Member's Guide to:

Deferred Retirement Option Plan (DROP)

The Deferred Retirement Option Plan (DROP) is an optional benefit that allows eligible police officers and firefighters to accumulate a lump sum of money for retirement. Enrolling in DROP is a voluntary decision that members should make after careful consideration of their own individual situation. OP&F strongly encourages all members to seek financial, legal and tax advice from professional counselors before entering DROP.

OP&F is created and governed by statutes which are subject to change by the Ohio General Assembly. Some of those statutes authorize changes by the OP&F Board of Trustees. This guidebook summarizes the most important provisions of the governing law and administrative rules related to DROP at the time of publication. This summary cannot sufficiently represent all of the details applicable to this guide. Nothing contained in this summary is meant to interpret, extend or change, in any way, the governing statute, administrative rules or policies. As a result, your rights can only be determined by the provisions of OP&F's governing documents, which are subject to change.

updated: 08/2023

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Ohio Police & Fire Pension Fund
OP&F Customer Service: 1-888-864-8363
www.op–f.org

Personal pre–retirement interview

You are encouraged to schedule a personal interview at OP&F's office to discuss all aspects of your retirement. Even if you are considering electing to participate in DROP, you may wish to come in for a pre–retirement interview so that you can understand the difference between retiring when eligible and deferring retirement so you can participate in DROP. The interview with a Member Education Representative will last about an hour and cover your choices under the DROP program and other benefit matters. Please contact OP&F Customer Service to schedule an appointment at 1–888–864–8363, Monday–Friday, 8 a.m. – 4:30 p.m., EST.

About DROP

If you are eligible for a normal service retirement you can enter the DROP program by delaying retirement and continuing to work as a police officer or firefighter. For those who were OP&F members on or before July 1, 2013, normal service retirement eligibility is at least 48 years of age with at least 25 years of service. For members hired into an OP&F-covered position after July 1, 2013, normal service retirement is age 52 with at least 25 years of service.

Upon the DROP effective date, your pension will be calculated as if that were your date of retirement. While you continue to work and draw your normal salary, the amount you would have received in retirement benefits accumulates tax–deferred at OP&F on your behalf, as well as a portion of your OP&F employee contribution and interest (the rate is subject to change).

When you complete your active employment and retire, which terminates your DROP participation, you begin to receive your monthly pension that was determined on your DROP effective date, plus an annual cost of living allowance (COLA) if you are at least age 55. Members whose election to participate in DROP effective after July 1, 2013 do not qualify for annual cost-of-living allowances at any time during DROP (for more details see Page 5). You also will be eligible for the health care plan based on the eligibility guidelines in place at the time of your retirement.

You can begin to withdraw funds from your DROP accrual in a lump–sum payment or installments, as long as you have completed the required minimum participation period. After July 1, 2013, to receive the benefit of DROP, you must work at least five years in an OP&F–covered position and terminate employment and retire within eight years of your DROP effective date. You will lose your accumulated interest if you participate in DROP for less than the minimum required years. If you work more than eight years from your DROP effective date, you forfeit all of your DROP accruals, but will receive normal retirement benefits upon retirement and will receive service credit for the DROP participation period.

Subject to certain criteria, when you choose to retire, the amount you have accumulated while participating in DROP is yours. Having cash available at the beginning of retirement can help when you need it most, including helping to finance the rising cost of health care during retirement.

Changes to DROP and cost neutrality

The Board of Trustees has the authority to change certain provisions of DROP at any time and these changes could impact both current and future DROP participants. Provisions which are subject to change at any time include:

- the rate at which interest is credited to a member's DROP accrual;
- when a DROP election takes effect;
- how a DROP election can be rescinded;
- the purchase of service credit prior to DROP entry; and
- the methods of distribution for periodic payments from DROP.

In addition to the Board's discretionary authority to make changes to DROP, Ohio law requires OP&F to have its actuary study and prepare a report on the cost of offering DROP to members at least once every five years. This report includes a determination of whether DROP has a negative financial impact on OP&F. This determination is based on many factors, such as how many members participate in the plan, when members elect to participate in the plan, and how long members postpone their retirement by remaining in DROP.

If it is determined that DROP has a negative financial impact on OP&F (meaning that the plan is not cost neutral), the law permits the Board of Trustees to modify the plan or close it to members who are not already participating.

Under this scenario, for those members who were already participating, DROP will continue subject to the limitations described above.

Eligible upon election

In most cases, your DROP participation will take effect on the first day of the first full employer reporting period that immediately follows OP&F's receipt of your completed Election to Enroll in DROP form, assuming you are eligible to participate in DROP. Pension payments will be applied to DROP based on your effective date. You will not be permitted to specify an effective date on your Election to Enroll in DROP form. An example of a DROP effective date is shown below.

Employment status

If you enroll in DROP, you will continue to work for your employer and, therefore, will not be considered retired. DROP is a deferred retirement option and has no impact on your employment status. Your participation continues as long as OP&F receives consecutive reports or payments of contributions from your employer, covered under OP&F, on your behalf. If you are planning to transfer to another employer, covered under OP&F, you should contact OP&F for more information.

Health care benefits through your employer remain in effect during DROP participation. Once you terminate employment and retire, based on the eligibility guidelines in place at that time you may be eligible to participate in OP&F's health care stipend program and Medicare Part B reimbursements.

Example of DROP effective date

If your DROP election form is received on January 3 and January's reporting period ends on January 21, your DROP effective date would be January 22.

