

MUNICIPAL FIRE & POLICE RETIREMENT SYSTEM OF IOWA

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Memorandum

Date: March 16, 2007
To: MFPRSI Active Membership
From: Dennis L. Jacobs, Executive Director
Re: DROP Program Implementation Announcement

Announcement for Membership

In the 2006 session, the General Assembly established a Deferred Retirement Option Program (DROP) for the active fire fighters and police officers covered by Iowa Code Chapter 411.

Implementation of the DROP was subject to receipt of a favorable ruling from the Internal Revenue Service (IRS). The Board of Trustees submitted a request for a ruling to the IRS on May 5, 2006. The System has received a favorable ruling from the IRS.

Effective Date

Subsequent to receipt of the ruling, the Board established the following date as the effective date for implementation of the DROP: **April 1, 2007**.

The attachment to this document provides a DROP Plan Description.

Participation

Individuals who are interested in the DROP and who are considering retirement should **contact the retirement System** to receive the necessary application documents and to request an estimate of the benefits available under the DROP plan.

The retirement System administration is available to answer questions concerning the DROP and/or the Chapter 411 benefit provisions at the above phone number, by mail or email to pensions@mfprsi.org.

***MFPRSI - CHAPTER 411
DEFERRED RETIREMENT OPTION PLAN (DROP)
EFFECTIVE APRIL 1, 2007***

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DROP Concepts

The DROP is a distribution option within the qualified defined benefit pension plan (Chapter 411 plan).

The “DROP” is not a separate plan and there are no specific DROP requirements or references in the Internal Revenue Code or regulations. However, **the DROP must** comply with various IRS Code requirements relating to distribution requirements, benefit limitations, etc. and any other applicable laws, such as the Age Discrimination in Employment Act (ADEA).

The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits under a defined benefit pension plan opts to continue to work.

If the MFPRSI member elects to participate in the DROP, funds are credited to a separate account for the member, and the member’s additional compensation and years of service **are not** taken into account under the defined benefit plan formula.

The member’s retirement benefit is “frozen” at the rate it would have been had the member retired when he or she entered the DROP arrangement, and pension amounts that would have otherwise been paid to the member are paid into the DROP account.

The member’s DROP account is paid to the member when the member eventually retires after a specified period.

When the member enrolls in the DROP, the member is signing a contract indicating that the member will retire at the end of the selected DROP period.

Chapter 411 DROP Provisions

The retirement System (MFPRSI) requested a Private Letter Ruling (PLR) from the Internal Revenue Service concerning the acceptability of the DROP under the provisions of the IRS Code. Upon receipt of the favorable ruling from the IRS, the Board of Trustees of the retirement System established the effective date for implementation of the DROP.

The DROP program established by Act of the 2006 Iowa General Assembly contains the following program provisions.

Eligibility: Active member of System, at least 55 years of age, with 22 or more years of service.

Participation Period: A 3, 4 or 5 year participation period. [Special Provision: During the 24 months immediately following the DROP implementation, members age 62 - 64, with at least 22 years of service may enroll for a one-year or two-year participation period.]

Effective Date of Enrollment: Effective the first day of the month following the month in which they apply for participation

Benefit Determination: The monthly retirement benefit will be determined based on the period of service and final average pay through the quarter of membership service immediately preceding the participation date elected. Called the “**Chapter 411 Benefit**”, the Benefit will not change from the DROP participation date forward except for escalation after retirement.

DROP Account (See Note 1): An account established for each member enrolled, which will have a portion of the Chapter 411 Benefit credited to it for the duration of the selected participation period. The portion shall be comprised of the following:

- 1) A “**minimum percentage**” of 52% multiplied by the Chapter 411 Benefit, **plus**
- 2) An “**adjustment percentage**,” which will be determined based on the number of months between the date the member elects to participate in the DROP and the date the member was initially eligible to participate, multiplied by the Chapter 411 Benefit. For each month the individual delays participation, an additional 2% will be added as an adjustment percentage.

For example, if an individual waits 24 months to enroll in the DROP, the individual’s overall DROP formula will be [52% plus (2% x 24 months)] = 100%.

Member Contributions: Members’ contributions will be credited to the general System assets during the member’s DROP participation period.

City Contributions: City's Contributions equal to the normal contribution rate determined annually but never less than the statutory minimum will be contributed to the System assets during the member's DROP participation period.

Investment Return: Earnings and capital gains/losses on the investments shall be credited to the System assets and not to the individual members' accounts.

Benefit Escalation: The applicable escalation provisions will apply from the actual date of retirement at the end of the DROP participation period. No escalation will occur during the DROP participation period.

Benefit Distributions: At the actual date of retirement, the member's DROP Account will be payable, upon application by the member, in the form of a lump sum distribution or a rollover to an eligible plan. The regular Chapter 411 monthly benefits will also begin for the member.

Premature Withdrawal from DROP Account, Death or Disability (See Note1) The member's benefit shall be payable in accordance with the provisions of Iowa Code Section 411.6C(2)(e) and the System's Administrative Rule 14.4, as provided below.

