Planning for Retirement

Information to help you plan for retirement, pick a retirement date, apply for retirement, and receive your first retirement check on time.

This booklet provides answers to the questions frequently asked by City employees who are considering retirement and is a publication of the Finance Department's Pension Administration Division. Please note that the information provided herein is general in nature by necessity. It is not meant to supersede or duplicate pension documents, benefits contracts or City Administrative Regulations. Specific questions should be directed to the individual offices cited in this material.

Pension Administration Division
Finance Department
301 King Street – City Hall Room 1600
City Mailbox 42
Alexandria, VA 22314

Table of Contents

Part I: Planning for Your Retirement ... 1

General Financial Planning ... 2

Pre-Retirement Financial Planning ... 4

Health Planning ... 6

Estate Planning ... 6

Part II: Retirement Application and Resignation Process ... 8

Decide When You Will Retire ... 9

Meet with the Pension Administration Division ... 10

Meet with the Human Resources Benefits Division ... 11

Give Notice to Your Department ... 11

After You Submit Your Resignation ... 12

Part III: City Sponsored Retirement and Savings Plans ... 13

Virginia Retirement System (VRS) ... 14

Supplemental Retirement Plan ... 19

Firefighters and Police Officers Pension Plan ... 23

Retirement Income Plans ... 28

457 Deferred Compensation Plan ... 29

Social Security Benefits ... 32

PART I:

PLANNING FOR YOUR RETIREMENT

Retirement planning is a long-term process. Ideally, you should begin retirement planning as soon as you start working. Planning and saving for retirement early in your career will help you maximize the benefits available to you when you retire.

General Financial Planning

There are various things you can do and steps you can take to ensure that you are ready for retirement.

Know what you have.

Learn about the retirement and insurance benefits available from the City, other retirement and savings plans, and Social Security. You should know which plans you participate in, what benefits these plans will pay and at what age you will qualify for benefits. Part III of this guide provides information on the City's retirement and savings plans.

Review your group health and life insurance coverage as well as other available City insurance coverage with the Human Resources Department's Benefits Division. Make sure you have adequate coverage for your family in the event that you die prior to retirement. Coordinate your policies with the coverage and/or income you may need in retirement.

Attend retirement seminars.

The Finance Department's Pension Administration Division provides seminars for various stages of your career, beginning with orientation and including pre-retirement workshops for those who are about to retire. In some cases, these seminars are jointly sponsored with the Human Resources Department.

Become familiar with the resources available to you.

There are a variety of online resources available to you in the areas of retirement planning, benefits, investing and savings:

- Pension Administration Division: alexandriava.gov/pension
    - On AlexNet: alexnet.alexandriava.gov/Finance
- Human Resources: alexandriava.gov/HR
    - On AlexNet: alexnet.alexandriava.gov/HR
- Virginia Retirement System: www.varetire.org
- Prudential Retirement: www.prudential.com/online/retirement
- ICMA-RC: www.icmarc.org
- Social Security: www.socialsecurity.gov
- Medicare: www.medicare.gov
- Internal Revenue Service: www.irs.gov
- Financial Planning Association: fpaforfinancialplanning.org
- Choose to Save: www.choosetosave.org
- U.S. Securities and Exchange Commission Invest Wisely web site: http://investor.gov

- U.S. Department of the Treasury web site for MyMoney: http://mymoney.gov

There are many good books, web sites, magazines, television shows, and radio shows that provide information on retirement planning. But, before you rely on such information, be sure to find out what licenses and certification the author or speaker has. For example, is the person providing tax information a Certified Public Accountant (CPA) or otherwise certified to provide tax information? Is the person providing retirement and financial planning information a Certified Financial Planner (CFP) or otherwise certified to provide this information? You also need to keep in mind that these other sources of retirement planning information do not have specific information regarding the provisions of the City's retirement plans and the 457 Deferred Compensation Plan.

Increase the value of your City retirement benefits.

There are three ways to increase the value of your retirement benefits:

- Build additional retirement money by contributing to the 457 Deferred Compensation Plan.
- Work beyond the date you are first eligible for retirement to earn a larger monthly benefit.
- Purchase service for other government service through the Virginia Retirement System if you are a participant in that plan. (It is cheaper to purchase prior government service within your first three years of being covered under VRS.)

Learn how to invest for retirement.

The following provide opportunities for you to invest towards retirement:

- The Retirement Income Plan for Deputy Sheriffs, Emergency Rescue Technicians, and Fire Marshals;
- The Retirement Income Plan for Firefighters and Police Officers;
- The 457 Deferred Compensation Plan with ICMA-RC;
- Individual Retirement Accounts (IRAs)
- Tax-sheltered annuities
- U.S. Savings Bonds
- Other investment vehicles, such as Certificates of Deposit

Whether you invest through one of the City plans or any other personal investment vehicle, the web sites listed on pages 2 and 3 can help you plan your investments and increase the value of those investments.

PRE-RETIREMENT FINANCIAL PLANNING

There are three parts to pre-retirement financial planning: projecting your expenses; projecting your income; and addressing a potential shortfall. You may want to use worksheets to help you in this process. You may find budget worksheets and calculators on many web sites, in books, or magazines. The web sites for Prudential and ICMA-RC have budget worksheets and calculators.

If you are married, you may want to go through this process twice: once for yourself and once for your spouse. While the ideas may be the same for each of you, the timing is usually not. It is unlikely that you and your spouse will reach key retirement key dates (such as retiring from employment and beginning to receive Social Security and Medicare) at the same time.

Projecting Your Expenses

Whether you project your expenses by estimating your regular expenses **or** review your current expenses and focus on the parts that will change in retirement, you should consider the following:

- **Medical costs** tend to increase initially in retirement because the City contributes less for retirees than for employees. Your premium costs will decrease once you are eligible for Medicare. However, medical costs may also increase as you age or due to inflation.
- **Housing costs** may change as you move to another area or pay off your mortgage.
- **Contributions** to Social Security, a Roth IRA, Deferred Compensation, or your pension (if applicable) will stop once you stop all employment.
- **Taxes** may change over time.
- **Transportation costs** may decrease as your daily work commute is eliminated.
- **Discretionary spending** may increase if you spend more time and money on travel, entertainment, or hobbies.
- **One-time or short term expenses** may arise, such as paying college tuition for you or a family member, making improvements to your home, or relocation costs.

Review your expense projections to ensure that they are realistic and that you included inflation in your projections.

Projecting Your Income

Your retirement income may have many parts: pension, Social Security, deferred compensation, IRAs, and investment income. In reviewing your assets, consider the following:

- **Taxes:** A dollar in a Roth account is not taxed the same as a dollar in a checking account. Be tax-efficient in your savings and investing.

- **Inflation:** Some benefits are set for life, such as the monthly benefit from the Supplemental Retirement Plan. Other benefits may increase with inflation such as Social Security **or** retirement benefits from VRS or the Firefighters and Police Officers Pension Plan. The details vary by plan.