3 OP&F receives completed DROP election form

21 End of employer's reporting period

22 Beginning of employer's reporting period

☆22 DROP effective date

January

SUN	MON	TUES	WED	THR	FRI	SAT
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
☆22 / 29	23 / 30	24 / 31	25	26	27	28

Eligibility

If you are currently an active member who is eligible for normal service retirement you are eligible to participate in DROP. For those who were OP&F members on or before July 1, 2013, normal service retirement eligibility is at least 48 years of age and at least 25 years of service. For members hired into an OP&F-covered position after July 1, 2013, normal service retirement is age 52 with at least 25 years of service.

You can purchase prior service credit to reach eligibility requirements for a normal service retirement to become eligible for DROP. DROP participation is not mandatory, but it is a value–added benefit offered to you upon qualifying for a normal service retirement. If you have already retired, you are not eligible to participate in DROP.

Service credit

You do not accrue service credit during DROP participation since your retirement benefit is based on the amount of your average annual salary and service credit upon electing DROP.

Service credit purchases and transfers

You can purchase prior service credit to meet the eligibility requirements for DROP. In addition, if you already meet the DROP eligibility criteria, you may find it beneficial to purchase service credit prior to your DROP effective date since service credit is used in the formula for pension calculations. Purchasing service credit prior to your DROP effective date will increase your pension calculation, resulting in higher monthly credits to DROP and subsequent retirement benefits.

Members can use Ohio Deferred Compensation funds to purchase prior service, provided these members have prior service credit that qualifies for purchase. If you intend to purchase prior service credit, it must be done before your DROP effective date, unless you are already purchasing service credit through a tax–deferred payroll deduction, as more fully described in this section. As a result, if you do not purchase available service credit prior to your DROP effective date, you waive your opportunity to do so at a later time.

You may transfer full-time service credit from another Ohio retirement system (ORS) to OP&F to meet the eligibility requirements to enter DROP. However, this service credit can only be transferred after you have terminated your other ORS employment. Even if you are currently contributing to another ORS in a part-time capacity this employment must be terminated for full-time service credit to be transferred to OP&F.

If you do not terminate your other ORS employment, the contributions and service credit cannot be transferred to OP&F. Please contact OP&F well in advance of DROP eligibility to discuss the purchase or transfer of service credit as these processes can take weeks or months to complete.

The following information applies to service credit purchases initiated prior to the DROP effective date through payroll deduction.

Not tax–deferred

If you are in the process of purchasing service credit through payroll deductions that are not tax–deferred, you must do a lump sum payoff of the remaining amount before your DROP effective date in order to get credit.

Tax–deferred

Under applicable tax law, if you have tax–deferred payroll deductions already in progress, it cannot be stopped and so the lump sum payoff option is not available. The portion that has not been purchased cannot be included as part of your pension calculation, nor can it be used as a basis for DROP eligibility. When the purchase is complete, however, OP&F will recalculate your monthly pension to include the remaining amount of the credit purchased during payroll deduction. OP&F will credit your newly calculated pension amount to DROP, effective the month after your completion of the service credit purchase. Retroactive benefits will not be applied to DROP.

If you cancel your DROP election or terminate DROP participation due to the acceptance of a disability award, you will be permitted to purchase previously waived service credit. In this case, you have no rights to DROP benefits. However, your pension will be calculated as if you had never participated in DROP, so the calculation will include any purchased credit, as well as all applicable service credit and salary paid through the actual effective date of your disability benefit.

What goes into DROP

DROP includes accruals of your pension benefits you would have received had you retired on your DROP effective date, employee contributions and interest.

Pension benefits

Each month, OP&F credits to DROP the pension amount you would have received if you had actually retired on your DROP effective date. Your final retirement benefit and DROP credit is calculated based on the normal service retirement formula using the service credit and average annual salary as of the day before your DROP effective date.

Under a normal service retirement, you are eligible to receive a pension equal to 60 percent of your average annual salary. For OP&F members with 15 or more years of service as of July 1, 2013, this is an average of the three highest years of allowable earnings. For members with less than 15 years of service credit as of July 1, 2013, this would be the average of the five years of highest allowable earnings. With 33 years of service credit, you would receive the maximum pension of 72 percent of this average annual salary calculation.

Average annual salary

To calculate your average annual salary, OP&F uses your earned qualifying payments for holidays, longevity, hazard and stress. The amount you earned during the calculation period, not the amount actually paid to you during that time is used for calculation. As a result, there will be payments for holidays, longevity, hazard and stress that you earn toward the end of the calculation period, but have not been paid prior to your DROP effective date. OP&F will not contact your employer to certify the amount of these qualifying payments for calculation purposes. Instead, OP&F will use the amount of this same type of payment that you last received.

Your average annual salary is defined under Ohio law as being the average of your highest years—or 12 month periods—of salary, earnings or compensation, regardless of when in your career the highest years occurred. Since the term "average annual salary" is subject to certain statutory and administrative limitations, not all salary, earnings, or compensation may be used in the calculation.

Example of calculating average annual salary

If a member enters DROP in February, but typically is not paid for longevity until December, OP&F will prorate the longevity earned through February based on the longevity payment the member received the previous year. OP&F will not require the employer to certify these payments upon a member's retirement, so the pension amount determined upon the effective date of DROP will not change.

DROP participants are not eligible for annual cost–of–living allowances

Members whose election to participate in DROP effective after July 1, 2013 do not qualify for annual cost-of-living allowances at any time during DROP.

Employee and employer contributions

If you participate in DROP, you will continue to contribute a percentage of your salary to OP&F as long as you are actively employed, but a portion of this contribution will be credited to your DROP accrual throughout your participation in the plan. For those members whose election to participate in DROP is effective after July 1, 2013, OP&F applies contributions to DROP in the following manner:

Years 1-3:

50 percent of your employee contribution will go to your DROP accrual.