Cost Determinations: The retirement System's actuary estimates that the plan design described in this report will not add additional contribution costs to the plan. However, if contribution costs do occur due to DROP program experience that is not consistent with the actuarial assumptions or for any other reason associated with the DROP, the contribution costs will be assigned to the active membership of the plan for payment.

NOTE 1: Accrual of Drop Benefit shall occur in accordance with the following administrative rule adopted by the System.

***14.4 Accrual of DROP Benefit.** An amount equal to seventy-five percent of the member's DROP benefit shall accrue to the benefit of the member for each month of participation in the plan. An amount equal to twenty-five percent of the member's accumulated DROP benefit shall accrue to the benefit of the member upon the occurrence of any of the following events: (1) termination of participation in the plan on the selected plan termination date; (2) termination of participation prior to the selected plan termination date as the result of entitlement to a disability benefit under either section 411.6(3) or section 411.6(5); or (3) death prior to the selected plan termination date.*

This rule is intended to implement Iowa Code section 411.6C(2)(c).

DROP Benefit Projection

The following examples represent the estimated dollars payable under the described DROP concept at differing levels of retirement benefit, upon completion of the member's completion of the DROP period they selected.

	3 Year DROP \$ Each Month	Total \$ For 3 Year DROP	4 Year DROP \$ Each Month	Total \$ For 4 Year DROP	5 Year DROP \$ Each Month	Total \$ For 5 Year DROP
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Base Formula: 52%						
411 Benefit						
\$2,000	\$1,040	\$37,440	\$1,040	\$49,920	\$1,040	\$62,400
\$3,000	\$1,560	\$56,160	\$1,560	\$74,880	\$1,560	\$93,600
\$4,000	\$2,080	\$74,880	\$2,080	\$99,840	\$2,080	\$124,800
\$5,000	\$2,600	\$93,600	\$2,600	\$124,800	\$2,600	\$156,000
\$6,000	\$3,120	\$112,320	\$3,120	\$149,760	\$3,120	\$187,200
Additional for Each Month Delayed Enrollment In Drop: 2%						
411 Benefit						
\$2,000	\$40	\$1,440	\$40	\$1,920	\$40	\$2,400
\$3,000	\$60	\$2,160	\$60	\$2,880	\$60	\$3,600
\$4,000	\$80	\$2,880	\$80	\$3,840	\$80	\$4,800
\$5,000	\$100	\$3,600	\$100	\$4,800	\$100	\$6,000
\$6,000	\$120	\$4,320	\$120	\$5,760	\$120	\$7,200

A spreadsheet is attached for utilization in projecting the member's DROP lump sum amount.

Attachment: DROP LUMP SUM PROJECTION FACTOR SPREADSHEET

DROP LUMP SUM PROJECTION FACTOR SPEADSHEET
 (Subject to accrual provisions of the System's Administrative Rules)

NUMBER OF MONTHS ENROLLMENT DELAYED	FORMULA	3 YEAR TOTAL BENEFIT FACTOR	4 YEAR TOTAL BENEFIT FACTOR	5 YEAR TOTAL BENEFIT FACTOR
0	52%	18.72	24.96	31.20
1	54%	19.44	25.92	32.40
2	56%	20.16	26.88	33.60
3	58%	20.88	27.84	34.80
4	60%	21.60	28.80	36.00
5	62%	22.32	29.76	37.20
6	64%	23.04	30.72	38.40
7	66%	23.76	31.68	39.60
8	68%	24.48	32.64	40.80
9	70%	25.20	33.60	42.00
10	72%	25.92	34.56	43.20
11	74%	26.64	35.52	44.40
12	76%	27.36	36.48	45.60
13	78%	28.08	37.44	46.80
14	80%	28.80	38.40	48.00
15	82%	29.52	39.36	49.20
16	84%	30.24	40.32	50.40
17	86%	30.96	41.28	51.60
18	88%	31.68	42.24	52.80
19	90%	32.40	43.20	54.00
20	92%	33.12	44.16	55.20
21	94%	33.84	45.12	56.40
22	96%	34.56	46.08	57.60
23	98%	35.28	47.04	58.80
24	100%	36.00	48.00	60.00

INSTRUCTIONS

To estimate the lump sum amount for your DROP, multiply your estimated Chapter 411 basic monthly benefit against the applicable factor in the table to the left for the period of DROP you are considering.

EXAMPLE 1: If your monthly retirement benefit is estimated to be \$2500 and you will participate in the DROP when first eligible, then the formula is as follows:

	Factor	Benefit		Lump Sum
3 year	18.72	\$2,500	equals	\$46,800
4 year	24.96	\$2,500	equals	\$62,400
5 year	31.20	\$2,500	equals	\$78,000

EXAMPLE 2: If your monthly retirement benefit is estimated to be \$4000 and you delay participation in the DROP for 20 months, then the formula is as follows:

	Factor	Benefit		Lump Sum
3 year	33.12	\$4,000	equals	\$132,480
4 year	44.16	\$4,000	equals	\$176,640
5 year	55.20	\$4,000	equals	\$220,800

NOTE: Formula: 52% plus an additional 2% for each month enrollment is delayed.