- **Risk:** On average, investing in a broadly diversified portfolio of securities is more effective than Certificates of Deposit (CDs). However, if you are not comfortable with investment risk and decide to invest in the less risky CDs, you will have to invest more to accrue the some value you could accrue in stocks and bonds.

- **Marriage:** Your marital status affects your Social Security and your monthly benefit (if you select a joint and survivor option). You should consider these effects in projecting your total expenses and income.

- **Divorce and Child Support:** Pension plans must honor any Qualified Domestic Relations Order (QDRO) or Domestic Relations Order (DRO) that directs a portion of your benefits be paid to your ex-spouse, children, or other individuals. QDROs and DROs are usually created as part of a divorce or child settlement agreement and may be issued even after you begin receiving pension payments.

- **Lifestyle:** As you move through your career, what will you do when your income expands? Will you increase your savings or your spending?

- **Perspective:** Consider your circumstances as a total picture instead of as a series of individual choices. Consider the combined effects of your pension, deferred compensation, IRA, Social Security, your home, your spouse's income and assets, etc.

- **Details:** Financial planning for retirement can be complicated. If your pension turns out to be less than you might have expected, wouldn't you want to know today rather than the day the first retirement check arrives? Find out now. Get online and get an estimate. Visit the web sites for the City retirement plans to estimate your future pension benefits.

The ICMA-RC, Prudential and Social Security web sites have retirement calculators you can use to plan for your future income needs. One note of caution: Whether you use one of these calculators or one provided elsewhere, make sure you know how inflation is used in the estimate. Some calculators use current dollars and others use inflated dollars.

Addressing a Potential Shortfall

If your projected benefits won't cover your projected expenses, you have a potential shortfall. You also have choices in how you overcome that shortfall. Here are some ways you can reduce the potential shortfall:

- Work longer for a larger pension benefit.
- Get a second job now or after you retire from the City.
- Choose the maximum retirement benefit instead of the survivor option.
- Increase the contributions you make to plans such as the 457 Deferred Compensation Plan. If you are contributing the annual maximum, find out if you are eligible for catch-up provisions.
- Increase the value of your investments. (See the "Learn how to invest for retirement." section on page 3.)

- Plan to pay off any debt before you retire.
- Plan for a pre-retirement period when you live on a calculated reduced income while also reducing expenses.

After evaluating how you can overcome any shortfall, you may need to redesign your retirement by changing your planned retirement date, reconsidering your retirement activities, or changing where you plan to live during your retirement years.

HEALTH PLANNING

In planning for retirement, you should also consider your health and your insurance benefits. Review your insurance premiums and co-pays to see if they will fit your budget. Review the coverage to determine if it meets your current and future needs.

Undergo a thorough medical examination, making whatever adjustments might be required in lifestyle to maximize your good health. Having to retire earlier than anticipated due to poor health is costly and just as damaging as a loss to your property or assets. An early retirement will result in fewer pension plan service credits and smaller retirement benefits.

ESTATE PLANNING

You should keep your beneficiary information updated on your insurance and retirement plans. Review your beneficiary designation annually or when you marry, have children, divorce, or have a death in your family.

You are making financial decisions that will affect you for the rest of your life and will affect your heirs after you have passed on. You may want to consult a certified financial planner or lawyer.

Working with a Financial Advisor

A financial advisor can assist you in evaluating and planning your finances, retirement choices, and insurance coverage. Insurance provides protection against financial losses and may have tax advantages. Your financial advisor can help you review all of your insurance coverage; including health, life, long term care, and disability insurance as well as the insurance on your home, other properties, and cars. While working with your financial advisor, you should also review your total current net worth and develop an estate plan to ensure that the maximum possible amount will be available for your heirs in the event of your death. You may want to also include a lawyer in this process.

The Financial Planning Association web site at www.fpaforfinancialplanning.org can help you find a certified financial planner. The web site provides lists of planners in your area, tips for interviewing a planner, and tips and information to help you with your financial planning.

Working with an Attorney

If you do not already have a will, and you want to receive help, you will want to contact an attorney who has experience in the area of trusts and estates. If you and your spouse each have a will, you and your attorney(s) should review both to ensure:

- It reflects your current wishes for the disposition of your estate and the appointment of an executor;
- It meets the legal requirements of the state in which you reside; and
- It provides for the maximum tax advantages allowed by law.

You should also plan for how you wish your life and financial matters to be managed if you should become incapacitated or need help to accomplish daily living tasks. A lawyer can help you prepare for these possibilities by explaining and preparing the following documents on your behalf:

- Durable Power of Attorney
- Living Trust (consider the pour over will provision)
- Power of Attorney for Health Care (Living Will)
- Declaration of Guardian

If you need help in finding an attorney in the area of trusts and estates, elder law, guardianships, etc., please contact the local bar association in your area of residence. The Alexandria Lawyer Referral Service (located at 520 King Street, Suite 202) provides referrals for clients who want to schedule an initial 30-minute consultation at a reduced rate. If you are in need of an attorney, call the referral service at 703.548.1105.

PART II:

RETIREMENT APPLICATION AND RESIGNATION PROCESS

DECIDE WHEN YOU WILL RETIRE

To help with this, you may download a copy of the Retirement Checklist from the Pension Administration web site or The Retirement Villa on AlexNet. The Retirement Checklist can help guide you through the process and help you meet the deadlines associated with retirement planning. Make sure you use the correct Retirement Checklist. There is one for each of the following groups:

- Firefighters and Police Officers
- Deputy Sheriffs, Emergency Rescue Technicians and Fire Marshals
- General City Employees

You may stop work on any day you choose, but retirement benefits are always effective the first of the month, often the following month. The date you choose as your last day of work will determine when you stop paying insurance premiums as an active employee (through payroll deductions) and start paying premiums as a retiree. In order to receive retiree insurance coverage, you will need to retire as an active employee under either the Virginia Retirement System or the City of Alexandria Firefighters and Police Officers Pension Plan

Employees Enrolled in the Virginia Retirement System

General Employees – including Deputy Sheriffs, Emergency Rescue Technicians and Fire Marshals – who wish to have retiree insurance must retire from VRS. If you work up to and including the 16th day of the month, the City pays the VRS contribution for that month. Your retirement date will be the 1st of the following month. You will also move into the retiree insurance coverage group on that day.

The City will not make a contribution to VRS if you stop working prior to the 16th day of the month. In this case, your VRS retirement date will be the 1st of the month you last worked, but you will move into the retiree insurance coverage group on the 1st of the following month.

Keep in mind that VRS pays benefits one month in arrears. Your first payment from VRS will be paid one month after your retirement effective date, assuming you filed all paperwork with the Pension Administration Division in a timely manner. So, you will receive your first payment from VRS on June 1 if your retirement is effective May 1.