Years 4 and 5:

75 percent of your employee contribution will go to your DROP accrual.

Years 6-8:

100 percent of your employee contribution will go to your DROP accrual.

As of July 1, 2015, the member contribution rate is 12.25 percent.

OP&F uses the contributions that are not credited to your DROP account to assist in funding benefits. This is part of the plan design to make DROP cost neutral, which will be determined by OP&F's actuary based on actual experience.

In addition to member contributions, your employer contributes a percentage of their total payroll to OP&F (19.5 percent for police officers; 24 percent for firefighters). These contributions will continue to be paid as long as you are actively employed. However, none of your employer contributions are credited to DROP. OP&F uses employer contributions to fund pension payments, unfunded liability and a small portion goes to the OP&F health care stipend program.

Interest

It is important to note that the DROP interest rate is set by administrative rule and, therefore, is subject to change at any time.

OP&F will credit interest to your DROP balance each month at a rate equal to the 10-year U.S. Treasury Note Business Day Series, as published by the United States Federal Reserve, with a 2.5 percent minimum and a cap of 5.0 percent. DROP interest credited to your account compounds yearly.

This variable interest rate will be adjusted quarterly to match the published 10-year U.S. Treasury Note rate for the last business day of each quarter and will be in effect for the subsequent quarter. For example, the rate published on the last business day in March will be the rate in effect for the second quarter of that year (April, May and June). The rate for the third quarter of the year will be the published rate for the last business day in June. The rate is published daily for the prior business day by the U.S. Federal Reserve.

The law also sets the deadline dates for employers to submit your contributions to OP&F. The monthly report is due the last day of the month following the last pay period end date.

If an employer reports your contributions after their deadline, your account will not be affected. OP&F will still pay the interest based on the amount that should have been credited to DROP on the date that your contributions were due or the date that the contributions are received by OP&F, whichever is earlier.

Once you start receiving DROP benefits, interest will continue to accrue for any DROP benefits you leave on deposit with OP&F.

Rules for recalculating pension for DROP

If you enroll in DROP, your pension amount will not be recalculated unless you:

- terminate DROP due to accepting a disability grant (in this case, all DROP accruals are automatically forfeited);
- continue to work more than eight years after your DROP effective date (in this case, all DROP accruals are automatically forfeited);
- are in the process of a tax–deferred service credit purchase on your DROP effective date;
- are working and are called into military service (for more information, see section titled *Military Leave* on Page 9);
- cancel your original DROP election (see Page 9 for restrictions on cancelling your DROP election); or
- are awarded additional money for the pension calculation period, such as permissible instances involving the settlement of a contract, arbitration award or court order.

Enrolling in DROP

Enrolling in DROP is a voluntary decision that you should make after careful consideration of your own individual situation. OP&F strongly encourages you to seek financial, legal and tax advice from professionals before entering DROP. The "Important considerations" section on Page 19 of this guide outlines items that you should consider before you elect DROP.

The DROP enrollment process is relatively simple. Prior to DROP enrollment, you have the option of contacting OP&F to request a written estimate of your pension benefit that would be credited to DROP. OP&F typically generates these estimates within two to four weeks. You are not required to come to the OP&F office to discuss your DROP benefits with an OP&F Member Education Representative, but you are welcome to do so.

Election to Enroll in DROP

Upon receipt of your Election to Enroll in DROP form, OP&F will review it and then notify you within 10 business days that it has been received. After receiving your completed form, OP&F will begin the process of determining your eligibility for DROP and calculating your pension amount.

If you did not complete the Election to Enroll in DROP form in its entirety, you will receive a new form. You can submit your form to OP&F through the mail or in person. OP&F will not accept forms that are incomplete, or have signatures that are faxed, photocopied or scanned. If you submit an Election to Enroll in DROP form but it is determined that you are ineligible at the time, you are permitted to re-submit a form when you become eligible.

Steps to enrollment

1. Call OP&F to request a written estimate of your pension benefit that will be credited to DROP.

2. Discuss DROP with your tax or financial planners to see if DROP is right for you.

3. If you are already eligible for a normal service retirement, return a completed and notarized Election to Enroll in DROP form to OP&F. The form can be downloaded from OP&F's website at www.op–f.org, or you can call Customer Service to have a form mailed to you.

Beneficiaries and annuity payment plans

You have the option to select an annuity payment plan and beneficiary for your service retirement benefits at the time you elect to participate in DROP. If you make an annuity plan selection, you cannot change it upon your retirement, unless a court order requires you to designate a former spouse as a beneficiary. If you do not select an annuity plan on your DROP election form, this will be done at the time of your retirement.

As a DROP participant, you automatically qualify for a Pre–Retirement Survivor Annuity (PRSA) that continues 50 percent of your reduced monthly retirement allowance to your surviving spouse or approved contingent dependent beneficiary for life if you die while a DROP participant. If you indicate on your *Election to Enroll in DROP* form that you do not wish to select a payment plan, you automatically qualify for this benefit and your monthly retirement benefit credited to DROP will not be reduced during active DROP participation.

The selection of your payment plan will be done upon your retirement.

If you select a Joint and Survivor Annuity (JSA) plan upon electing DROP, the monthly benefit credited to DROP will be reduced accordingly and you cannot change that selection upon retirement, unless a court order requires the designation of a former spouse. By selecting a JSA, you designate that, upon your death, a percentage of your reduced monthly allowance is continued to your surviving designated beneficiary for life. You can select any percentage between one and one hundred. If you are married on your DROP effective date and select a JSA, the selection must be at least a 50 percent JSA payable to your spouse, unless your spouse files a written consent stating otherwise or there is a court order requiring the designation of your former spouse as a beneficiary.

