



Employees' Retirement System

Deferred Retirement Option Plan



DROP Distributions



The Retirement
Systems of
Alabama

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Web site

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Building Location

201 South Union Street
Montgomery, Alabama

Business Hours

8:00 a.m. - 5:00 p.m.

Monday - Friday

Please provide your full name and Social Security number on all faxes and letters.

Cover photos (from left to right): The Beacon of Light at the Elevated Acre, 55 Water Street, New York City; Silver Lakes, Anniston / Gadsden; Renaissance Ross Bridge Golf Resort & Spa, Hoover

Introduction

The Deferred Retirement Option Plan (DROP) became effective June 1, 2002. This voluntary plan allows members of the Employees' Retirement System (ERS) to contract with the ERS to defer receipt of their retirement allowance and continue employment for a specific period of time. At DROP termination, the member may withdraw from active service and receive a retirement benefit based on his or her years of service credit at the time of enrollment in DROP plus either a lump-sum payment of the amount in their DROP account or be able to make a direct rollover of all or a portion of their DROP account balance. Please read this brochure thoroughly and keep it with your other benefit materials. It is a very useful tool when you have questions about DROP termination.

The information in this brochure is based on the Code of Alabama 1975, Title 36, Chapter 27, Article 9. This brochure is not intended as a substitute for the laws of Alabama governing the ERS nor will its interpretation prevail should a conflict arise between its contents and Article 9. Furthermore, the laws summarized here are subject to change by the Alabama Legislature. Do not rely solely upon the information provided in this brochure to make any decision regarding termination of DROP, but contact the ERS directly with any questions you may have.

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This brochure is a summary and is not intended to provide complete information about withdrawing RSA accounts or the taxation of withdrawn RSA accounts. Information provided in this brochure does not create an entitlement. Actual benefit obligations are incurred only when monthly benefits are granted.

DROP Termination

Completion of Contractual Obligation

If you complete your contractual obligation in DROP, i.e., participate in DROP between three to five years, and terminate employment, you may elect to receive the following funds in either a lump-sum payment or make a direct rollover to an eligible plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the ERS during the DROP participation period plus applicable interest.

The monthly retirement allowance you will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of sick days converted cannot exceed the number of sick days you had on the date you entered DROP.

You are not allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until you withdraw from service. If you continue employment with an agency participating in the RSA, you will not be able to receive a distribution until you terminate employment.

Involuntary Termination, Disability, or Involuntary Transfer of Spouse

If you did not fulfill your contractual obligation due to involuntary termination, disability, or involuntary transfer of your spouse in the first three years of the DROP participation period, you are entitled to receive the same benefits as a member who has completed the contractual obligation. However, you will have fewer

funds accumulated because the DROP participation period is shorter.

Voluntary Termination

If you withdraw from service voluntarily within the first three years of DROP, you will **forfeit** the DROP funds based on the monthly retirement benefits paid to your account. However, you may elect to receive the following in either a lump-sum payment or make a direct rollover to an eligible plan:

1. Member contributions made to the ERS during the DROP participation period plus applicable interest.
2. Interest attributable to the monthly retirement allowance contributions made to the DROP account during the DROP participation period.

If sick leave conversion was selected when the member elected DROP participation, the monthly retirement allowance you will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of sick days converted cannot exceed the number of sick days you had on the date you entered DROP. You are not allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until you withdraw from service.

Death During DROP Participation

If a member dies anytime during the DROP participation period and the beneficiary is the spouse, the **spouse** may elect to receive the following funds in either a lump-sum payment or make a direct rollover to an eligible plan. **Non-spouse** beneficiary(s) may receive the following funds in a lump-sum payment or make a direct rollover to an IRA created for that purpose:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the ERS during the DROP participation period plus applicable interest.

Any retirement benefit based on the retirement option selected by the member at the beginning of the DROP participation period will be paid to the beneficiary(s). The monthly retirement allowance may be recalculated to include accrued sick leave. However, the number of sick days converted cannot exceed the number of sick days the participant had on the date he or she entered DROP. The beneficiary is not allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

No death before retirement benefit will be paid to the estate or beneficiary.