Example 1

- Employee's last day of work is April 16
- VRS retirement date is May 1
- The employee pays for health insurance as an employee for April. The premiums were pre-paid in the employee's pay check cycles during March.
- The employee moves to the retiree group for medical insurance purposes May 1.
- The employee will receive his or her first payment from VRS on June 1.

Example 2

- Employee's last day of work is April 10
- VRS retirement date is April 1
- The employee pays for health insurance as an employee for April. The premiums were pre-paid in the employee's pay check cycles during March.
- The employee moves to the retiree group for medical insurance purposes May 1.
- The employee will receive his or her first payment from VRS on May 1.

Sworn Firefighters and Police Officers

Sworn firefighters and police officers must be present at work on the 1st of the month to receive employee health premium rates in the month of retirement. If the 1st is a regular work day, you will receive employee insurance coverage for the month only if you are present for the shift and do not use any form of leave. If the 1st is not a regularly scheduled work day, you may petition your department head for a change in schedule. The department head will evaluate the service needs of the department and decide whether to allow the request. If you who work any part of the 2nd of the month, you will have a retirement effective date of the 1st of the following month.

Example 1

- Employee's last day of work is March 1. Employee works at some time on the 1st **but no later than 11:59 p.m.**
- Retirement date is March 1.
- Employee pays for health insurance as an employee for March. The premiums were pre-paid in the employee's pay check cycles during February.
- The employee moves to the retiree group for medical insurance purposes April 1.

Example 2

- Employee's last day of work is March 2.
- Retirement date is April 1.
- Employee pays for health insurance as an employee for March. The premiums were pre-paid in the employee's pay check cycles during February.
- The employee moves to the retiree group for medical insurance purposes April 1.

MEET WITH THE PENSION ADMINISTRATION DIVISION

Six months before your planned retirement date, contact the Pension Administration Division to arrange a retirement appointment. You are encouraged to bring your spouse or a family member to this meeting. During this appointment, you will discuss the application process and any questions you may have.

As part of the application process, you will need to provide the following documents:

- A legible copy of your birth certificate
- A legible copy of your spouse's birth certificate if you elect a survivor option
- A legible copy of your marriage certificate if you elect a survivor payment option

Some retirement papers may require a notarized signature.

The Pension Division is located in City Hall, Room 1600. Walk-in hours are Monday, Wednesday, and Friday from 2 p.m. to 4 p.m. and other times by appointment. The general telephone number for the Pension Division is 703.746.3906. Select option 1 to hear pre-recorded information on the retirement and savings plans.

MEET WITH THE HUMAN RESOURCES BENEFITS DIVISION

Call the Human Resources Benefits Division at 703.746.3785 to make an appointment two months prior to your planned retirement date.

The Human Resources Benefits Division can provide you with information concerning the costs connected with retiree insurance benefits as well as confirm the amount of annual, sick, and compensatory leave for which you are eligible to receive payments when you retire.

GIVE NOTICE TO YOUR DEPARTMENT

Once you have decided upon a certain retirement date, you should give written notice to your department. While there is no standard form, a memo or letter to your department head through your supervisory channels is recommended. Your letter will become part of your personnel file.

Employees in Good Standing

Employees who provide at least two weeks notice are considered to be separated from the City "in good standing." Whenever possible, you are encouraged to give your supervisor more than the minimum amount of time. This is a professional courtesy that allows your department to make arrangements to cover your work, plan work assignments after your departure, and begin the hiring process. Employees who separate in good standing will be paid for eligible leave up to the maximum limit. See Administrative Regulation (A.R.) 6-18, Attendance and Leave, regarding payment of annual and sick leave and A.R. 6-14, Hours of Work and Special Pay, regarding payment of accrued compensation time. As mentioned above, you should discuss the payment of all leave with the Human Resources Benefits Division.

Involuntary Separation

You will not be required to submit a letter of resignation if you are involuntarily separated. However, that option may be available to you voluntarily. It is at your department head's discretion to accept a resignation in lieu of a termination.

Employees do not lose their rights to a pension when they are involuntarily separated from the payroll unless the separation was due to dishonesty or malfeasance. If you are involuntarily separated, you should contact the Pension Administration Division to discuss retirement benefits and Human Resources to discuss insurance benefits.

AFTER YOU SUBMIT YOUR RESIGNATION

Your supervisor will forward your resignation to your Department Head for acceptance. Your Department Head may wish to meet with you to discuss your last day, plan for final assignments and discuss any options related to post-retirement work with you.

Your Department's Human Resources representative will prepare a Personnel Action Form with your last day noted, attach your accepted resignation letter, and send these to Human Resources. Discuss with your department's Human Resources representative who will report your leave information so you may receive payment for eligible leave balances in your last pay check. You will be encouraged to make an appointment for an exit interview to discuss your post-employment benefits choices.

Your department may also have an internal exit process that requires your completion. Your supervisor can assist you with instructions to return City uniforms or property including keys and identification badge before your departure.

Finally, you should cancel any monthly parking arrangements in place with the City and make arrangements to refund any tuition reimbursements, if owed, to the City.

PART III:

CITY SPONSORED RETIREMENT AND SAVINGS PLANS

The City's Pension Administration Division administers the City's retirement, savings and deferred compensation plans for employees. Summaries of each of these plans are provided below; however, you should refer to the Pension Administration Division's web site at alexandriava.gov/retirement for more detailed information, handbooks, and plan documents as well as any documents you may need to complete to join these plans or to retire from them. You should also visit the web sites of each plan in which you are a participant and log on to view your personal information at least once a year. (See each plan summary for its web site address.) Pay careful attention to any statement you receive during the year from the plan's record keeper.

VIRGINIA RETIREMENT SYSTEM (VRS)

Employer Code 55200

VRS is the primary retirement plan for regular, full-time employees of the City who are not covered under the City of Alexandria Firefighters and Police Officers Pension Plan. The VRS retirement benefit is a defined benefit plan qualified under section 401(a) of the Internal Revenue Code. A defined benefit plan links benefits to the employee's salary and years of service

You may log on to the VRS web site at www.varetire.org to view personal information and to calculate estimated retirement benefits. *The Handbook for Members of the Virginia Retirement System* provides more detailed information and can be found on the VRS web site under Publications or can be requested from the Pension Administration Division. You may also call 888.827.3847 to speak to a VRS Customer Contact Center Representative. Representatives are available from 8:30 a.m. to 5:00 p.m., Monday – Friday.

Eligibility and Contributions

Regular, full-time employees who are not covered under the Firefighters and Police Officers Pension Plan are automatically enrolled in this plan. The City pays the 5 percent member contribution to VRS each month. The contribution is calculated using base compensation; excluding overtime, shift differential, bonuses, or other special pay. The City also pays an additional employer contribution at a rate determined every two years by VRS.

Vesting

You are vested when you accumulate five years of service credit. Being vested means that you are eligible to receive a monthly retirement benefit when you satisfy age and service requirements.

Retirement - Unreduced

You may retire and receive an unreduced monthly benefit upon attaining:

- Age 65 with at least five years of service credit or
- Age 50 with at least 30 years of service credit.