If you select an annuity as part of your DROP election and are under a court order to designate a former spouse as a beneficiary, OP&F must process your retirement application under the Multiple Beneficiary Annuity Plan on your retirement date with a reduction in retirement benefits payable to you based on such designations, but without a corresponding reduction in DROP benefits.

Cancelling your annuity payment plan

Upon divorce or dissolution of marriage, you may only cancel a Joint and Survivor Annuity (JSA) selection if your former spouse consents to the cancellation of the plan or the court having jurisdiction over the termination of the marriage issues an order that specifically cancels the selection, with limited exceptions, as explained below. Contact OP&F for acceptable language or review OP&F's Member's Guide to Annuity Payment Plans.

If you are under a court order to designate a former spouse as a beneficiary of an annuity plan of payment, this can only be cancelled by a court order that specifically waives or terminates the requirement to have such former spouse as a beneficiary under this plan.

Assuming the required consent or court order is obtained, you must then select a Single Life Annuity Plan, which results in your monthly allowance being increased to its maximum amount. You are not entitled to the difference between the reduced amount and maximum amount.

If your designated beneficiary dies before you, OP&F will cancel your JSA designation based on a phone call notification, as long as you provide OP&F with appropriate documentation within 90 days from the date of your call. Your benefits would then be processed on the basis of a Single Life Annuity. If you do not provide appropriate documentation within 90 days, OP&F will reinstate the nomination of the beneficiary until OP&F receives the appropriate documentation.

If you select the Multiple Beneficiary Annuity Plan and one of your beneficiaries dies following your election to participate in DROP or your retirement, the portion of the annuity plan providing continuing lifetime benefits to the deceased beneficiary will be cancelled. You will then receive the actuarial equivalent of your single lifetime benefit based on the number of remaining beneficiaries, with no change in the amount payable to any remaining beneficiary.

DROP effective date and amount credited to DROP

Once OP&F has determined that you are eligible for DROP and calculates your pension amount, OP&F will mail information to you that indicates your DROP effective date and the amount of the pension that will be credited to DROP each month. You can expect to receive this information within three to six months of your effective date.

For more information on your effective date, please see Page 3.

Cancelling a DROP election

You can only cancel your election to participate in DROP if OP&F receives written notice from you:

- within 30 days of OP&F's receipt of your Election to Enroll in DROP form; or
- within 30 days of a written notice from OP&F indicating that the actual pension amount to be credited to DROP would be 10 percent lower than the last written estimate previously prepared by OP&F. Prior to DROP enrollment, you may contact OP&F to request a written estimate of the pension benefit to be credited to DROP. The 10 percent discrepancy will be based on the latest written estimate prepared by OP&F.

If you properly cancel your DROP election, it is as if you had never participated in DROP. As a result, you can apply to participate in DROP at a later time.

Leaves of absence

If you take a leave of absence under the Family Medical Leave Act or for military service, you may still participate in DROP. However, using this leave will not extend the time that you can participate in DROP.

Family Medical Leave Act

If you take leave under the Family Medical Leave Act while enrolled in DROP, you continue to participate in the plan. However, you will not accrue contributions during this time period, unless it is accumulated leave that will keep you on the payroll.

Military leave

If you are a member of the Ohio National Guard, Ohio Military Reserve, Ohio Naval Militia, or a reserve component of the armed forces of the United States, who is absent from employment due to active military duty, you are considered an OP&F member for the duration of your active military duty. While on active duty, if you are a DROP participant who continues to receive payments from your employer, as stated in your contract, you will have contributions submitted to OP&F on your behalf by your employer, which will be credited to DROP according to the plan design.

The amount of the employee contribution that OP&F will credit to DROP will be based on your salary you would have received had you not been called into service, including any pay raises. If your employer does not pay you the full amount of your regular salary while on military leave, you will have the option of making contributions to your DROP balance to account for the difference in order to avoid any adverse impact on your DROP accruals.

If you are serving active military duty at the time of your DROP effective date, OP&F will calculate your pension benefit to include the service time you incurred during active military duty if and when that service credit is granted in accordance with Ohio law. Under the law, up to five years of service credit for active time served in the armed forces will be given at no cost to you, provided you have been honorably discharged, applied for reinstatement of active service with the police or fire department you were employed at within 90 days from your date of discharge, and your employer contributions have been paid.

Terminating DROP

DROP termination can only occur under the following circumstances:

- termination of a member's active service in a police or fire department;
- accepting a disability grant;
- death; or
- continuing to work more than eight years after your DROP effective date. For purposes of determining the maximum eight–year period for DROP participation, this date will be based on 365 calendar days from the effective date of your election to participate in DROP, regardless of the periods during which contributions were paid on your behalf.

By law, you must wait until you have completed the minimum DROP participation period from your DROP effective date before you can receive any distribution of DROP funds that you may be eligible to receive. Also, once you terminate your participation, you cannot enroll in DROP again.

Starting monthly retirement benefits

Once you terminate your employment as a DROP participant, you must submit a Service Retirement Application to actually begin to receive monthly retirement benefits. Once OP&F receives your Service Retirement Application, other required forms and employer verification of your termination date, you will begin to receive the monthly pension amount that was established upon your DROP effective date. These payments will begin the first week of the second month following the date you terminated DROP and retired.

For example, if you terminate employment and submit your retirement application to OP&F in March, OP&F would pay you your first pension payment in May. Your pension amount for March and April will be deposited into your DROP accrual. The later in the month you terminate your employment, the less time elapses until you receive your first pension payment.

