

A BRIEF OVERVIEW OF THE

DROP

DEFERRED RETIREMENT OPTION PLAN



Answers to Commonly Asked Questions:

- ★ Are You Eligible?
- ★ What Documents Are Required?
- ★ How Is Your DROP Balance Distributed?



WHAT IS THE DROP?

The Deferred Retirement Option Plan (DROP) is an optional retirement method for HMEPS members who have reached their normal retirement eligibility (age and years of credited service) but do not want to retire. It is an alternative method of accumulating and receiving a pension benefit from HMEPS. The decision to participate in the DROP is a personal one that each member should make only after careful consideration of his or her individual financial needs and goals.

AM I ELIGIBLE?

You must be a member of Group A or B and meet one of the following age and credited service requirements on the DROP entry date:

- ★ Age 62 with at least five years of credited service
- ★ Age 50 with at least five years of credited service, provided the sum of your age and years of credited service, including parts of years, equals 75 or more

WHEN SHOULD I START CONSIDERING DROP OPTIONS?

If you are eligible and would like to participate in the DROP you must submit a request for an application to participate in the DROP. (You should notify HMEPS that you intend to make a DROP Election no earlier than sixty (60) calendar days prior to the date you are eligible to participate in DROP.) The request must be submitted on a DROP Request Form (Form DRP034). A request may be faxed, mailed or delivered to the HMEPS office. The request is not a commitment to participate in the DROP, and therefore is not binding on you or HMEPS.

IMPORTANT DROP DEFINITIONS

- ★ **DROP election date:** The date HMEPS receives a member's duly completed and executed "DROP Election." The DROP Election can only be obtained from an authorized HMEPS representative upon the member's timely submission to HMEPS of a completed application and required documents and information.
- ★ **DROP entry date:** The date a member ceases to earn service credit and begins earning credit for the member's DROP account. Eligibility requirements to participate in DROP are the same as the statutory normal retirement eligibility requirements in effect on the DROP entry date.

GROUP CHANGE AND SERVICE PURCHASE OBLIGATIONS

After you execute a DROP Election, you **cannot** enter into an obligation with HMEPS to:

- ★ Purchase previous service credit
- ★ Purchase pension credit for military service (other than missed contributions for USERRA service during the DROP period)
- ★ Change pension group participation

DROP Account

Once you are in DROP, your notional account will be credited with the following:

- ★ Monthly DROP Credit (MDC)
- ★ Cost of Living Adjustment (COLA)
- ★ Interest

WHAT IF I CHANGE MY MIND ABOUT PARTICIPATING IN DROP?

- ★ A written withdrawal of your DROP Election must be submitted to HMEPS prior to Board consideration after DROP entry.
- ★ Revocation is available only under certain very limited conditions.

HOW DO I KNOW HOW MUCH IS IN MY NOTIONAL DROP ACCOUNT?

- ★ Yearly estimated benefit statement
- ★ Final statement upon termination of employment
- ★ AccessHMEPS, available at www.HMEPS.org

WHAT IS THE RETIREMENT PENSION OF A DROP PARTICIPANT?

Upon termination of employment, you will receive a retirement pension calculated as provided under the pension law for a normal retirement pension, with the following exceptions:

- ★ The number of years of credited service will be the credited service you accrued up to the time of your DROP entry date
- ★ The benefit accrual rate(s) will be the benefit accrual rate(s) that applied at the earlier of your last day of credited service or DROP election date
- ★ Your average monthly salary will be the average monthly salary as of your DROP entry date.

Your retirement pension will be increased by any COLAs applied during your participation in DROP.

DROP ACCOUNT BALANCE DISTRIBUTION

After Retirement, you may make an irrevocable election to receive payment of a DROP benefit in a:

- ★ Lump Sum
- ★ Periodic Payments
- ★ Rollover to a qualified plan or IRA
- ★ Partial Payments
- ★ Combination of the above

Also, you may defer making a distribution election until a future date; however distribution must commence no later than the first day of April following the calendar year in which you have attained age 70½, or earlier as determined by the Board.

All payment options and amounts are subject to approval by the Board.

Consult with a tax specialist about the tax consequences of various DROP distribution options.

**FOR FREE FINANCIAL COUNSELING
CALL 713-595-0100 TO CONTACT THE
HMEPS FINANCIAL COUNSELOR.**

HOW IS THE DROP INTEREST RATE DETERMINED?

The DROP interest rate is established by taking half the return on HMEPS' investment performance for the prior year. Under the Meet and Confer Agreement, the maximum DROP interest rate is 7.5 percent and the minimum rate is 2.5 percent.

This overview of DROP can be very helpful, but it is not a complete statement of what you need to do to prepare for DROP. If you have questions that are not addressed in the HMEPS Benefits Handbook or on our website, please contact HMEPS directly.

Nothing contained herein may be construed to convey any right or privilege not otherwise provided by the pension law. In the event of any conflict, the pension law takes precedence.

BEHIND EVERY NUMBER
THERE IS A PERSON



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