Retirement - Reduced

You may retire early and receive a reduced monthly benefit upon attaining:

- Age 55 with at least five years of service credit or
- Age 50 with at least ten years of service credit.

Calculation of Retirement Benefit

VRS provides a monthly retirement benefit at the time you retire from City employment or any later date that you choose (deferred retirement). The monthly retirement benefit is calculated using the following formula:

- 1.7% of average final compensation x number of years of credited service ÷ 12

For a reduced benefit, the above amount is multiplied by an early retirement factor.

Retirement Estimates

You may calculate your unreduced or reduced monthly benefit by logging on to the VRS web site and clicking on Benefit Estimator. You may also see an explanation of how the reduced benefit is calculated if you click on *Handbook for Members* under Publications on the Members tab.

Disability Retirement

If you are unable to perform your job because of a disability that is likely to become permanent, you may apply to receive a disability retirement benefit from VRS. If you are vested and approved for the disability retirement, your benefit is equal to the higher of the VRS formula amount or the minimum guaranteed benefit. If you are not vested, you are eligible for the minimum guaranteed benefit. The minimum guaranteed benefit ranges from 33 1/3 percent to 66 2/3 percent of the Average Final Compensation, depending on whether the disability is service-related and whether you qualify for Social Security benefits.

Average Final Compensation (AFC)

Average Final Compensation is the average of the 36 consecutive months of highest creditable compensation, wherever it appears in your VRS salary history. VRS looks at your entire compensation history with any VRS covered employer.

Service Credits

You accumulate service credit for each month that the City makes contributions for you. Your total service credits include any service you accumulated while working for another VRS covered employer or that you purchased, unless you previously received a refund of your contributions for that service. Service credit is used to determine your vesting status and the amount of your retirement benefit.

Purchase of Prior Service Credit, Including Active Military Service

You may be eligible to purchase prior service credits for prior employment if that service does not make you eligible for benefits with another pension plan. Purchase of prior service allows you to increase your retirement benefit, to retire at an earlier age, or both. Prior service eligible for purchase includes:

- Full-time employment with other governmental employers at the federal (includes Peace Corp), state, or local level;
- Approved leave of absence from governmental employers for birth or adoption or for educational purposes;
- Prior active duty military service;
- VRS refunded service;
- Non-covered service while working for a VRS-covered employer; and
- Active military duty.

Employees who take an approved leave of absence from City employment for active duty military service may be able to purchase service for that period at no cost. You should contact the Pension Administration Division as soon as you return from your active duty assignment. You will need copies of your form DD214 and deployment orders.

Portability of Service with Some Virginia Governmental Employers

Some Virginia governmental employers do not participate in VRS but may have a portability agreement that allows you to transfer the value of the benefit in their plan to VRS. For detailed information on purchasing prior service, visit the VRS web site or call the Customer Contact Center.

Retirement Payment Options

Retirement benefits are paid in monthly payments for your lifetime. At the time you apply for retirement, you will choose one of the following payment options:

- The **Basic benefit** is a monthly benefit paid to you for your lifetime. No further monthly benefits are payable at your death. However, your beneficiary would receive a lump sum payment equal to the total amount in your member contribution account at retirement minus any benefits paid to you.

- The **Survivor Option** pays you a monthly benefit for your lifetime and at your death, begins paying a monthly benefit to a person you select (your "contingent annuitant"). Your monthly benefit will be reduced under this option in order to provide a benefit to your contingent annuitant beginning at your death. The amount of reduction applied to your benefit is determined by the difference in age between you and your contingent annuitant and the percentage of benefit you wish to provide. You may choose anyone as a contingent annuitant, but the Internal Revenue Service limits the percentage of benefit payable to your contingent annuitant. You may be eligible to convert your Survivor Option to a Basic benefit or name a new survivor if your contingent annuitant dies before you and in certain situations following a divorce. Contact VRS to discuss this further.

- The **Advance Pension Option** allows you to temporarily increase your VRS benefit above your Basic benefit beginning at your retirement until a specific date. You will continue to receive the increased VRS amount up until the age you selected with VRS as your Social Security retirement age. Your VRS benefit will be reduced beginning at the age you that you previously declared to VRS that you would begin receiving Social Security benefits. In order for VRS to calculate this benefit, you must provide VRS with a copy of your Personal Earnings and Benefit Estimate from the Social Security Administration. The estimate must assume that you will have no future earnings after you leave your VRS-covered position. Contact VRS for more information on this payment option.

- The **Partial Lump-Sum Payment Option (PLOP)** is available only if you choose the Basic Benefit or the Survivor Option **and** you work one, two, or three whole years beyond the time you are eligible for an unreduced retirement. The amount of the lump sum benefit is based on your annual retirement benefit amount and how long you work beyond the date you are eligible for an unreduced retirement benefit. Your monthly benefit is reduced in order to provide the PLOP payment. You will receive your PLOP payment approximately one month after your first monthly benefit is paid. You may estimate the amount of your PLOP benefit when you log on to the VRS web site.

Detailed information on the payment options and how they are calculated may be found in the *Handbook for Members,* which is available on the VRS web site at www.varetire.org. You may also calculate your own payment options when you log on to the web site.

Timing of Retirement Benefits

VRS retirement benefits are payable the first of the month for the previous month. This means you will receive your first VRS monthly benefit the first of the month following your VRS retirement date. However, your first payment may be delayed if you do not provide the Pension Division with completed retirement application forms at least four months before your planned retirement date.

Example:

- VRS received an employee’s retirement application January 28 (at least 90 days prior to the retirement date).
- The employee’s last day of work is April 30.
- The retirement date is May 1.
- The first monthly benefit (for May) is paid June 1.

Your first monthly benefit may actually be paid later if VRS does not receive your completed applications at least 90 to 120 days prior to your anticipated retirement date.

Cost of Living Adjustments (COLAs)

VRS pays COLAs, if any, on August 1st of each year. You are eligible for your first COLA in the second calendar year after your retirement. The COLA is equal to the first 3 percent of the increase in the Consumer Price Index (CPI) plus half of each percentage increase from 3 percent to 7 percent. For example, an increase of 1 percent in CPI would lead to a 1 percent COLA. An increase of 4 percent in the CPI would lead to a 3.5 percent COLA. An increase of 7 percent or more in the CPI would result in a 5 percent COLA. Visit the VRS web site for more information on COLAs.

Retirement Benefits are Taxable

Most, if not all, VRS benefits are taxable. A small portion of benefits may be non-taxable if VRS pays out any contributions you may have made on an after-tax basis. Any lump sum payments are subject to standard withholding of 20 percent for federal taxes and 4 percent for Virginia state taxes. You must opt out of Virginia tax withholding if you live outside of Virginia.

