Police Pension News

A Hollywood Police Officers' Retirement System Publication

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SEE THE LATEST FILINGS ON THE LITIGATION RELATED TO THE SUPPLEMENTAL DISTRIBUTION ON THE ANNOUNCEMENT PAGE

ORDINANCE UPDATE AND REVIEW

In this issue of the Pension Newsletter we will forego the normal format of reporting in an effort to review the Police Pension Ordinance approved by the City Commission on second reading on October 7, 2015. Our intent is not to provide a commentary about the change, but simply to try to inform you about the Ordinance and how it may affect you.

Retired Members (or their beneficiaries) including members currently in the DROP:

The changes set forth in this Ordinance have no impact on you.

Active (not in DROP) Members:

For active members the main plan changes include:

- A Reformed Planned Retirement Benefit (RPRB) option.
- For non-vested members as of September 30, 2011 – (i) an increase in the benefit multiplier, or accrual rate from 3% to 3.3% and (ii) elimination of the requirement that you must be at least age 52 to retire with 25 or more years of service.
- The refund of your contributions if you terminate with less than 10 years of service shall no longer include interest.

In addition, police officers shall become members of the Retirement System and begin contributing to the Retirement System once they complete the academy (currently they begin to contribute upon completion of probation). Officers who are currently in the probationary period will join the System immediately.

Members eligible for normal retirement as of September 30, 2011 – If you were eligible to enter the DROP or retire (that is, age 50, or any age with 22 or more years of service) as of September 30, 2011, you retain the right to the benefits effective on September 30, 2011, such as, the 80% of average monthly earnings pension benefit at 22 years of service and ability to enter the DROP. In addition, you will be eligible for the Reformed Planned Retirement Benefit.

THE REFORMED PLANNED RETIREMENT BENEFIT

The Reformed Planned Retirement Benefit (RPRB) is an optional form of benefit payment you may elect when you reach your normal retirement date. If you elect the RPRB, when you end your employment with the City you must receive your pension benefit under the RPRB. You can elect one of two RPRB options. Option (2) is a new RPRB choice with reduced employee contributions and a lump sum payment at service termination. Option (1) is the planned retirement benefit option in effect prior to this change.

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If you elect the current PRB option you may receive your benefit under another form of benefit payment when you actually terminate from service. If you have already elected the prior planned retirement benefit option you have until November 16, 2015 to elect the RPRB. Any police officer who has entered the DROP is not be eligible for the RPRB.

The table below compares the key provisions of the Reformed Planned Retirement Benefit under the two options.

	Current Planned Retirement Benefit [RPRB Option (1)]	Reformed Planned Retirement Benefit [RPRB Option (2)]
Employee contribution while participating	8.0% of earnings	0.5% of earnings
Benefit at retirement (service termination) - Monthly benefit	Option (i) - Calculated as if you retired when you make election to participate Option (ii) - Calculated using your service and pay when your service terminates	Calculated as if you retired when you make election to participate
Lump sum benefit	Option (i) - Based on number of years you worked after electing to participate Option (ii) – No lump sum After service termination you cannot leave your lump sum in the plan	Based on number of years you worked after electing to participate After service termination you can leave your lump sum in the plan
Investment earnings on lump sum benefit	Option (i) only - The Retirement System's actual investment rate of return and the following schedule. (a) 0% if plan investment earnings are less than 0% (b) 100% of plan return up to 4% per year (c) 0% of plan return from 4% to 6% per year (d) 50% of plan earnings in excess of 6% per year	The Retirement System's actual investment rate of return. Earnings could be less than 0%. You receive no downside protection on the investment return.

Electing the Reformed Planned Retirement Benefit

To participate in the RPRB you must make a written irrevocable election at any time after reaching your normal retirement date (based on years of service or age). You are eligible for normal retirement beginning the first of the month after:

If you had 10 or more years of service on September 30, 2011 (vested), the earlier of

- Reaching 22 years of credited service, or
- Reaching age 50.

If you had less than 10 years of service on September 30, 2011 (non-vested), the earlier of

- Reaching 25 years of credited service, or
- Reaching age 55 with 10 years of credited service.