You must select an annuity plan of payment upon retirement unless you did so as part of your DROP election. The law requires spousal consent if you are married and do not select at least a 50 percent Joint and Survivor Annuity upon retirement. Your annuity plan selection may also be subject to any court order requiring the designation of a former spouse as a beneficiary.

You will forfeit the amount of your DROP benefits if your DROP termination results from the acceptance of a disability grant or continuing to work more than eight years after your DROP effective date. The monthly pension benefits for you will be calculated to include the service credit and salary earned during the DROP participation period.

Distribution methods

Once you have participated in DROP for the minimum required period (three or five years depending on effective date) you may retire at any time and withdraw your DROP funds. You may select any one or a combination of the following methods of payment:

- up to four distributions per calendar year of at least $1,000 per request;
- a one–time lump sum distribution of your DROP balance;
- monthly distributions of at least $100 until OP&F receives a DROP Distribution Request form from you designating a change or your DROP balance is zero; or
- a rollover of your DROP funds to a qualified retirement plan.

DROP distributions will not be included with monthly retirement payments, but will be directly deposited to your account in separate transactions.

You can change your DROP distribution methods by sending a DROP Distribution Request form to OP&F. Once OP&F receives the DROP Distribution Request form, your request will be processed within 30 days. You can request this form by accessing the OP&F website at www.op–f.org, or calling OP&F Customer Service at 1–888–864–8363, Monday – Friday, 8 a.m. – 4:30 p.m., EST. Once you begin receiving a DROP benefit, interest will continue to accrue as long as funds are left on deposit.

Subject to withholding orders

Your DROP accruals, including interest, may become subject to federal tax liens and court ordered deductions, such as restitution orders, division of property orders (DPOs) and withholding orders for spousal/child support. In order to exclude DROP benefits from the terms of a DPO, you must mark the provision in the DPO to exclude DROP benefits and file the DPO in OP&F's approved format with the appropriate court. The DPO is still subject to review and approval by OP&F. Even though DROP benefits may not be considered a marital asset, these orders can still apply to your DROP distribution, unless excluded under a DPO.

You may download OP&F's approved DPO form from the OP&F website, www.op–f.org. For more information, please see the ***Member's Guide to Domestic Relations Issues***.

Final contributions and processing time

OP&F cannot determine the exact amount of DROP contributions eligible for withdrawal or rollover until your former employer deposits your final DROP contributions. Employers have until the last day of the month following the month of your termination to report these contributions. A withdrawal or rollover is normally issued within 90 days of your termination date, provided that all information needed by OP&F for processing has been received and is complete. If you want a lump sum payment, OP&F will issue the disbursement when your ***DROP Distribution Request*** form is received and all your contributions are received and posted to your DROP account.

Taxation of DROP benefits

DROP is a benefit offered by OP&F through a defined benefit plan. Contributions made to DROP are tax–deferred, except for employee contributions that have already been taxed. In general, DROP funds, including interest, are subject to income tax upon withdrawal. It is imperative that you consult your individual tax or financial advisor concerning the applicable federal, state and local tax rules prior to electing DROP and prior to any withdrawal of DROP funds. Even though OP&F will administer the DROP program, we cannot provide you with financial advice. This section identifies key federal tax law issues applicable to DROP. Taxes regarding DROP are determined by the Internal Revenue Code, which changes from time to time.

Taxability of a DROP payment

IRS has issued a private letter ruling to OP&F on the applicable taxes of DROP funds. All money in your DROP account is likely to be taxable, in full, upon withdrawal. You may, however, have some basis recovery, or after–tax contributions that will offset a portion of these taxable benefits, but only if:

- you elect to receive a lump sum distribution of your total DROP accrual prior to the date your monthly retirement benefit payment begins; and
- the distribution is made within 90 days from the commencement date of your monthly retirement benefit payments.

For purposes of determining the election date for an entire lump sum distribution, the election date will be deemed to be the date received by OP&F.

Lump sum DROP payments can be rolled over into an Individual Retirement Account, Roth IRA, Deferred Compensation, or any qualified plan that will accept them. You should check with your financial institution to determine if these funds will be accepted, and review the OP&F Special Tax Notice for more detailed information. You can also choose to postpone any withdrawal until a later date, pending some restrictions as outlined below.

Required minimum distributions (RMDs) are the minimum amounts you must withdraw from your retirement accounts each year pursuant to federal tax law. Beginning in 2023, the SECURE 2.0 Act raised the age that you must begin taking RMDs to age 73.

Based on the age qualifications mentioned above, OP&F is required to pay minimum distributions on your DROP account if you retire from OP&F. In the year that you attain your qualifying age for an RMD, OP&F will review your DROP account and contact you if a minimum distribution is needed.

DROP lump–sum distributions will be subject to the same initial tax analysis as any OP&F retirement distribution. OP&F will determine the taxable and non–taxable portion of your benefit using the method required under federal law. Upon withdrawal, taxes will be based on the amount you withdrew each year and the IRS requirements for the eligible retirement plan you selected. The law currently requires OP&F to withhold 20 percent of the taxable amount for lump–sum payments that are not directly rolled over. OP&F can also withhold State of Ohio taxes upon request as detailed on the DROP Distribution Request form.

There is an exception to the 10 percent early withdrawal penalty for distributions from a governmental defined benefit plan. The exception applies to a qualified public safety employee who separates from service on or after age 50. Annuity–like distributions that begin after separation from service are exempt from the 10% penalty at any age. You are advised to seek professional tax advice for more information on tax penalties.