If you receive a payment through the Partial Lump-Sum Payment Option (PLOP) and you are younger than 59 ½, you may be subject to an additional 10 percent penalty tax for early distribution from a pension plan. The 10 percent penalty tax is applicable to the taxable portion of the payment and is payable at the time you complete your taxes for the year. You may roll-over all or some of the taxable portion of the PLOP payment to another qualified plan, such as an IRA or 457 Deferred Compensation Plan. Taxes on roll-over amounts are deferred until you receive the money. See Internal Revenue Service Publication 575, Pension and Annuity Income, or a tax advisor to determine if you are exempt from paying the 10 percent penalty tax.

Death Benefits

The plan provides death benefits to the beneficiary of an active employee as a lump sum payment of the member contribution account. If you have accumulated five or more years of service under VRS and the person you designated as your primary beneficiary is your spouse, minor child, or parent, he or she may choose instead to receive a monthly benefit.

If you are receiving disability or service retirement benefits, your death benefits are determined by the type of survivor payment option you chose at the start of your disability or service retirement.

It is important that you keep your beneficiary information updated. Review your beneficiary designation when you marry, have children, divorce, and have a death in your family.

Terminating Employment Prior to Retirement

If you terminate employment prior to being eligible for a monthly retirement benefit, you may choose to:

- Receive a refund of the member contributions plus any earned interest, which results in a forfeiture of service credits and any additional future benefits; **or**
- If you are vested, leave member contributions and service credits in the VRS and defer receiving retirement benefits until you satisfy age and service requirements for an unreduced or reduced benefit; **or**
- Leave member contribution and service credits in the VRS with the expectation of earning additional service credits while working for another Virginia governmental employer or returning to work for the City.

You should discuss these options with the Pension Administration Division before you leave City employment. Human Resources can provide you with information on how returning to work for the City affects your insurance benefits.

Returning to Work after Retirement

If you retire under VRS and return to work in a VRS-covered position for the City or another VRS participating employer, your monthly benefit will be stopped. When you retire again, your benefit will be recalculated and payments restarted. Employees who return to City employment in a position that is not a VRS-covered position will continue to receive their retirement benefit under this plan. Human Resources can provide you with information on how returning to work for the City affects your insurance benefits.

SUPPLEMENTAL RETIREMENT PLAN

Contract Number 016741

This plan, often referred to as the City Plan, is administered by Prudential Retirement and is a second retirement plan for employees who are eligible for a VRS retirement benefit. The City Plan is a defined benefit plan qualified under section 401(a) of the Internal Revenue Code. A defined benefit plan links benefits to the employee's salary and years of service.

Visit the Prudential web site at www.prudential.com. You may also call toll-free 1.877.PRU.2100 (1.877.778.2100) to speak to a retirement specialist. Representatives are available 8 a.m. to 9 p.m. ET Monday – Friday. The Interactive Voice Response service is available 24 hours.

Eligibility

You are eligible for this benefit if you are a regular, full-time employee or a regular, part-time employee scheduled to work at least 50 percent time and you are not covered under the Firefighters & Police Officers Pension Plan.

Contributions

From July 1982 to June 2009, 2 percent of the contributions that the City paid were identified as employee contributions. Beginning July 1, 2009, all contributions that the City pays are identified as employer contributions.

Employees who commenced or re-commenced participation in this plan on or after July 1, 2009, will pay the 2 percent employee contribution into this plan. Deputy Sheriffs, Emergency Rescue Technicians and Fire Marshals are exempt from making this 2 percent contribution.

Vesting

You are vested when you accumulate five years of service. If you are a full-time employee, you receive a year of service when you complete a year of employment with the City in a covered position. If you are a part-time employee, you accrue service on a pro-rated basis determined by the hours you are *scheduled* to work.

However, if you are a regular, full-time employee and at least 60 years old at the time you terminate City employment, you are vested regardless of the number of years of service you have accumulated. If you are a regular, part-time employee, you must accumulate the full five years of service to be vested.

Retirement - Unreduced

You are eligible to retire with an unreduced retirement benefit when you are age 65 with five years of credited service or age 50 with 30 years of credited service.

Retirement - Reduced

You are eligible to retire with a reduced benefit when you are age 55 years old with 5 years of Credited Service. The amount of reduction depends on how far you are from age 65.

Disability Retirement

An active vested employee who is eligible for Social Security disability benefits is eligible to receive a disability benefit. The first benefit is payable no earlier than five months after disability onset. The amount of the benefit is the same as the unreduced retirement benefit computed using the date of the member's disability.

Retirement Benefit Formula

The formula to calculate a retirement benefit is:

- 0.8% of Average Earnings x years of Credited Service earned after 12/31/1987; plus
- If you were covered prior to January 1, 1988, the Past Service benefit as determined by the plan.

For a reduced benefit, the above amounts will be multiplied by the appropriate early commencement factor as provided in the table of the Supplemental Retirement Plan document.

You will receive an annual statement that estimates your retirement benefit. As you move closer to retirement, you may request a benefit be calculated once a year.

Average Earnings

Average Earnings are the average monthly earnings (excluding overtime, shift differential, bonuses, and other special pay) over any 36 consecutive full calendar months of Credited Service during the 180 full calendar months preceding retirement or termination that produces the highest average.

Credited Service

In addition to your years of service described above, you will accrue Credited Service for each month that the City contributes to the Supplemental Retirement Plan. If you are an eligible, part-time employee, you earn Credited Service on a pro-rated basis that is determined by the amount of your *scheduled* work hours. Part-time employees were first covered under this plan effective July 1, 1999.

Prior Service Purchase

This plan does not have a provision that allows purchase of prior service credits.

Retirement Payment Options

You may choose one of the following payment options for your retirement benefit:

- The **Life Annuity** provides a monthly benefit for your lifetime. No additional benefits are payable at your death.

- The **Modified Cash Refund** provides a monthly benefit for your lifetime. A lump-sum benefit is payable to your beneficiary if the sum of the monthly benefits paid to you does not exceed the total employee contributions made by the City (and possibly you) plus the interest earned while you were employed by the City. The value of the lump-sum payment is zero once the sum of monthly benefits paid equals or exceeds the value of employee contributions plus interest.

- The **Joint and Survivor Option** pays you a monthly benefit for your lifetime and, at your death, pays a monthly benefit to your beneficiary for the rest of his/her life. You may choose for your survivor to receive a benefit equal to 50 percent, 66 2/3 percent, or 100 percent of your monthly benefit. Eligible survivors include your spouse or natural or legally adopted children.

- The **Life Annuity and Years Certain** pays you a monthly benefit for your lifetime and, in the event that you die before the Years Certain period has ended, pays a monthly benefit to your survivor for the remainder of the period. You may choose a Years Certain period of 5, 10, or 15 years. No further death benefits are payable if you live beyond the Years Certain period.

- The **Single Lump Sum Option** pays the value of your monthly benefit payments in one lump sum at the time you retire. No further payments will follow.

If you choose either the Joint and Survivor Option or the Life Annuity and Years Certain option, your monthly benefit will be reduced from the full Life Annuity amount. If you choose the Lump Sum Option, you will not receive monthly benefits.

