICIPATING IN DROP?**

   No. Once participation in DROP begins, your retirement benefit calculations are final and you cannot add service credit.

5. **IS THE 8.40% RATE OF RETURN EXTENDED TO DROP PARTICIPANTS DEPENDENT UPON THE PENSION PLAN EARNING A RATE OF RETURN OF 8.40% OR GREATER?**

No. The DROP participant will earn a fixed rate of return regardless of the rate of return experienced for the Police and Fire Pension Fund. This approach was introduced so as to insulate DROP participants from the volatile investment returns produced by the financial markets. The rate of return extended during the period of DROP participation is fixed by law and completely unrelated to the investment performance of the underlying system trust fund assets.

F. PAYMENT OF BENEFITS UNDER THE DROP PROGRAM

1. **HOW IS THE DROP ACCOUNT MONEY PAID OUT AND DISTRIBUTED?**

When you terminate employment, your DROP account will be paid as you choose in one of the following ways:

a. Lump Sum - The participant receives the entire account less taxes.
b. Direct Rollover -The funds are paid directly to the custodian of an eligible retirement plan as defined in Section 402(c)(8)(B) of the Internal Revenue Code. Under this option, there is no tax withholding requirement.
c. Partial Lump Sum - A portion is distributed in the form of a lump sum with the remaining amount distributed as a direct rollover or a monthly distribution.
d. Monthly Distribution -The funds are paid out bi-weekly in equal payments, until the DROP account is depleted, over a number of bi-weekly pay periods decided by you, subject to IRS restrictions.

Your selection of a distribution option generally cannot be changed once it starts except that the Monthly option can be changed to a lump sum, or rollover, or both forms of payment (less taxes) of the remaining account balance, if you wish. An exception to this general rule is available to certain participants who elected a life-time payout option in order to avoid the assessment of the 10% early distribution penalty.

2. **IF I SHOULD DIE AFTER I BEGIN RECEIVING PERIODIC DISTRIBUTIONS OF MY DROP ACCOUNT BALANCE BUT BEFORE THE FULL AMOUNT OF MY DROP ACCOUNT IS LIQUIDATED, CAN MY SPOUSE CHANGE THE DISTRIBUTION OPTION THEN IN EFFECT?**

Yes. The surviving spouse may change the number of payout periods and thereby alter the amount of the bi-weekly payments upon the death of the former DROP participant. The surviving spouse may also elect to retain the payout schedule previously in effect. In addition, the DROP participant or the surviving spouse may elect to convert the existing distribution option to a Lump Sum form of payment after the distribution period has commenced.

3. WHAT HAPPENS TO YOUR DROP ACCOUNT PROCEEDS IN THE EVENT OF YOUR DEATH WHILE IN DROP?

If you die and are survived by an eligible spouse (a spouse who also qualifies for a survivor's benefit), the spouse will receive the accumulated value of the DROP account. If there is not an eligible spouse, the value of the DROP account will be paid to your estate.

4. I UNDERSTAND THAT THE SPECIAL CALCULATIONS THAT ARE USED FOR DETERMINING PENSION BENEFITS IN THE EVENT OF LINE-OF-DUTY DEATH WILL NOT BE OPERATIVE ONCE I ELECT TO PARTICIPATE IN DROP. DOES THIS MEAN THAT MY BENEFICIARIES OR ESTATE WILL NOT BE ELIGIBLE TO COLLECT ON ANY DEATH BENEFIT PROGRAMS THAT MAY OTHERWISE BE AVAILABLE?

No. The prohibition against DROP participants from being eligible for line-of-duty death benefits only impacts the manner of calculating pension benefits. This prohibition does not extend to any other forms of death benefits that may be available to other active duty police officers of firefighters (i.e. City life insurance, federal programs authorized under the Public Safety Officers' Benefits Act, and death benefits available to police officers and firefighters under Florida Statute Sections 112.19 and 121.191, respectively).

5. WHAT EFFECT DOES A DROP PLAN HAVE ON ELIGIBILITY FOR A DISABILITY PENSION?

In order to be a participant in the DROP plan, and to have retirement benefits paid to the employee's account, the employee can no longer be an active member of the fund. Since the employee is not an active member of the fund, the employee is not eligible for a disability pension. If an employee becomes disabled during the DROP period, the employee will retire and receive his or her normal retirement benefit as well as the amount of money that has accrued in his or her DROP account.