Your surviving spouse or designated beneficiary who receives DROP distributions will be subject to the same tax provisions as you, who originally accrued the DROP benefit.

OP&F encourages you to verify your personal situation with a professional tax advisor.

Tax treatment of DROP payment and rollover options

A DROP lump sum distribution can generally be rolled over into an Individual Retirement Account (IRA), Deferred Compensation or any qualified plan that will accept these funds. If you elect to have DROP assets rolled over to an eligible retirement plan, no taxes are due on the DROP assets until you withdraw these funds from the eligible retirement plan. You may also be able to roll your distribution into a ROTH IRA, which requires a taxable conversion at the time of the rollover. You should consult the ***Special Tax Notice Regarding Plan Payments*** for more detailed information. Additionally you should seek professional tax advice since the rules for IRAs, Deferred Compensation, and other qualified plans vary.

Mandatory income tax withholding

OP&F must withhold 20 percent of the taxable portion of your withdrawal if your taxable portion is $200 or more within one calendar year and is distributed directly to you. It is possible to avoid paying this tax if you rollover your DROP funds to another qualified pension plan, a qualified 401(a) plan, 403(a) plan, 457(b) deferred compensation plan, 403(b) tax–sheltered annuity, or to an individual retirement account (IRA). As mandated by IRS rules, OP&F may be required to withhold at a higher tax rate.

You may rollover the withdrawal you received from OP&F within 60 days of receipt, but you will have only 80 percent of the taxable, or "pre–tax," portion available for the rollover. You can make up the 20 percent that OP&F deducted from the initial withdrawal from any other funds you have available to you and include them in the rollover. Also, you may ask the IRS to waive the 60–day limit in this type of rollover. Further information is available in the ***IRS Publication 505*** and ***Special Tax Notice Regarding Plan Payments*** provided by OP&F.

Tax statements

Each January, OP&F will issue separate 1099–R forms to members, survivors, other beneficiaries and Division of Property Order (DPO) recipients who receive a cash distribution of any amount from DROP during the previous year. OP&F will determine the taxable and non–taxable portion of these distributions.

Changing your tax withholding amounts

Changes to federal and Ohio tax withholdings from your pension benefit and DROP distributions must be made in writing and include your signature and Social Security number, subject to certain limitations. A Withholding Certificate for Ohio State Income Tax form must be used to change state of Ohio income taxes since withholding state tax is not mandatory, and OP&F does not automatically withhold Ohio State income tax from DROP distributions. The form is available on OP&F's website at www.op–f.org, along with the federal form W–4P, or upon request by calling OP&F Customer Service at 1-888-864-8363.

DROP funds upon your death

If you have monies remaining in your DROP accrual at the time of your death, your surviving spouse will be entitled to receive the full balance of your DROP benefits accrued. If you have no surviving spouse, your DROP benefits will be payable to your designated beneficiary. If you have no surviving spouse or designated beneficiary, the benefits will be paid to your estate. A Designation of DROP Beneficiary form is available to download on the OP&F website.

Your survivor or designated beneficiary will receive their DROP benefits once OP&F receives the proper documentation. In the event of your death, your surviving spouse or designated beneficiary can select from the same distribution methods that were available to you. Please see the Distribution Methods section on Page 11 for more information on payment types. Any amount payable to an estate must be paid in a single payment.

Survivor benefits

In addition to DROP benefits, your survivors may also be eligible to receive survivor benefits. For more information on survivor benefits, please contact OP&F or see OP&F's *Members' Guide to Survivor Benefits* and *Ohio Public Safety Officers Death Benefit Fund*.

Reduced lifetime pension benefit

Pension payments are calculated based on your service credit and average annual salary upon electing DROP. If you earn a higher salary after your DROP effective date due to raises, job promotions, etc., it will not be used to recalculate your pension and, therefore, will not result in you receiving a higher pension upon retirement.

Accessing DROP balance information

Once enrolled in DROP, you can register and access your DROP information online at OP&F's website, www.op–f.org. You will see a monthly breakdown of your contributions and interest posted to your account. Please note, however, that it usually takes two months from the time your employer's monthly payroll report is due to OP&F until it is posted online. Interest is posted every month between the 5th and 10th for the previous month. If, for some reason, a pension or contribution is posted late, that does not affect your interest. The interest is calculated back to the due date.

Contact a Customer Service Representative at 1–888–864–8363, between 8 a.m. – 4:30 p.m. EST, if you have any questions.

Frequently asked questions about DROP

Can my employer prevent me from enrolling in DROP?

No. DROP is a retirement benefit enhancement and has no impact on your employment status.

What if my DROP participation impacts my employment status?

We hope that you will not experience negative effects from your employer if you elect DROP participation. Because these are employment provisions based on your contract with your employer and they are labor law issues that do not involve your pension, OP&F is unable to provide guidance on these matters. If you should experience such a situation, we recommend that you seek legal counsel.

Do my benefits through my employer remain in effect while I am in DROP?

Yes, you will still be considered an active employee while you participate in DROP and eligible for all benefits your employer provides.

Can I continue to participate in Deferred Compensation while in DROP?

Yes, you may continue participating in Deferred Compensation while enrolled in DROP.

While I participate in DROP, can I still vote in Board of Trustee elections for active member seats?

Yes, you may vote in elections for positions that represent your particular group. If you are a police officer, you would be eligible to vote in elections for the active police officer positions on the Board. If you are a firefighter, you would be eligible to vote in elections for the active firefighter positions on the Board. You would also be eligible to run for election to these positions.

Can I work in an OP&F–covered position after I terminate employment and begin receiving retirement and DROP benefits?

Yes, you would be classified as a re–employed retired member. As a result, you would not lose any DROP benefits.