Retirement Benefits are Taxable

Most, if not all, of the Supplemental benefits are taxable. A small portion of benefits may be non-taxable if the plan pays out any contributions that you may have made to the plan on an after-tax basis. The Single Lump Sum Option payment is subject to standard withholding of 20 percent for federal taxes and any required state tax withholdings.

If you receive a Single Lump Sum Option payment and you are younger than 59 ½, you may be subject to an additional 10 percent penalty tax for early distribution from a pension plan. The 10 percent penalty tax is applicable to the taxable portion of the payment and is payable at the time you complete your taxes for the year. You may roll-over all or some of the taxable portion of the Single Lump Sum Option payment to another qualified plan, such as an IRA or 457 Deferred Compensation Plan. Taxes on roll-over amounts are deferred until you receive the money. See Internal Revenue Service Publication 575, Pension and Annuity Income, or a tax advisor to determine if you are exempt from paying the 10 percent penalty tax.

Death Benefits

Should you die before retirement, your beneficiary will receive a lump sum payment equal to the employee contributions, whether paid by you or the City, plus interest earned. If you die after retirement, your death benefits are determined by the type of survivor payment option (if any) that you chose at retirement.

It is important that you keep your beneficiary information updated. Review your beneficiary designation when you marry, have children, divorce, or have a death in your family.

Termination Prior to Retirement

If you terminate City employment prior to being eligible for a monthly retirement benefit, you have two options:

1. You may receive a lump-sum distribution of your accumulated employee contributions. The accumulated employee contributions includes all contributions

you may have paid, any contributions that the City paid but identified as being an employee contribution, and interest earned on these contributions. If you take the lump-sum distribution, you forfeit all service in the Plan.

2. If you are vested when you leave City employment, leave contributions and credited service in the plan and receive a monthly pension when you satisfy the age and service requirements for an unreduced or reduced retirement. You may also choose this option if you are eligible to retire under VRS but are too young to retire under the Supplemental Retirement Plan.

Returning to Work after Retirement

If you retire under this plan and return to work for the City in a position that is covered under this plan, your monthly retirement benefit will be stopped. When you retire again your benefits will be recalculated and payments restarted. If you return to City employment in a position that is not covered under this plan, you will continue to receive your retirement benefits. Human Resources can provide you with information on how returning to work for the City affects your health insurance benefits.

FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN

Contract 017147

The Firefighters and Police Officers Pension Plan (the "Plan") provides retirement and disability benefits for sworn Firefighters and Police Officers. The Plan is a defined benefit plan qualified under section 401(a) of the Internal Revenue Code. That means the benefits are linked to the employee's salary and years of service.

Prudential Retirement is the Plan's record keeper. You may log on to the Prudential web site (www.prudential.com/online/retirement) to view your personal information and create retirement estimates. Prudential representatives are available at 877.778.2100 from 8 a.m. to 9 p.m., Monday-Friday, to answer questions and assist you in logging on to and using the web site. Interactive Voice Response service is available 24 hours a day, 7 days a week.

Contributions

The City provides most of the Plan's funding, but employees also contribute to the Plan each pay period. The amount the City pays may vary each year. The amount employees contribute each pay period is eight percent of pensionable earnings. Pensionable earnings equal the gross amount paid to you each pay period excluding overtime, shift differential, bonuses, or other special pay. Employee contributions, except for those made toward the disability benefit, are made on a pre-tax basis. Contributions for the disability benefit are made on an after-tax basis.

Vesting

You are vested when you accumulate five years of service. Being "vested" means that you are eligible to receive a monthly retirement benefit when you satisfy age and service requirements.

Retirement – Unreduced

You are eligible to receive an unreduced retirement benefit at your Normal Retirement Age. Normal Retirement Age is:

- Age 55 for participants in the Plan on January 1, 2004, or
- At least age 55 with at least 5 years of Service if you became a Plan participant on or after January 1, 2004.

You may also receive an unreduced benefit when you have at least 25 years of Credited Service, even if you are not yet 55. This is considered to be an early unreduced retirement benefit if you are younger than 55.

Retirement – Reduced

You may receive an early, reduced retirement benefit when you are at least 50 years old and have at least 20 years of Credited Service. This benefit is reduced for each month your retirement precedes your Normal Retirement Date.

Retirement Benefit Calculation

The Plan provides a monthly retirement benefit at the time you retire from City employment or later if you defer your retirement. The monthly retirement benefit is calculated using the sum of the following:

- 2.5% x Average Monthly Compensation x years of Credited Service 1-20; plus
- 3.2% x Average Monthly Compensation x years of Credited Service 21-30

The maximum benefit is 82 percent of Average Monthly Compensation. You are eligible for this benefit when you have accumulated 30 years of credited service. If you work more than 30 years, you will not accrue additional Credited Service unless you participate in the Deferred Retirement Option Program (page 25). However, you may still increase your retirement benefits if your Average Monthly Compensation increases during that period.

Average Monthly Compensation

Your Average Monthly Compensation (AMC) is equal to the average of the highest 48 consecutive months of compensation. You may be able to modestly increase your AMC if you plan your retirement date so that your AMC includes as many months with three pay period end dates as possible.

Credited Service

Credited Service is used to calculate your retirement benefit and to determine if you have met the age and service requirements to receive a pension. You receive one month of Credited Service for each full calendar month that you work.

Retirement Payment Options

There are several payment options for receiving retirement benefits. All options include monthly payments for your lifetime. At the time you apply for retirement, you will choose one of the following payment options:

- The **Life Annuity** provides a monthly benefit for your lifetime. No additional benefits are payable at your death.

- The **Joint and Survivor Option** pays you a monthly benefit for your lifetime and at your death, begins paying a monthly benefit to your beneficiary for the rest of their life. You may choose for your survivor to receive a monthly benefit equal to 50 percent, 66 2/3 percent, or 100 percent of your monthly benefit. Eligible survivors include your spouse, natural or legally adopted children, and your stepchildren. Your monthly benefit is reduced in order to provide a monthly benefit to your beneficiary at your death. If your beneficiary dies before you do, your monthly benefit will not be increased nor will you be able to designate a new beneficiary.

- The **Guaranteed Period Option** pays you a monthly benefit for your lifetime and guarantees payments for 5, 10, or 15 years, depending on the option you choose. Your beneficiary will receive monthly benefits for the remainder of guaranteed period if you die before it ends. If you live beyond the guaranteed period, your beneficiary will receive no monthly benefits. Your monthly benefit is reduced in order to guarantee benefits to your beneficiary for the designated period. You may designate anyone as a beneficiary.

Visit the Prudential web site www.prudential.com to estimate the dollar amounts of these monthly payment options.

Cost of Living Adjustments (COLAs)

You are eligible to receive an annual COLA on May 1 each year if you received or were scheduled to receive a pension on May 1 of the previous year. COLAs are set at three percent **or** the percent increase in the Consumer Price Index (CPI) between January of the prior year and January of the current year, whichever is lower. Visit the Pension Administration Division web site at alexandriava.gov/pension to view the history of COLAs.