If you choose to participate in the RPRB you must make an irrevocable election of one of the following two options:

(1) Contribute 0.5% of pay while participating in the RPRB. At termination you will receive a lump sum equal to the total of monthly pension benefits you would have received from your RPRB date up to your actual retirement date, plus investment earnings. The investment earnings will be equal to the net investment rate earned by the Retirement System's assets (see more below).

(2) Continue making 8% of pay contributions while participating in the RPRB. At termination you will have the option of:

(i) Receiving a lump sum equal to the total of monthly pension benefits you would have received from your RPRB date up to your actual retirement date, plus investment earnings. The investment earnings will be credited according to the current RPRB interest credit schedule. In addition, you will receive a lifetime monthly pension benefit calculated based on your accrued benefit at your RPRB date.

(ii) A lifetime monthly pension calculated using your service, average final compensation and pension benefit formula as of the date you actually retire, not as of an earlier RPRB participation date.

If you are participating in the Planned Retirement Benefit as of October 7, 2015 you must make an irrevocable election of one of the two options above by November 16, 2015. If you elect Option (2) you will receive a refund equal to 7.5% of your pay (8% minus 0.5%) for the time you participated in the PRB and were making 8% contributions. After electing Option (2) your future contributions will be reduced from 8% to 0.5% on your pay date of December 23, 2015 (2nd full pay period after November 16, 2015).

Your written election to participate in the RPRB will indicate the maximum number of years you may participate in the RPRB and your latest employment termination date.

The maximum RPRB period is eight years if you had 10 or more years of credited service on September 30, 2011.

If you had less than 10 years of credited service on September 30, 2011 the maximum RPRB period is five years.

If you elect to participate in the RPRB your service with the City cannot exceed 30 years. However, if you elect to participate in the RPRB you may terminate employment any time prior to reaching the earlier of 30 years of service or the maximum period of RPRB participation.

How Is Your Reformed Planned Retirement Benefit Calculated?

If you elect the Reformed Planned Retirement Benefit your pension benefit generally will be calculated as if you had stopped working and retired on your election date, but not before your normal retirement date. The date as of which your pension benefit is calculated is called the RPRB date.

The monthly RPRB is calculated based on your accrued benefit on your RPRB date. The monthly benefit will begin on your actual retirement date (when you stop working with the City). The monthly RPRB is payable on any of the Retirement System's optional forms of benefit. (See Section titled "How Your Benefit Is Paid")

In addition, you will receive a lump sum equal to the total of monthly pension benefits you would have received from your RPRB date up to your actual retirement date, plus investment earnings.

The investment earnings will be based on the net investment rate earned by the Retirement System's assets for each month you worked after the RPRB date.

If you elect RPRB Option (2) – lump sum only at retirement date - the investment earnings will be based on the net investment rate earned by the Retirement System's assets for each month you worked after the RPRB date, including returns of less than 0%. If you currently participate in the PRB and you elect Option (2) your accumulated PRB account as of December 31, 2015 will transfer to the new RPRB plan and earn the System's investment return from January 1, 2016 on.

If you elect RPRB Option (1) the investment earnings will be based on the net investment rate earned by the Retirement System's assets for each month you worked after the RPRB date and the following schedule.

- 0% for any month in which plan investment earnings are less than 0%
- 100% of monthly plan investment earnings up to .327% (4% per year)
- 0% of annualized plan investment earnings from 4% to 6%
- 50% of plan investment earnings in excess of 6% annualized

If you elect RPRB Option (2) you can leave the RPRB lump sum in the System after you retire/separate from employment. The plan's actual investment rate of return will be applied to the RPRB lump sum as long as it remains in the System. You will pay a fee for the administrative cost of managing your lump sum while it is in the System after your retire.

If you elect RPRB Option (1) you cannot leave the RPRB lump sum in the System after you retire/separate from employment.

With RPRB Option (2) you choose the form of payment - how your benefit will be paid - at your RPRB date. Under Option (1) at the time you terminate and make your final RPRB election you need to choose the form of payment.