Continued Service after the DROP Participation Period

If you do not withdraw from service after completing your DROP participation, you will resume active contributing membership in the ERS for the purpose of earning creditable service. No time spent participating in DROP will be counted as creditable service. For example, if a member had 26 years of creditable service upon entering DROP and participated in DROP for five years; then worked two more years after completing his or her contractual obligation in DROP, the member would only have 28 years of total creditable service. There would be two separate retirement allowance calculations; one based on 26 years of service and the other based on two years of service.

Upon withdrawal from service, you may elect to receive the following contributions in either a lump-sum distribution or make a direct rollover to an eligible plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the ERS during the DROP participation period plus applicable interest.

The monthly retirement allowance you will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of sick days converted cannot exceed the number of sick days you had on the date you entered DROP. You are not allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

An additional monthly retirement allowance based on your additional service since the end of the DROP participation period will be calculated using the retirement formula (Average Final Salary x Additional Years and Months of Service x 2.0125%*). The Average Final Salary will be calculated only on the additional service since the end of DROP participation. **This additional service can in no way be combined with service prior to participation in DROP.** The retirement option will be the same option used in the original retirement allowance.

If the member dies or becomes disabled during the period of additional service, he or she will be considered as having retired on the date of death or commencement of disability. No death before retirement benefits will be made. The beneficiary will

have eligible benefits based on the option chosen by the member and the balance in the DROP account as previously described in **Death During DROP Participation** on page 2.

**2.875% for State Police*

Distribution of DROP Account

No distribution from a member's DROP account will be made until the member terminates employment. Upon termination, a member should notify the ERS how the member wants to receive the DROP distribution. DROP accounts cease to accrue interest after 90 days from termination of employment. A member generally receives DROP distributions within 30 days of receipt of the final contribution to the DROP account.

DROP participants have one of two ways to distribute the funds in their DROP account:

1. Receive a lump-sum payment of the total DROP account balance less the required 20% federal income tax withholding. No portion of the distribution is subject to state of Alabama income tax.
2. Rollover all or a portion of the account balance to a traditional IRA, another eligible employer retirement plan, a 403(b) Tax Sheltered Annuity, or a governmental 457(b) plan that accepts rollovers. **The RSA-1 Deferred Compensation Plan** (457 plan) accepts rollovers from your DROP account.

A SPECIAL TAX NOTICE REGARDING RSA PAYMENTS is included with all distribution forms. **All of the forms listed in this section are available from the ERS or may be downloaded from our Web site.**

Applying for DROP Distribution - Early Termination

1. Complete the REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form (RSA 10 D-D) required to authorize distribution of the DROP account balance. The election to receive either a lump-sum payment or to make a rollover will be made on this form. If you elect to have a lump-sum payment of your DROP account, the ERS will withhold 20% for federal income taxes. The form must be signed and notarized, but no employer certification is required. If you elect to rollover all or a portion of your DROP account, sign and have the form notarized before sending it to the Trustee of the eligible retirement plan you have elected to make your rollover to. The Trustee should mail the completed form to the ERS.
2. Complete the REQUEST FOR EARLY TERMINATION OF DROP form (ERS 10 D-E). Indicate the reason for the early termination and complete the federal income tax withholding certificate. Sign and have the form notarized before sending it to your employing agency for them to certify your employment. If you are a state of Alabama employee, you and your employer need to complete the INSURANCE AUTHORIZATION information on the reverse side of the form.
3. Send both the completed REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form and the REQUEST FOR EARLY TERMINATION OF DROP form to the ERS. If electing a rollover, the Trustee will send the REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form to the ERS. Both forms must be completed and returned to the ERS at least 30 days prior to termination of employment, if possible.
4. Supporting documentation must be included with the forms. If the termination is

involuntary, submit a copy of the termination letter. If the termination is due to a disability, the DROP participant must complete and submit the REPORT OF DISABILITY PACKET. The STATEMENT OF EXAMINING PHYSICIAN form (also used to apply for a disability retirement) in the REPORT OF DISABILITY PACKET must be signed by the member and completed by his or her attending physician. The medical information will be reviewed by the RSA Medical Board, which will rule on your eligibility. If the termination is due to involuntary transfer of spouse, submit a copy of the transfer letter on company letterhead.