Deferred Retirement Option Program (DROP)

This voluntary program is available to employees who have completed at least 30 years of Credited Service under the Plan. If you participate in the DROP, you may retire under the Plan but continue working for the City for up to three years. You will be considered a retiree under the Plan but an active employee for all other City benefits, including leave, health and life insurance benefits. Your retirement benefits will be calculated as of your DROP effective date, which is the date you designate to start receiving retirement benefits while you continue working.

If you wish to participate, you must apply at least sixty days prior to your DROP effective date. During the period that you continue working, your monthly retirement benefit is accumulated in the DROP account. When you leave City employment at the end of the three years, or earlier if elected, you will start receiving monthly benefits. The benefits that have been accumulating since the DROP election date may be paid in a single lump sum payment or used to increase the value of your monthly retirement benefit.

Taxation of Retirement Benefits

Retirement benefits are taxable. Any lump sum payments are subject to standard withholding of 20 percent for federal taxes and 4 percent for Virginia state taxes. You may choose to roll lump sum payments over to another qualified plan, including the 457 Plan.

If you receive a lump sum payment of your DROP account and you are younger than 59 ½, you may be subject to an additional 10 percent penalty tax for early distribution from a pension plan. The 10 percent penalty tax is applicable to the taxable portion of the payment and is payable at the time you complete your taxes for the year. You may roll-over all or some of the taxable portion of the DROP payment to another qualified plan, such as an IRA or 457 Deferred Compensation Plan. Taxes on roll-over amounts are deferred until you receive the money. See Internal Revenue Service Publication 575, Pension and Annuity Income, or a tax advisor to determine if you are exempt from paying the 10 percent penalty tax.

Disability Benefits

If you become disabled while working for the City, you may receive a disability benefit. The amount of money you receive is determined by whether the disability is classified as service-related or non-service-related and whether it is a total or partial disability. The table below summarizes the benefits you will receive based on these considerations.

Type of Disability	Percent of Average Compensation	Taxability of Disability Benefit
Service-connected total disability	70%	Non-taxable
Service-connected partial disability	66 2/3%	Non-taxable
Non-service-connected total disability	66 2/3%	Taxable
Non-service-connected partial disability	50%	Non-taxable

Death Benefits

The death benefit provided by the Plan is determined by your status at your death.

- **If you are actively employed and not participating in the DROP at the time of your death**, the plan provides a death benefit to your beneficiary. The death benefit is a lump sum payment of:

    - The employee's contributions to the pension plan; plus
    - Any balance in the Retirement Income Plan; plus
    - Any minimum benefit required under the plan.

  A beneficiary who is a spouse may choose to receive a monthly benefit instead of the lump sum benefit. The monthly benefit that your spouse may elect to receive in lieu of a lump sum payment is equal to 50 percent of the benefit you would have received if you had retired on the same date as the date of your death and elected the Joint and 50 percent Survivor Option. Your spouse's monthly benefit is effective the first of the month following the date of your death. This benefit calculation will not be subject to any early retirement reduction factor. Your spouse may choose to receive this monthly benefit if you were married at least one full year before your death **or** if your death is due to an accidental injury and you were married when the accidental injury occurred.

- **If you are a participant in the DROP**, you are already retired under the pension plan even though you may continue working for the City for up to three years. If you die during this time, your beneficiary will receive a lump sum payment of the accumulated DROP retirement benefits. In addition, if you chose a survivor-type payment option when you entered the DROP, your surviving spouse will receive a monthly benefit.

- **If you are receiving disability or retirement benefits,** your death benefits are determined by the type of survivor payment option you chose at the start of your disability or retirement.

It is important that you keep your beneficiary information updated. Review your beneficiary designation when you marry, have children, divorce, or have a death in your family.

Terminating Employment Prior to Retirement

If you leave City employment after being vested but prior to being eligible for retirement, you have two options: you may choose to receive a lump sum payment of the employee-paid pension contributions **or** you may choose to begin receiving retirement benefits at a later date, when you have satisfied the age and service requirements of the plan. You should discuss these options with the Pension Administration Division before you leave City employment. Human Resources can provide you with information on how leaving City employment affects your insurance benefits.

Returning to Work after Retirement

If you retire under this plan and return to work for the City in a position that is covered under this plan, your monthly retirement benefits will be stopped. If you return to City employment in a position that is not covered under this plan, you will continue to receive your retirement benefits. Human Resources can provide you with information on how returning to work affects your insurance benefits.

RETIREMENT INCOME PLANS

The City sponsors two defined contribution plans called Retirement Income Plans, which provide an additional source of retirement income for employees. One plan is for Firefighters and Police Officers and the other is for Deputy Sheriffs, Emergency Rescue Technicians, and Fire Marshals.

Firefighters and Police Officers (Contract number 719116)

The City made contributions to the Retirement Income Plan for Firefighters and Police Officers until early 2004. At the beginning of 2004, the City closed (permanently stopped making contributions into) the Retirement Income Plan for Firefighters and Police Officers (often referred to as the Old Plan) and created the Firefighters and Police Officers Pension Plan (often referred to as the New Plan). Firefighters and Police Officers were given the option to transfer their balance from the Retirement Income Plan into the Firefighters and Police Officers Pension Plan for service credit in the new plan. The following Firefighters and Police Officers still have balances in the Retirement Income Plan: a) those who did not elect to transfer the Retirement Income Plan money to the new pension plan; and b) those who had money that was not eligible to be transferred to the new pension plan.

Deputy Sheriffs, Emergency Rescue Technicians, and Fire Marshals (Contract 719118)

The City still maintains the Retirement Income Plan for those employees who are Deputy Sheriffs, Emergency Rescue Technicians, or Fire Marshals. The amount that the City contributes to this fund is subject to change each fiscal year.

You may withdraw any money you have in a Retirement Income Plan when you retire or leave City employment. You may receive the money as cash or make a roll-over to a qualified plan, such as an IRA or the 457 Deferred Compensation Plan. You may want to seek advice from a financial advisor in deciding how to withdraw this money so you receive the maximum benefits possible. Contact Prudential, the administrator of these funds, at 877.778.2100 to make arrangements to withdraw or roll-over your money after you retire or leave City employment.

It is important that you keep your beneficiary information updated. Review your beneficiary designation when you marry, have children, divorce, or have a death in your family.

Retirement Benefits are Taxable

Payments from the Retirement Income Plan accounts are taxable. Any lump sum payments are subject to standard withholding of 20 percent for federal taxes and required state taxes. If you receive a lump sum payment and you are younger than 59 ½, you may be subject to an additional 10 percent penalty tax for early distribution from a pension plan. The 10 percent penalty tax is applicable to the taxable portion of the payment and is payable at the time you complete your taxes for the year. You may roll-over all or some of the taxable portion of the lump sum payment to another qualified plan, such as an IRA or 457 Deferred Compensation Plan. Taxes on roll-over amounts are deferred until you receive the money. See Internal Revenue Service Publication 575, Pension and Annuity Income, or a tax advisor to determine if you are exempt from paying the 10 percent penalty tax.