Remember if you elect RPRB Option (1) you do not have to elect the RPRB option when you terminate from service even if you had elected to participate in the RPRB at your normal retirement date. If you do not elect the RPRB option when you terminate from service (i.e., retire), your monthly pension benefits will be calculated using your service, average final compensation and pension benefit formula as of the date you actually retire, not as of an earlier RPRB participation date. By not electing the RPRB at retirement you will receive credit for additional service and pay increases up to your actual retirement date.

What is the Reformed Planned Retirement Benefit date?

The RPRB date is the date used to calculate your pension benefit if you elect the RPRB option. To participate in the RPRB you must make a written election at any time after reaching your normal retirement date. However, you choose the RPRB date at the time you elect the RPRB option and are ending your employment with the City. The RPRB date is generally any date between the date you elected to participate in the RPRB and the date you stop working, but not before your normal retirement date.

The maximum RPRB period is eight years if you were vested on September 30, 2011 and five years if you were not vested on that date. Your pension benefit will be calculated based on your accrued benefit on your RPRB date.

A RPRB date example:

On July 1, 2016, Mary reaches her normal retirement date at age 48 with 22 years of service. Mary continues working with the City past her normal retirement date and elects to participate in the RPRB on July 1, 2017 with a maximum RPRB period of seven years.

Mary stops working for the City on July 1, 2024. Mary's pension benefit payable beginning on July 1, 2024 will be based on her frozen accrued benefit as of September 30, 2011 and her benefit earned for service from October 1, 2011 to July 1, 2017 (her RPRB date) and her final average earnings on July 1, 2017, not her service and pay on her retirement date of July 1, 2024.

Here Are a Couple of Examples of How Your RPRB Benefit Is Calculated

Below are a couple of examples of the calculation of your pension benefit under Option (2) of the Reformed Planned Retirement Benefit. For examples on the calculation of the pension benefit under Option (1) of the RPRB please see the Pension Newsletter dated September 2013 on the Planned Retirement Benefit.

In general, your pension benefit is calculated using the following formula.

Your frozen accrued benefit as of September 30, 2011 equal to your best three year average monthly earnings as of that date times 3.3% times your service on September 30, 2011.

PLUS – for service on and after October 1, 2011 – 3% of the average monthly earnings for your highest five consecutive years out of the last 10 years times your years of service on and after October 1, 2011.

The total benefit percentage calculated using the formula above cannot be greater than the 80% maximum discussed earlier.

Let's say Robert retires on October 1, 2023 at age 58 with 30 years of creditable service. Robert's normal retirement date was October 1, 2015 when he was age 50 with 22 years of service. Robert elects to participate in the RPRB on October 1, 2015. Robert participated in the RPRB for 8 years from October 1, 2015 (his RPRB date) to October 1, 2023 when he stops working with the City. Here is how Robert's RPRB benefit is calculated using the formula shown above and the 80% maximum limit. Robert's best three year average monthly earnings as of September 30, 2011 was $6,500. Robert's average monthly earnings on his RPRB date of October 1, 2015 is $6,700.

STEP 1

Frozen monthly accrued benefit on September 30, 2011:

3.3% of $6,500 X 18 years [service on 9/30/11] = $3,861.00

STEP 2

3% x 4 years of service after September 30, 2011 = 12% - benefit percentage accumulated under the 3% accrual rate

STEP 3:

3.3% x 18 years of service = 59.4% - benefit percentage accumulated as of September 30, 2011

STEP 4:

80% - 59.4% (STEP 3) = 20.6% - maximum benefit percentage for service after September 30, 2011

STEP 5:

Lesser of result under STEP 2 and STEP 4 = 12% - benefit percentage for service after September 30, 2011

STEP 6

Monthly benefit for service from September 30, 2011 to RPRB date of October 1, 2015:

12% (benefit percentage for service after September 30, 2011 - STEP 5) of $6,700 = $804.00

STEP 7

$3861.00 + $804.00 = $4,665.00 total monthly pension benefit payable beginning October 1, 2023

RPRB lump sum payable October 1, 2023 for the accumulated payments of $4,665.00

Robert would have received for the 96 months from his RPRB date of October 1, 2015 up to his actual retirement date of October 1, 2023, plus investment earnings based on the System's earnings. For illustration purposes we have calculated Robert would receive a lump sum of $544,831.18 based on the following hypothetical System investment earnings. You will notice that for periods with investment returns below 0% the RPRB return is negative.