Who is eligible for DROP?

Members who are eligible for a normal service retirement are eligible for DROP. For those who were OP&F members on or before July 1, 2013, normal service retirement eligibility is at least 48 years of age and with 25 or more years of service. For members hired into an OP&F-covered position after July 1, 2013, normal service retirement is age 52 with at least 25 years of service.

What is the difference between a DROP participant and an OP&F re–employed retired member?

A DROP participant has not retired and an OP&F re–employed retired member has already retired, is receiving OP&F pension benefits, and has chosen to return to work under an OP&F–covered position. Although OP&F retirees are not eligible for DROP, if you retire and then return to a position covered by OP&F you are eligible for defined contribution plan benefits. As a re–employed retired member you are required to contribute to OP&F, however, you do not earn any rights to a traditional OP&F benefit. If you terminate your employment before age 60, you will receive a lump sum of your post-retirement employee contributions made during the period of re-employment, plus interest. If you wait until age 60, you can receive an amount equal to double your contributions you made as a re–employed retired member, plus interest, or if applicable, a monthly annuity. For more information on public re–employment, including penalty information, refer to the *Member's Guide to Public Re–employment*.

Can my prior service credit be used to help meet eligibility requirements for DROP?

Yes, you can purchase or be granted prior service credit to become eligible for DROP. See Page 4 for more information.

Should I purchase prior service credit before entering DROP?

Yes, you should consider purchasing service credit before entering DROP, if applicable. You will not be permitted to purchase additional service credit after your DROP effective date, unless you began a tax–deferred purchase through payroll deduction prior to your DROP effective date.

Should I purchase service credit if I am already eligible for DROP?

If you already meet the DROP eligibility criteria, you may find it beneficial to purchase service credit prior to your DROP effective date because service credit is used in the formula for pension calculations. Purchasing service credit prior to your DROP effective date may make your pension calculation higher, which may result in larger monthly deposits into DROP and subsequently a larger monthly pension upon retirement.

What happens to the percentage of my employee contribution that is not applied to DROP?

As a DROP participant, you would continue to contribute a percentage of your salary to OP&F as long as you are actively employed. OP&F uses the contributions that are not credited to DROP to fund OP&F benefits and are part of the plan design, allowing DROP to be cost neutral.

My employer picks up part of my employee contribution. Is that credited to DROP?

Yes, the appropriate percentage of your employee contribution will be credited to DROP based on the plan design regardless of who pays for the employee share of the contribution.

Do I have to come to OP&F's office to enroll in DROP?

No, it is not mandatory. However, OP&F encourages members to schedule an appointment to discuss the DROP program with an OP&F Member Education Representative. If you are eligible for DROP, you simply submit a properly completed Election to Enroll in DROP form to OP&F to enroll.

Can I enter DROP if I have 33 years of service?

Yes, anyone who is eligible for a normal service retirement can participate in DROP.

Do I have to leave DROP once I have 33 years of service credit?

No, you can participate in DROP for up to eight years, regardless of your age or the amount of your service credit.

Do I have to designate how long I will participate in DROP?

No, but you must stay in DROP for at least the minimum participation period to receive the full benefits of DROP. In addition, you may not remain in DROP more than eight years or you will forfeit all monies in your DROP account.

Do I have to select an annuity when I enroll in DROP?

No, as a DROP participant, you automatically qualify for a Joint and Survivor Annuity (JSA) that would continue 50 percent of your reduced monthly retirement allowance to your surviving spouse or the eligible contingent dependent beneficiary for life. As long as you indicate on your Election to Enroll in DROP form that you do not wish to select a payment plan, you qualify for this automatic benefit and your monthly retirement benefit credited to DROP will not be reduced during active DROP participation. If you indicate that you do not wish to select a payment plan on your Election to Enroll in DROP form, you will be required to select a payment plan upon retirement. In the rare circumstance that you do select an annuity when you elect DROP, your monthly benefit credited to DROP will be reduced accordingly and you will not be able to change your selection when you retire, unless you are under a court order to designate a former spouse as a beneficiary.

What happens if I transfer to another police or fire employer while I am participating?

DROP participation continues as long as OP&F receives consecutive reports or payments of contributions from an employer on your behalf, regardless of which employer reports or pays the contributions.

DROP election effective date

When will my DROP election take effect?

Your election to participate in DROP will take effect on the first day of the first full employer reporting period that immediately follows OP&F's receipt of your Election to Enroll in DROP form, if all eligibility requirements have been met. For example, if OP&F receives your application on Jan. 3, and the end of your employer's next reporting period is Jan. 21, your DROP effective date is Jan. 22. See Page 3 for a detailed explanation of the DROP effective date.

Cancelling a DROP election

What if I change my mind after I enroll?

You can only cancel your DROP election if OP&F receives written notice from you:

- within 30 days of OP&F's receipt of your Election to Enroll in DROP form; or
- within 30 days of OP&F's written notice that your actual DROP benefit is 10 percent lower than the last written estimate prepared by OP&F.

Terminating DROP

Are there penalties for terminating the program before the required number of years?

For members whose election to participate in DROP was effective after July 1, 2013, the minimum participation is five years and you are not able to withdraw money from your DROP accrual until five full years have passed since your election date.

If you terminate DROP before the minimum participation period ends, then you must forfeit all of your DROP interest and you cannot withdraw any money from your DROP accrual until the minimum required years have elapsed. However, if you leave your accumulated DROP funds on account after you are eligible to withdraw, interest will begin to accumulate again after the minimum participation period has passed since your DROP enrollment.

What if I decide to continue working beyond the maximum number of years allowed?