Applying for DROP Distribution - Participation Period Completed

1. Complete the REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form (RSA 10 D-D) required to authorize distribution of the DROP account balance. The election to receive either a lump-sum payment or to make a rollover will be made on this form. If you elect to have a lump-sum payment of your DROP account, the ERS will withhold 20% for federal income taxes. The form must be signed and notarized, but no employer certification is required. If you elect to rollover all or a portion of your DROP account, sign and have the form notarized before sending it to the Trustee of the eligible retirement plan you have elected to make your rollover to. The Trustee should mail the completed form to the ERS.
2. Complete the REQUEST FOR DROP TERMINATION PARTICIPATION PERIOD COMPLETED form (ERS 10 D-C). Complete the federal income tax withholding certificate. Sign and have the form notarized before sending it to your employing agency for them to certify your employment. If you are a state of Alabama employee, you and your employer will also

have to complete the Insurance Authorization information on the reverse side of the form.

3. Send both the completed REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form and the REQUEST FOR DROP TERMINATION PARTICIPATION PERIOD COMPLETED form to the ERS. If electing a rollover, the Trustee will send the REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form to the ERS. Both forms must be completed and returned to the ERS at least 30 days prior to termination of employment, if possible.

Applying for DROP Distribution - Death During DROP Participation

1. The beneficiary must complete the APPLICATION FOR BENEFICIARY PAYMENT - DROP form (RSA-DROP BEN). The beneficiary will complete Part I, Part II, and Part III, sign and have the form notarized. The employer of the deceased member will complete Part IV and send the form to the ERS. A copy of the death certificate must accompany this form.
2. How the DROP account balance is distributed depends on whether the beneficiary is a surviving spouse or not. A non-spousal beneficiary may receive the distribution in a lump-sum payment, or make a direct rollover to an IRA created for that purpose. See SECTION IV of the SPECIAL TAX NOTICE for tax treatment of non-spousal beneficiaries.

If the beneficiary is a surviving spouse, the surviving spouse may elect to either have the full account balance paid directly to them less the 20% mandatory withholding on taxable portion of payment, or have all or a portion of the account balance rolled over into an eligible retirement plan.

3. If you elect to rollover all or a portion of your DROP account, sign and have the form notarized before sending it to the Trustee of the eligible retirement plan you have elected to make your rollover to. The Trustee should mail the completed form to the ERS.

DROP Participation Period Completed - Will Continue Employment

Complete the REQUEST FOR DROP TERMINATION PARTICIPATION PERIOD COMPLETED/CONTINUED SERVICE form (RSA 10 D-CCE). Check the box indicating you will be continuing employment after you have completed the DROP participation period. Sign the form and have it notarized. Have your employer certify your employment and have them return the form to the ERS.

Once you terminate employment post-DROP:

1. Complete the REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form (RSA 10 D-D) required to authorize distribution of the DROP account balance. The election to receive either a lump-sum payment or to make a rollover will be made on this form. If you elect to have a lump-sum payment of your DROP account, the ERS will withhold 20% for federal income taxes. The form must be signed and notarized, but no employer certification is required. If you elect to rollover all or a portion of your DROP account, sign and have the form notarized before sending it to the Trustee of the eligible retirement plan you have elected to make your rollover into. The Trustee should mail the completed form to the ERS.
2. Complete the TERMINATION OF EMPLOYMENT OF CONTINUED SERVICE - POST DROP form (ERS 10 D-CT). Complete the federal income

tax withholding certificate. Sign and have the form notarized before sending it to your employing agency for them to certify your employment. If you are a state of Alabama employee, you and your employer will also have to complete the Insurance Authorization information on the reverse side of the form.

3. Send both the completed **REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION** form and the **TERMINATION OF CONTINUED SERVICE - POST DROP** form to the ERS. If electing a rollover, the Trustee will send the **REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION** form to the ERS. Both forms must be completed and returned to the ERS at least 30 days prior to termination of employment, if possible.

Reemployment with the RSA after Withdrawal from Service

If any member who participated in DROP and withdrew from service becomes reemployed with either the TRS or ERS in a full-time capacity, his or her monthly benefit will be suspended. A benefit on this additional service will be calculated based on information in **Continued Service After the DROP Participation Period** on page 3. Please notify the ERS prior to being reemployed on a full-time basis.



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