Hypothetical Investment Earnings for Robert's Illustration

Period	Fund Earnings - Annual	RPRB Lump Sum Earnings Credit - Monthly
10/1/2015 – 9/30/2016	8%	0.643%
10/1/2016 – 9/30/2017	3%	0.247%
10/1/2017 – 9/30/2018	-2%	-0.168%
10/1/2018 – 9/30/2019	10%	0.797%
10/1/2019 – 9/30/2020	5%	0.407%
10/1/2020 – 9/30/2021	13%	1.024%
10/1/2021 – 9/30/2022	9%	0.721%
10/1/2022 – 9/30/2023	-4%	-0.340%

Let's say Stephanie retires on October 1, 2036 at age 58 with 30 years of creditable service. Stephanie's normal retirement date was October 1, 2031 when she was age 53 with 25 years of service. Stephanie elects to participate in the RPRB on October 1, 2031. Stephanie elects the RPRB option for 5 years from October 1, 2031 (her RPRB date) to October 1,

2036 when she stops working with the City. Here is how Stephanie's RPRB benefit is calculated using the formula shown above and the 80% maximum limit. Stephanie's best three year average monthly earnings as of September 30, 2011 was $3,000. Stephanie's average monthly earnings on her RPRB date of October 1, 2031 is $5,400.

STEP 1

Frozen monthly accrued benefit on September 30, 2011:

3.3% of $3,000 X 5 years [service on 9/30/11] = $495.00

STEP 2

3% x 20 years of service after September 30, 2011 = 60% - benefit percentage accumulated under the 3% accrual rate

STEP 3:

3.3% x 5 years of service = 16.5% - benefit percentage accumulated as of September 30,

2011

STEP 4:

80% - 16.5% (STEP 3) = 63.5% - maximum benefit percentage for service after September

30, 2011

STEP 5:

Lesser of result under STEP 2 and STEP 4 = 60% - benefit percentage for service after

September 30, 2011

STEP 6

Monthly benefit for service from September 30, 2011 to RPRB date of October 1, 2031:

60% (benefit percentage for service after September 30, 2011 - STEP 5) of $5,400 =

$3,240.00

STEP 7

$495.00 + $3,240.00 = $3,735.00 total monthly pension benefit payable beginning

October 1, 2036

RPRB lump sum payable October 1, 2036 for the accumulated payments of $3,735

Stephanie would have received for the 60 months from her RPRB date of October 1, 2031 up to her actual retirement date of October 1, 2036, plus investment earnings based on the System's earnings and the rules outlined above. For illustration purposes we have calculated Stephanie would receive a lump sum of $251,863.93 based on the following hypothetical System investment earnings.

Hypothetical Investment Earnings for Stephanie's Illustration

Period	Fund Earnings - Annual	RPRB Lump Sum Earnings Credit - Monthly
10/1/2031 – 9/30/2032	8%	0.643%
10/1/2032 – 9/30/2033	3%	0.247%
10/1/2033 – 9/30/2034	-2%	-0.168%
10/1/2034 – 9/30/2035	10%	0.797%
10/1/2035 – 9/30/2036	5%	0.407%

How does the RPRB benefit compare to my benefit if I don't elect the RPRB?

It is your decision whether or not to elect the RPRB. Deciding whether to elect the RPRB depends on your personal circumstances and preferences. There are no set rules for making the decision. Keep in mind that once you elect to participate in the RPRB your decision is irrevocable and cannot be changed.

Generally, your RPRB monthly benefit will be lower than your monthly benefit if you do not elect the RPRB. That's because your monthly RPRB benefit is calculated using your pay and service on your RPRB date which is earlier than your actual retirement date. Therefore, your service and pay increases since your RPRB date will not be included in your monthly RPRB benefit. If you do not elect the RPRB, your monthly benefit will reflect your pay and service at your actual retirement date.

On the other hand, the RPRB allows you to receive a lump sum payment in addition to your monthly benefit. You cannot receive any portion of your pension benefit in a lump sum if you do not elect the RPRB.

Also, your contributions to the System while you participate in the RPRB Option (2) will only be 0.5% of your pay instead of 8% of pay.