6. HAS THE PENSION OFFICE PREPARED ANY INFORMATION THAT WOULD ALLOW A MEMBER WHO IS CONSIDERING ENROLLING INTO DROP TO SEE HOW THE VALUE OF THE DROP ACCOUNT MIGHT GROW DURING THE PERIOD OF DROP PARTICIPATION?

Yes, the Pension Office has prepared a table that will allow Members to quickly review the estimated values of the DROP account after each annual period under various assumed bi-weekly DROP benefit amounts. These estimated values are based upon the application of conversion factors to the bi-weekly DROP benefit amount. For instance, a bi-weekly DROP benefit in the amount of $1,250.00 would be multiplied by a conversion factor of 160.16 in arriving at an estimated value of the DROP account of $200,200 at the end of a 5-year DROP participation period. Conversion factors for the estimated value of the DROP account at the end of 1-year, 2-years, 3-years, 4-years, and 5-years have been calculated at 27.02, 56.31, 88.11, 122.65, and 160.16 respectively. Please be aware that these are estimates only and do not include the impact of any COLA enhancements that may be extended during the period of DROP participation. The table referred to herein is displayed on the schedule entitled “Analysis of Estimated Values of DROP Accounts at the End of Annual Periods Based upon Various Bi-Weekly DROP Benefit Amounts”. This analysis is attached hereto as Exhibit A.

7. HAVE ANY SAMPLE SCHEDULES BEEN PREPARED THAT SHOW THE AMOUNT OF PAYMENTS THAT A DROP PARTICIPANT WOULD RECEIVE AT THE END OF THE DROP PERIOD?

Yes. The Pension Office has prepared a matrix that shows the bi-weekly payments that would be available under various dollar values of the DROP and also under various optional distribution periods. This matrix is attached hereto as Exhibit B.

8. WHAT IS THE STATUS OF MY DROP ACCOUNT IN THE EVENT OF DIVORCE?

DROP assets, like other forms of pension benefits, may be considered to be marital property subject to division in a divorce proceeding. While DROP assets are not subject to distribution until a member terminates employment with the City, a court can determine that upon distribution that a certain portion of the DROP assets be awarded to a former spouse in the same manner as other retirement payments.

9. WHAT TYPE OF ORDER IS USED BY THE COURT SYSTEM TO PLACE A LIEN AGAINST THE PROCEEDS OF THE DROP ACCOUNT IN THE EVENT OF A DIVORCE?

Qualified Domestic Relations Orders (QDRO’s) and Income Deduction Orders (IDO’s) are two forms of court orders that are commonly issued pursuant to divorce proceedings. A QDRO is a judgement, decree, or order by a court usually in the case of a divorce that relates to the provision of child support, alimony payments, or marital property rights to a spouse, child, or other dependent of a participant. Governmental plans, like the Police and Fire Pension Fund, are not subject to QDRO’s. Unlike governmental plans, QDRO’s are specifically applicable to private pension plans under Internal Revenue Code Section 414(p)(2). Accordingly, the Police and Fire Pension Fund does not recognize QDRO’s for the assignment of any pension rights by a participant for distribution of a divorced spouse’s interest. In lieu thereof, the State (under Section 61.1301, F.S.) has provided that IDO’s for alimony and child support are mandatory court orders that the Pension Plan must follow. IDO’s are taken from benefit checks and remanded directly to the DOMESTIC RELATIONS OFFICE for distribution to the spouse. The divorce laws can be quite complex. Therefore, you may wish to speak to legal counsel to discuss your personal circumstances.

G. <u>TAX CIRCUMSTANCES UNDER DROP</u>

1. THE DROP ORDINANCE STATES THAT THE FORM OF PAYMENT SELECTED BY THE DROP PARTICIPANT SHALL COMPLY WITH THE

MINIMUM DISTRIBUTION REQUIREMENTS PER SECTION 401(a)(9) OF THE I.R.C., WHAT DOES THIS MEAN?