457 DEFERRED COMPENSATION PLAN

Employer Number 300832

This is a voluntary benefit that allows you to save for retirement through payroll-deducted, pre-tax contributions to ICMA-RC, the plan's administrator. Earnings accumulate on a tax-deferred basis.

You may find more detailed information about the plan on the ICMA-RC website at www.icmarc.org. You may also speak to an Investor Services Representatives at 1.800.669.7400 from 8:30 a.m. – 9 p.m., Monday through Friday. These representatives can answer questions on the plan and the investment funds as well as assist you with registering and using the web site.

Eligibility

You are eligible to contribute to this plan if you are a regular, full-time or a regular, part-time employee scheduled to work at least 50 percent time. You may join at any time while employed with the City.

Contributions

The minimum contribution is $10 per pay period. You may contribute any amount up to the maximum limit, called the annual deferral limit. The annual deferral limit, which is $16,500 in 2009 and 2010, is set by the Internal Revenue Service and is subject to change each calendar year.

You may contribute a greater amount beginning in the year you turn age 50. Participants who are 50 or older may increase their annual contributions by an amount called the age-50 catch-up limit. The age-50 catch-up limit in 2009 and 2010 is $5,500. In 2009 and 2010, you would be able to contribute up to $22,000 ($16,500 + $5,500). The age-50 catch-up limit is subject to change each calendar year.

If you are within three years of retiring with full retirement benefits, you may be eligible to contribute an even greater amount to the Plan as described under the pre-retirement catch-up provision of the Plan. The pre-retirement catch-up limit in 2009 and 2010 is $16,500. An employee eligible for this would be able to contribute up to $33,000 ($16,500 annual deferral limit + up to $16,500 pre-retirement catch-up limit). The amount you may defer under the pre-retirement catch-up provision is determined in part by the amount of allowed deferral contributions you did not make during your employment with the City. Depending on the catch-up amount, you may be eligible to use the pre-retirement catch-up provision for three years. You are encouraged to contact the Pension Division to discuss whether you are eligible for the pre-retirement catch-up provision and how much you may contribute.

Vesting

Your contributions plus interest are 100 percent vested at all times and will be available when you end employment with the City.

Distributions

The IRS restricts when employees may receive a distribution from their 457 Plan. You may receive distributions when you:

- Retire;
- Leave City employment; or
- Have a small balance of $5,000 or less and have not contributed for at least two years.

Mandatory Distributions

You must begin receiving required minimum distributions in the April following the later of the date you turn 70 ½ **or** the year you retire.

Distributions While Still Employed

The plan allows withdrawals for unforeseeable emergencies. An unforeseeable emergency is defined by the Internal Revenue Service as a severe financial hardship created by:

- A sudden and unexpected illness or accident to you or your dependents;
- Loss of, or damage to, your property due to an accident, disaster, destruction or theft; or
- Other similar, equally severe and unforeseeable circumstances beyond your control, which could include the imminent foreclosure of or eviction from your home, funeral expenses for a spouse or dependent, and lost wages.

To determine if your situation satisfies the requirements for an unforeseeable emergency, you would submit a completed 457 Deferred Compensation Plan Emergency Withdrawal Form to the Pension Administration Division. As part of the application, you must supply documentation that you have no other means to meet these expenses.

Distributions are Taxable

Contributions were made on a pre-tax basis. Earnings accrue on a tax-deferred basis. Therefore, distributions are subject to federal and state taxes. You may contact ICMA-RC to determine what federal and state taxes must be withheld from your distribution whether it is at termination, at retirement, or due to an unforeseeable emergency.

Loans

The plan currently has a provision that allows eligible participants to receive a loan on their account balance. Participants are permitted to take one loan at a time and are limited to one new loan in any calendar year. Loans cannot exceed the lesser of:

- Up to $50,000 reduced by the highest outstanding loan balance in the last 12 months from all plans, or
- 50% of the value of your account.

Generally, the minimum loan amount is $1,000.

You will repay the loan through payroll deductions for the amount of the loan plus interest. You will also be charged application and annual maintenance fees. Visit the Pension Administration Division web site to read the *457 Plan Direct Loan/Refinance Form Packet* for more information on loans. Loans that are repaid in full are not considered to be a distribution and are not subject to tax. However, the amount of the unpaid loan balance is taxable if you leave City employment with a loan balance.

Death Benefits

At your death, your designated beneficiary may be eligible to receive a lump-sum payment of your account balance, receive installment payments, or defer payments to a later date. A beneficiary who is a spouse may also be eligible to roll over the account balance to an Individual Retirement Account (IRA). Your beneficiary should contact ICMA-RC at 800.669.7400 regarding receiving payments from your account after your death.

It is important that you keep your beneficiary information updated. Review your beneficiary designation when you marry, have children, divorce, or have a death in your family.

Meetings with an ICMA-RC Representative

Gloria Moody is the City's ICMA-RC representative. You may call her at 1.866.328.4666 from 8:30 a.m. to 9:00 p.m. Monday-Friday. She typically arranges employee appointments on the first Wednesday of the month at City Hall, but she will meet with you at another time and location if you make arrangements in advance.

Social Security Benefits

Both you and the City have been paying taxes each pay day to fund your Social Security and Medicare benefits. You are eligible to receive Social Security benefits when you satisfy the requirements for retirement. Assuming you have the required 40 quarters of credit, you will be eligible to receive full retirement benefits sometime between 65 and 67. The actual date is determined by your birth date. Early retirement is payable at 62 if you have the required amount of service. You may also wait until age 70 and receive greater benefits.

Social Security provides retirement, disability, and survivor benefits to insured workers and dependents. The benefits you are eligible to receive are based on your age and earnings over your lifetime. Social Security benefits are subject to annual Cost of Living Adjustments (COLAs). Benefits may be taxable if they exceed a certain amount.

Social Security mails annual earnings statements approximately three months before your birthday. Review this information each year when you receive your statement. Contact Social Security to report errors as soon as possible. Don't wait until you are going to retire.

Social Security suggests that you apply four months before you plan to start receiving benefits. Visit the Social Security web site at www.socialsecurity.gov and become familiar with the online retirement estimate and application process, which can help you avoid waiting in long lines at the Social Security office. If you have any problem with using the web site, you may call 800.772.1213 from 7 a.m. to 7 p.m., Monday through Friday. There is also automated information available 24 hours a day, 7 days a week.

Important: If you elect to receive Social Security retirement after age 65, you may still need to sign up for Medicare at age 65. You should contact Social Security four months before your 65^{th} birthday. Contact the Human Resources Benefits Division if you have any questions regarding your City-sponsored health insurance benefits after age 65.