What will be best for you -

(1) To elect the RPRB and receive a lower monthly lifetime pension benefit plus a lump sum payment at retirement, or

(2) To not elect the RPRB and receive a higher lifetime monthly pension benefit but no lump sum payment at retirement?

Using the previous example for Stephanie, below we compare the benefits payable with and without the RPRB.

If Stephanie elects the RPRB she would receive a lump sum payment of $251,863.93 on October 1, 2036 and a monthly benefit of $3,735 beginning on October 1, 2036 and payable for the rest of her life. These benefits are based on the frozen accrued benefit on September

30, 2011 and on 20 years of service after that date and average final monthly compensation of $5,400 on Stephanie's PRRB date of October 1, 2031.

If Stephanie does not elect the RPRB option her lifetime monthly benefit will be calculated as follows. On her actual retirement date of October 1, 2036 Stephanie has an average final monthly compensation of $6,400 and 25 years of service after September 30, 2011.

STEP 1

Frozen monthly accrued benefit on September 30, 2011:

3.3% of $3,000 X 5 years [service on 9/30/11] = $495.00

STEP 2

3% x 25 years of service after September 30, 2011 = 75% - benefit percentage accumulated under the 3% accrual rate

STEP 3:

3.3% x 5 years of service = 16.5% - benefit percentage accumulated as of September 30, 2011

STEP 4:

80% - 16.5% (STEP 3) = 63.5% - maximum benefit percentage for service after September 30, 2011

STEP 5:

Lesser of result under STEP 2 and STEP 4 = 63.5% - benefit percentage for service after September 30, 2011

STEP 6

Monthly benefit for service from September 30, 2011 to retirement date of October 1, 2036: 63.5% (benefit percentage for service after September 30, 2011 - STEP 5) of $6,400 = $4,064.00

STEP 7

$495 + $4,064 = $4,559 total monthly pension benefit payable beginning October 1, 2036

In this example, Stephanie will receive a monthly benefit for life of $4,559 without the RPRB option compared to a monthly benefit of $3,735 if she elects the RPRB. However, by not electing the RPRB, Stephanie gives up the lump sum payment of $251,863.93. Also, Stephanie would have made additional contributions of 7.5% of pay for the five years she did not participate in the RPRB.

As you can see, in this example, Stephanie's benefit without the RPRB will be $824 per month higher for the rest of her life than if she elects the RPRB. The increase in her monthly benefit is because her service after September 30, 2011 has increased from 20 years to 25 years and her average final monthly compensation has increased from $5,400 to $6,400 from her RPRB date of October 1, 2031 to her actual retirement date of October 1, 2036. However, the 80% maximum total benefit percent limits her benefit without the RPRB.

Actual pay increases and the 80% maximum impact will be different for each person. And, the investment earnings on the RPRB lump sum will vary depending on the actual System earnings during the RPRB period. If Stephanie elected Option (1) of the RPRB she does not have to decide until her actual retirement date of October 1, 2036 whether to elect the benefit based on service and pay as of October 1, 2031 or October 1, 2036. However, keep in mind that under Option (1) Stephanie would continue contributing 8% of pay during the RPRB period instead of 0.5% of pay under Option (2).

The RPRB will impact each individual differently based on everyone's unique circumstance. Please consult a financial or tax advisor to help determine the right benefit election for you.

What are the forms of benefit payment for my RPRB annuity?

The forms of benefit payment have not changed. The standard form of payment is a guaranteed payment that you, your beneficiary or your estate will receive at least 120 monthly payments. If you are not married at the time of retirement and you die after receiving 120 payments, all benefits stop. If you are married at the time of retirement and you die after receiving 120 payments, and your spouse is alive and unmarried, your spouse will receive 50% of your benefit until the earlier of his or her death or remarriage. With RPRB Option (2) you select the form of benefit payment for your RPRB annuity when you elect to participate in the RPRB. For example, assume you elect a five year RPRB on October 1, 2016. If you are married on your RPRB date of October 1, 2016 your RPRB lump sum will be based on the accumulation with investment earnings of your benefit calculated as of October 1, 2016 under the 120 guaranteed payments form of benefit with your spouse on October 1, 2016 as the beneficiary. The 120 guaranteed payments period will begin on October 1, 2016 and end on October 1, 2026. If you die after receiving 120 payments, and your spouse is alive and unmarried, your spouse will receive 50% of your benefit until the earlier of his or her death or remarriage. On the other hand, if you elect RPRB Option (1) you select the form of benefit payment for your RPRB annuity when you retire/separate from service but as if you had retired on your RPRB date.