Section 401(a)(9) states that you must begin taking money out of a tax deferred retirement account (like an IRA or a DROP account) by April 1 of the year following the calendar year in which you turn 70-1/2 unless you are still working. If you are a participant in a qualified plan (like the Police and Fire Pension Plan), and you are still working, you may postpone withdrawals until such time as you terminate employment. In addition to the beginning date requirement (age 70-1/2), Section 401(a)(9) requires that the distribution, if not taken as a lump sum, must be made over a specified period based upon life expectancy tables. Since the DROP participant must begin to liquidate the DROP account upon termination of employment, the beginning date requirement should not be an issue under the DROP program. However, all parties must be mindful to select a periodic distribution period that does not extend beyond established life expectancy tables in conformance to the requirements of Section 401(a)(9).

2. ARE AMOUNTS CREDITED TO DROP ACCOUNTS TAX DEFERRED?

Yes. Under Section 402(a) of the Internal Revenue Code amounts are taxable only if distributed. Thus, even though amounts are credited to the DROP account because they could have been paid as retirement benefits, the participant will not be subject to tax until DROP account balances are actually distributed to the DROP participant. No withholding taxes will be imposed during the period of DROP participation pursuant to Code Section 3401(a)(12)(A).

3. IF I DECIDE TO ROLLOVER MY DROP BENEFITS WHAT CAN I ROLL THEM INTO?

The law states that rollovers must be paid directly to the custodian of an eligible retirement plan as defined in Section 402(c)(8)(B) of the Internal Revenue Code (IRC). Eligible retirement plans include an individual retirement account (IRA) as described in Section 408(a), IRC; an individual retirement annuity [Section 408(b), IRC, except an endowment contract]; a qualified trust; and an annuity plan as described in Section 403(a), IRC. If you die, your spouse will only be eligible to rollover your DROP benefits into an individual retirement account or an individual retirement annuity as described in Section 402(c)(9), IRC.

4. HOW IS YOUR DROP DISTRIBUTION TAXED?

If you authorize the Pension Fund to transfer the lump sum value of your DROP account directly to an IRA or qualified retirement plan, there will be no immediate recognition of income for purposes of federal income taxation. You would pay taxes on these funds only as funds are received from your IRA or qualified retirement plan.

However, in the event that you do not choose a direct rollover of any portion of your DROP account that is an “eligible rollover distribution”, the payment is taxed in the year you receive it. If you forego the rollover option and elect to receive the DROP account proceeds, the following rules would generally apply:

1. The distribution will be treated as a source of ordinary income to you (and taxed accordingly) in the year you receive it.

2. You will be subject to the 10% “early distribution” tax penalty rules if you are less than 50 years old.

3. You may be subject to a 15% “excess distribution” tax penalty if your total retirement proceeds (from the DROP account, any IRA’s or qualified retirement plans) exceed the IRS maximum distribution amount for the year in which you receive the distribution.

This is our understanding of the current tax issues that you may wish to consider. We may not be correct. We are not allowed to give tax advice in any way. Keep in mind the **tax laws can change**, and they are complex. We **recommend and encourage** you to seek the advice of a tax professional to determine what is best for you and how you will be impacted.

5. CAN YOU TELL ME MORE ABOUT THE 10% EARLY DISTRIBUTION TAX PENALTY?

DROP participants who do not turn age 50 during the calendar year that they separate from service may avoid the assessment of the 10% tax penalty to the extent that they elect to receive the value of their DROP account in substantially equal payments over their life expectancy. However, a comprehensive discussion of this subject is beyond the scope of this publication. Additional information may be obtained on this subject by reviewing Pension Bulletin #5 which is available from the Pension Office. As we have previously stated, **the tax laws can change and they are quite complex, particularly in this area. Therefore, we would encourage you to seek the advice of a tax professional.**

6. WILL CREDITING AMOUNTS TO DROP AFFECT THE TAX-QUALIFIED STATUS OF THE POLICE AND FIRE PENSION PLAN?

No. However, in an abundance of caution, the Pension Plan has submitted a request to the IRS for a review of the proposed DROP program to ensure that the program will not jeopardize the tax-qualified status of the plan. Qualification of the Plan under 401(a) of the Internal Revenue Code would assure that DROP participants are not subject to “constructive receipt” of income under the plan with respect to DROP benefits prior to “actual distribution” of DROP benefits accrued under the Plan. Pursuant to 402(a), DROP participants, as Members of a “Qualified Plan” would not be subject to “constructive receipt” of income prior to “actual distribution”.