You must retire after your DROP participation period ends. If you continue working more than eight years after your DROP effective date, you are required to forfeit your DROP accruals. However, you will regain your service credit for the DROP participation period, which was frozen when you elected DROP.

What if I become disabled while participating?

If you become disabled and are granted OP&F disability benefits, you must choose either to accept the disability benefits and forfeit your DROP accruals or decline the benefits and continue participating in DROP. If you accept the disability benefits, your service credit and salary paid during DROP may be used in the calculation of your new monthly benefit based on the disability grant. For more information, please refer to the *Member's Guide to Disability Benefits*.

How do I terminate my DROP participation?

DROP termination can only occur under the following circumstances: termination of active service in a police or fire department, accepting a disability grant, death, or continuing to work more than eight years after your DROP effective date.

After I leave DROP, when will I receive my first pension check?

Once you terminate employment, you must submit a Service Retirement Application along with other required forms to start your monthly retirement benefits. Once OP&F receives the application and employer verification of your termination, you will begin to receive your pension payments the first week of the second month following the date you terminated DROP and retired. Please see Page 10 for more information.

Distribution methods

What are the distribution methods?

If you are eligible to receive distributions from DROP, you may select any one or a combination of the following payment methods:

- up to four distributions per calendar year of at least $1,000 per request;
- monthly distributions of at least $100 until OP&F receives written notification to change the selection;
- a one–time final lump sum distribution of the DROP balance; or
- a rollover of your DROP funds to a qualified retirement plan.

Can I change my DROP distribution method?

Yes, by completing a DROP Distribution Request form and sending it to OP&F as outlined on Page 11.

Can my DROP benefit be rolled into an IRA or Deferred Compensation?

DROP funds can be rolled over into any qualified plan that will accept them. Check with your financial institution to determine if they will accept these funds.

Taxation of DROP benefits

What are the tax penalties for withdrawal prior to age 55?

There is an exception from the 10 percent early withdrawal penalty for distributions from a governmental defined benefit plan. The exception applies to a qualified public safety employee who separates from service on or after age 50. Annuity–like distributions that begin after separation from service are exempt from the 10% penalty at any age. You are advised to seek professional tax advice for more information on tax penalties.

When I choose to withdraw my DROP funds how will they be taxed?

In general, DROP funds, including interest, are subject to income tax upon withdrawal. The amount of taxes depends on the amount of contributions that have already been taxed, your age and the term of the distribution. The taxable portion of a DROP lump sum distribution is generally eligible to be rolled over into an Individual Retirement Account, Deferred Compensation or any qualified plan that will accept the funds. If you elect to have DROP assets rolled over to an eligible retirement plan, no taxes are due on the DROP assets until you withdraw the funds unless there is a rollover to a Roth IRA, where the taxable portion of the DROP will be subject to immediate taxation. Upon withdrawal, taxes will be based on the amount withdrawn each year and the IRS requirements for the eligible retirement plan selected.

Drop in the event of death

What happens if I die while participating in DROP, due to either off-duty or on -duty illness or injury?

Members have an option to select an annuity payment plan and pension beneficiary upon DROP entry or they can wait to make the selections at retirement. If an annuity plan selection is made upon entering DROP, it cannot be changed upon retirement.

Most members entering DROP choose not to make an annuity selection because they automatically qualify for a Pre–Retirement Survivor Annuity (PRSA) that continues 50 percent of their monthly retirement allowance to the surviving spouse if the member dies while participating in DROP. Because the member automatically qualifies for a 50 percent PRSA, the monthly retirement benefit credited to DROP is not reduced during active participation.

Members who choose to select a Joint and Survivor Annuity (JSA) plan upon entering DROP will have a reduced monthly retirement benefit credited to DROP each month. By selecting a JSA percentage between 1 and 100, the member designates that, upon death, that percentage of their reduced monthly allowance will be continued to the designated beneficiary.

Important considerations before electing DROP

Enrolling in DROP is a voluntary decision that should be made after careful consideration of your individual situation. Before enrolling, please make sure DROP fits into your future by following these steps:

1. **Obtain a written estimate of your pension benefit.** Contact OP&F to request a written estimate of your pension benefit that would be credited to DROP. OP&F typically generates these requests within two to four weeks. It is not required to come to OP&F's office to discuss your DROP benefits; however, you are welcome to discuss your options at our office with a Member Education Representative.
2. **Discuss DROP with professionals.** OP&F strongly encourages you to seek financial, legal and tax advice from professionals before electing DROP. OP&F cannot advise you on these issues.
3. **Carefully read this guide.** Since limitations and conditions apply, you are encouraged to read this guide in its entirety.
4. **Understand and consider the implications of a DROP election.** These considerations include:
    - your election is irrevocable;
    - you will receive a reduced lifetime pension;
    - you automatically qualify for a 50 percent Joint and Survivor Annuity while participating in DROP, unless you select an optional plan of payment;
    - you lose your interest if you do not participate in DROP for the minimum participation period and you forfeit your entire DROP benefit if you continue to work more than eight years after your DROP effective date;
    - you cannot withdraw your DROP accruals until you retire and the minimum participation period has elapsed from your DROP effective date;
    - you cannot enroll in OP&F–sponsored health care benefits until you retire;
    - if you transfer to another employer, you can continue your DROP participation as long as OP&F receives consecutive contributions on your behalf;
    - you forfeit your DROP accruals if you accept a disability grant from OP&F;
    - your DROP accruals are subject to income tax upon withdrawal; and
    - even though your DROP accruals may not be considered a marital asset, division of property orders and other withholding orders can still apply to DROP.

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