What are the payment options for my RPRB lump sum?

Under Option (2) you can receive the RPRB lump sum in a single cash lump sum payment when your service terminates or you can choose to leave your lump sum in the Retirement System. For as long as your lump sum remains in the System it will receive the actual investment return rate earned by the System. You will also pay a fee for the administrative cost to manage your lump sum. If you elect RPRB Option (1) you cannot leave your lump sum in the System. All or a portion of the RPRB lump sum can be paid out in a cash lump sum to you, converted to an annuity under the System optional forms of payment (such as, an annuity payable for as long as you live or a joint and survivor annuity with a portion going to your surviving beneficiary after you die) or rolled over to another tax-qualified plan, such as an IRA, in accordance with federal law.

Is my RPRB lump sum payment subject to income taxes?

Yes. The distribution of your RPRB lump sum is subject to the Federal income and excise taxes in effect at the time you receive it, which may include a 10% tax penalty. You may defer income taxes by rolling over your distribution into a tax-qualified plan or to an IRA. Please consult a legal, financial or CPA tax advisor before making any RPRB lump sum decision.

What happens to my benefits if I become disabled or die while still working and after I elected to participate in the RPRB?

The formulas used to calculate the disability benefits and pre-retirement death benefits (service and non-service incurred) have not changed. However, if you become disabled after electing to participate in the RPRB Option (2) you will receive your RPRB lump sum benefit and the monthly benefit under the form of payment you elected when you joined the RPRB. If you elected RPRB Option (1) and become disabled you can receive the disability benefits provided by the System instead of your benefit under the RPRB.

In case you die while still working and after electing to participate in the RPRB and you elected Option (2), your designated beneficiary will receive your accumulated RPRB lump sum and the applicable monthly benefit under the option you elected when you participated in the RPRB.

Under Option (1) of the RPRB in case you die while still working then your designated beneficiary or your estate will elect the RPRB option with respect to the RPRB benefits you have earned at the time of your death.

How is the cost of living adjustment (COLA) affected by the RPRB?

You will receive the current 2% COLA only on your frozen accrued benefit as of September 30, 2011. You will not receive a COLA on the part of your retirement benefit for service earned by you after September 30, 2011.

How is the cost of living adjustment (COLA) affected by the RPRB?

You will receive the current 2% COLA only on your frozen accrued benefit as of September 30, 2011. You will not receive a COLA on the part of your retirement benefit for service earned by you after September 30, 2011.

Will I be eligible for a Supplemental Pension Distribution (13th Check) if I elect the RPRB option?

No member is eligible for a 13th check unless they are retired or were eligible to retire on September 30, 2011. Therefore, if you elect to participate in the RPRB you will be eligible for the 13th check only if you were eligible to retire on September 30, 2011.

Can the provisions of the RPRB be changed in the future?

Yes. However, if the RPRB is eliminated, all members who are eligible to participate at the time will maintain the right to participate in the RPRB by submitting the written election form.

Do members contribute after making an election to participate in the RPRB?

Yes, but the contribution you make will depend on which RPRB Option you choose. Your employee contribution to the System will be 0.5% of your earnings if you elect RPRB Option (2) and 8% of your earnings under Option (1).

CHANGES FOR NON-VESTED MEMBERS AS OF SEPTEMBER 30, 2011

There have been two plan changes for members who had less than 10 years of credited service as of September 30, 2011 (not vested on that date).

Increase in the Benefit Multiplier (Accrual Rate) for Service as of September 30, 2011

If you were not eligible to retire on September 30, 2011, your frozen accrued benefit as of that date is a percentage of your best three year average monthly earnings on that date. If you had less than 10 years of credited service as of September 30, 2011 your accrual rate will be 3.3% for all years and completed months of service up to September 30, 2011, including service in excess of 20 years. Your frozen accrued benefit as of September 30,

2011 will equal your best three year average monthly earnings as of that date times 3.3% times your years of service up to September 30, 2011. Prior to the change if you were not vested on September 30, 2011 your benefit multiplier for service as of that date was 3%.