H. DROP DECISION CONSIDERATIONS

1. WHEN SHOULD I ENTER THE DROP?

This is a very personal decision. No one knows better than you when to begin taking retirement benefits. Once you enter the DROP, you cannot accumulate any more service credit in the Plan. A person who DROPs with 20 years of service will earn a pension worth 60% of average final salary. A person who waits until the 28th year of service is completed will get a pension worth 76% of salary. A person who DROPs with 28 years of service will likely have a higher average salary than one who DROPs with 20 years of service. In other words, before entering the DROP, some careful financial planning is in order.

If the Plan benefits change after you DROP, those benefits may not be available to you. If you get a raise or a promotion after you enter the DROP, that salary increase will not count toward your pension. Once you DROP, you are retired under the Plan and your pension benefits are fixed (other than periodic increases from the 3% pension COLA).

2. WHAT ARE SOME ADVANTAGES OF DROP'S?

A DROP program can be very advantageous to an employee who is interested in assembling a "nest egg" for themselves and their family and providing a "jump-start" into retirement. This "nest egg" can offer the employee the ability to start a business, purchase a home, travel, etc., upon retirement.

The DROP participant will see his required pension contribution reduced from a rate of 7% of pay to 2% of pay. By reducing such contributions, the employee's take-home pay will be increased.

The DROP program allows the employee to select an option that would effectively accelerate a portion of the retirement benefits that would otherwise have been received over an extended period of time. If the employee has reason to believe that his life expectancy will be less than average, the DROP could be viewed as a practical response to this outlook.

During the period of time that DROP's have become popular, the financial markets have generally delivered attractive returns. As a result, many retirees have preferred to receive a lump sum payment so that such funds could be self-directed and administered by professional money managers.

3. WHAT ARE SOME DISADVANTAGES OF DROP'S?

One disadvantage of participating in a DROP plan is that the amount of monthly pension that an employee receives will generally be substantially lower than the amount that the employee would have received had the employee retired under a normal retirement calculation performed at the time of actual retirement.

Another disadvantage is that the decision to enter the DROP is irrevocable. Sometimes employees change their mind about continuing to work, but once they have entered the DROP, they are not allowed to reverse the decision to retire. A retiree experiencing the birth of a child, a new marriage, divorce, or other significant life event, may have no choice but to retire at the end of the DROP period.

Lump sum payments may not be used judiciously, thereby placing financial pressures upon retirees at a point in their lives that they can ill afford to effectively respond to such pressures.

Lump sum payouts are subject to the mandatory 20% withholding requirements which would materially impact the funds available under the DROP. In addition, DROP payments may be subject to the application of the 10% early distribution tax penalty. DROP participants may address these issues by electing a direct rollover to an eligible retirement plan or an IRA or by structuring DROP payments in accordance with life expectancy tables.

In addition to the foregoing requirements, Ordinance Code section 121.209(g) stipulates that members who were former DROP participants and who retired while in such status shall not be eligible to rejoin membership into the Police and Fire Pension Fund.

4. SHOULD I PARTICIPATE IN DROP?

One of the most important decisions you will have to make is whether you should join DROP or remain as an active contributor to the Police and Fire Pension Fund. To assist in this decision, the Pension Office will provide upon request an estimate of the benefits you will receive if you elect to join DROP. Upon receipt of these estimates, you should meet with your accountant, CPA, financial planner, etc., to review your total financial situation, including pension and/or DROP benefits, personal investments, and Social Security benefits, to determine which choice will be the best decision for your future.

5. HOW CAN I GET MORE INFORMATION?

Entering the DROP is a big decision. Once a decision is made to enter and approved, it is FINAL. Before entering the DROP you are encouraged to contact the Pension Office with your questions. The DROP is a valuable benefit, but like anything, it does not meet everyone’s needs in the same way. Before you DROP, be sure of your rights and make careful plans for your future. It would be wise to consult your own financial adviser concerning the choices that are most advantageous for your specific circumstances. For more information, you may contact the Plan Executive Director - Administrator, John Keane or the staff of the Pension Office at 904-255-7373. DROP consultations are available at the Pension Office located at One West Adams Street, Suite 100, Jacksonville, Florida 32202-3616.

POLICE AND FIRE PENSION FUND

Analysis of Estimated Values of DROP Accounts at the End of
Annual Periods Based upon Various Bi-Weekly DROP Benefit Accounts

Bi-Weekly DROP Benefit	**Value of DROP Account after**				
	1 Yr.@27.02	**2 Yrs. @56.31**	**3 Yrs.@ 88.11**	**4 Yrs.@ 122.65**	**5 Yrs. @160.16**
1,250.00	**33,775**	**70,388**	**110,138**	**153,313**	**200,200**
1,300.00	**35,126**	**73,203**	**114,543**	**159,445**	**208,208**
1,350.00	**36,477**	**76,019**	**118,949**	**165,578**	**216,216**
1,400.00	**37,828**	**78,834**	**123,354**	**171,710**	**224,224**
1,450.00	**39,179**	**81,650**	**127,760**	**177,843**	**232,232**
1,500.00	**40,530**	**84,465**	**132,165**	**183,975**	**240,240**
1,550.00	**41,881**	**87,281**	**136,571**	**190,108**	**248,248**
1,600.00	**43,232**	**90,096**	**140,976**	**196,240**	**256,256**
1,650.00	**44,583**	**92,912**	**145,382**	**202,373**	**264,264**
1,700.00	**45,934**	**95,727**	**149,787**	**208,505**	**272,272**
1,750.00	**47,285**	**98,543**	**154,193**	**214,638**	**280,280**
1,800.00	**48,636**	**101,358**	**158,598**	**220,770**	**288,288**
1,850.00	**49,987**	**104,174**	**163,004**	**226,903**	**296,296**
1,900.00	**51,338**	**106,989**	**167,409**	**233,035**	**304,304**
1,950.00	**52,689**	**109,805**	**171,815**	**239,168**	**312,312**
2,000.00	**54,040**	**112,620**	**176,220**	**245,300**	**320,320**
2,050.00	**55,391**	**115,436**	**180,626**	**251,433**	**328,328**
2,100.00	**56,742**	**118,251**	**185,031**	**257,565**	**336,336**
2,150.00	**58,093**	**121,067**	**189,437**	**263,698**	**344,344**
2,200.00	**59,444**	**123,882**	**193,842**	**269,830**	**352,352**
2,250.00	**60,795**	**126,698**	**198,248**	**275,963**	**360,360**
2,300.00	**62,146**	**129,513**	**202,653**	**282,095**	**368,368**

NOTE: The estimated values shown above do not include the impact of COLA enhancements that would be extended to the Bi-Weekly DROP benefit amount during the period of DROP participation.

POLICE AND FIRE PENSION FUND
Analysis of Estimated Values of DROP Accounts at the End of
Annual Periods Based upon Various Bi-Weekly DROP Benefit Accounts

Bi-Weekly DROP Benefit	**Value of DROP Account after**				
	1 Yr. @ 27.02	**2 Yrs. @ 56.31**	**3 Yrs. @ 88.11**	**4 Yrs. @122.65**	**5 Yrs. @160.16**
2,350.00	**63,497**	**132,329**	**207,059**	**288,228**	**376,376**
2,400.00	**64,848**	**135,144**	**211,464**	**294,360**	**384,384**
2,450.00	**66,199**	**137,960**	**215,870**	**300,493**	**392,392**
2,500.00	**67,550**	**140,775**	**220,275**	**306,625**	**400,400**
2,550.00	**68,901**	**143,591**	**224,681**	**312,758**	**408,408**
2,600.00	**70,252**	**146,406**	**229,086**	**318,890**	**416,416**
2,650.00	**71,603**	**149,222**	**233,492**	**325,023**	**424,424**
2,700.00	**72,954**	**152,037**	**237,897**	**331,155**	**432,432**
2,750.00	**74,305**	**154,853**	**242,303**	**337,288**	**440,440**
2,800.00	**75,656**	**157,668**	**246,708**	**343,420**	**448,448**
2,850.00	**77,007**	**160,484**	**251,114**	**349,553**	**456,456**
2,900.00	**78,358**	**163,299**	**255,519**	**355,685**	**464,464**
2,950.00	**79,709**	**166,115**	**259,925**	**361,818**	**472,472**
3,000.00	**81,060**	**168,930**	**264,330**	**367,950**	**480,480**
3,050.00	**82,411**	**171,746**	**268,736**	**374,083**	**488,488**
3,100.00	**83,762**	**174,561**	**273,141**	**380,215**	**496,496**
3,150.00	**85,113**	**177,377**	**277,547**	**386,348**	**504,504**
3,200.00	**86,464**	**180,192**	**281,952**	**392,480**	**512,512**
3,250.00	**87,815**	**183,008**	**286,358**	**398,613**	**520,520**
3,300.00	**89,166**	**185,823**	**290,763**	**404,745**	**528,528**
3,350.00	**90,517**	**188,639**	**295,169**	**410,878**	**536,536**
3,400.00	**91,868**	**191,454**	**299,574**	**417,010**	**544,544**
3,450.00	**93,219**	**194,270**	**303,980**	**423,143**	**552,552**