The benefit formula has not changed for service after September 30, 2011.

Normal Retirement Eligibility

If you had less than 10 years of credited service as of September 30, 2011 you can now retire with 25 years of credited service regardless of your age. Prior to the change you needed to be at least age 52 with 25 years of credited service to be eligible for normal retirement. You will still be eligible for normal retirement after reaching age 55 with 10 or more years of credited service.

REFUND OF CONTRIBUTIONS TO MEMBERS WITH LESS THAN 10 YEARS OF SERVICE

If you terminate from service with less than 10 years of credited service, you will receive a refund of your contributions to the System without interest, instead of the prior 3% annual interest.

PROBATIONARY POLICE OFFICERS TO JOIN SYSTEM IMMEDIATELY

Under this change new police officers will join the Retirement System and begin making contributions once they complete the academy instead of waiting until the completion of the probationary period. If you are a current probationary officer you will become a member of the System immediately and begin making contributions to the System of 8% of your earnings on your pay date of October 30, 2015 (1st full pay period after October 7, 2015). Probationary officers will receive credited service with the System for all periods they make employee contributions. You will be allowed to buy back your time in the academy or your probationary period prior to this change as credited service in the System by contributing 8% of your earnings for that period, plus interest.

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From our family to yours….

Happy Holidays from the Board of Trustees

Defending Public Safety Employees' Retirement Act (the "Act"), which was signed into law by President Obama earlier this year, includes some important changes to the "early distribution tax" under Section 72(t) of the Internal Revenue Code of 1986, as amended (the "Code"), which are relevant to public safety officers who are participating in governmental retirement plans.

Section 72(t) Tax and the Public Safety Officer Exception

Under Section 72(t) of the Code, all payments from a qualified retirement plan paid to a participant prior to the participant reaching age 59 Â½ are subject to an additional 10% income tax, unless an exception is available. Nontaxable payments are not subject to the early distribution tax. For example, a payment rolled over to an IRA is not subject to the tax.

The Code provides several exceptions to the Section 72(t) tax. Under current law, there is an exception for distributions made to a participant after his separation from service, during or after the year in which the participant attains age 55. For public safety officers who are participants in a defined benefit pension plan, this age requirement decreases from 55 to 50. Therefore, public safety officers who separate from service in the year of or after reaching age 50, would not be subject to an early distribution tax, if their plan was a defined benefit plan. There is another exception to the Section 72(t) tax for distributions that are part of a series of substantially equal periodic payments, made over the life or life expectancy of the participant (or the participant and a designated beneficiary), and that begin after the participant separates from service at any age. Accordingly, if a participant in a plan separates from service and begins to receive monthly pension payments from a plan, those payments will be exempt from the Section 72(t) tax under the exception. Subject to certain exceptions, the modification of the periodic payments during the 5-year period beginning on the date of the first payment, so that they are not substantially equal, will result in all of the substantially equal payments becoming subject to the early distribution tax as if the exception never applied.

Recent Changes under the Act Effective as of January 1, 2016

The Act expanded the age 50 public safety officer exception. For distributions made after December 31, 2015, the exception will apply to all governmental plans, including defined contribution plans. Therefore, under this amendment, a public safety officer, who participates in a defined contribution plan and separates from service in the year of or after reaching age 50, will be able to take distributions from his account without paying the Section 72(t) tax.

In addition, the Act has modified the Section 72(t) exception for substantially equal payments. As described above, periodic payments that are modified will cause the participant to become subject to the early distribution tax as if the exception never applied. However, effective as of January 1, 2016, the modification of the substantially equal payments that results from a payment that qualifies for the age 50 public safety officer exception will not be considered a change to the substantially equal payments. For example, a participant in a defined contribution plan could start receiving monthly payments from the plan, then elect to receive a lump sum payment of his account balance in the plan and, if such lump sum payment qualified under the age 50 exception, the Section 72(t) tax will not be triggered by such modification.