NOTE: The estimated values shown above do not include the impact of COLA enhancements that would be extended to the Bi-Weekly DROP benefit amount during the period of DROP participation.

Exhibit B

POLICE & FIRE PENSION FUND
Amortization of DROP Balances at 8.40% Over Various
Optional Distribution Periods Under the Bi-Weekly Payment Election

Distribution Period Elected	Principal Value of DROP at the End of DROP Period						
	$100,000	$150,000	$200,000	$250,000	$300,000	$350,000	$400,000
1 Year	$4,016.16	$6,024.24	$8,032.32	$10,040.40	$12,048.48	$14,056.56	$16,064.64
2 Years	$2,092.23	$3,138.35	$4,184.47	$5,230.59	$6,276.70	$7,322.83	$8,368.94
3 Years	$1,452.43	$2,178.64	$2,904.85	$3,631.07	$4,357.28	$5,083.50	$5,809.71
4 Years	$1,133.64	$1,700.47	$2,267.29	$2,834.11	$3,400.93	$3,967.75	$4,534.58
5 Years	$943.27	$1,414.91	$1,886.54	$2,358.17	$2,829.80	$3,301.44	$3,773.07
6 Years	$817.09	$1,225.64	$1,634.18	$2,042.73	$2,451.27	$2,859.82	$3,268.37
7 Years	$727.59	$1,091.39	$1,455.18	$1,818.98	$2,182.77	$2,546.57	$2,910.37
8 Years	$661.01	$991.52	$1,322.03	$1,652.54	$1,983.04	$2,313.56	$2,644.06
9 Years	$609.71	$914.57	$1,219.42	$1,524.28	$1,829.13	$2,133.99	$2,438.85
10 Years	$569.09	$853.64	$1,138.19	$1,422.74	$1,707.28	$1,991.84	$2,276.38
11 Years	$536.24	$804.37	$1,072.49	$1,340.61	$1,608.73	$1,876.85	$2,144.98
12 Years	$509.22	$763.83	$1,018.43	$1,273.04	$1,527.65	$1,782.26	$2,036.86
13 Years	$486.66	$729.99	$973.32	$1,216.65	$1,459.98	$1,703.31	$1,946.64
14 Years	$467.61	$701.42	$935.23	$1,169.04	$1,402.84	$1.636.66	$1,870.46
15 Years	$451.37	$677.06	$902.74	$1,128.43	$1,354.11	$1,579.80	$1,805.49
16 Years	$437.40	$656.10	$874.80	$1,093.50	$1,312.19	$1,530.90	$1,749.60
17 Years	$425.29	$637.94	$850.58	$1,063.23	$1,275.88	$1,488.52	$1,701.17
18 Years	$414.74	$622.11	$829.47	$1,036.84	$1,244.21	$1,451.58	$1,658.94
19 Years	$405.48	$608.22	$810.96	$1,013.71	$1,216.45	$1,419.19	$1,621.94
20 Years	$397.33	$596.00	$794.66	$993.33	$1,191.99	$1,390.66	$1,589.33
25 Years	$368.33	$552.50	$736.67	$920.84	$1,105.00	$1,289.17	$1,473.34
30 Years	$351.47	$527.21	$702.94	$878.68	$1,054.41	$1,230.15	$1,405.89

NOTES