

Expanded Deferred Retirement Option Program (DROP for ALL NERS MEMBERS)

FREQUENTLY ASKED QUESTIONS (FAQs)

1. What is the Deferred Retirement Option Program (DROP)?

The DROP is a unique retirement benefit program that allows eligible NERS members to officially retire and accrue a deferred seventy percent (70.0%) retirement benefit, in addition to continue working and receiving active employee wages and benefits. Once a member's Normal Service Retirement (NSR) is effective, the member simultaneously enters the DROP and can participate in the DROP up to a maximum of sixty (60) months if they do not exceed any age restrictions (e.g., Sworn Public Safety Officers have a mandatory retirement age of 65). Although the member is officially retired, they can continue to work for the City of Norfolk in a full-time position as a NERS retiree. While the member is participating in the DROP, seventy percent (70%) of their Normal Service Retirement (NSR) monthly benefit will be deposited in a DROP account for a deferred disbursement upon exiting the DROP, while simultaneously earning an active employee salary by continuing to work for the City of Norfolk.

2. Am I eligible for the DROP?

Effective January 1, 2023, all members of the Norfolk Employees' Retirement System (NERS) applying for a Normal Service Retirement can also enroll in the Deferred Retirement Option Program (DROP). Any NERS member **currently participating** in the DROP that would like to explore increasing their DROP participation up to the maximum of 60 months should contact the Retirement office. Your eligibility depends on when you were last hired with the City of Norfolk, employment classification (general or public safety employee) and your age and/or years of NERS creditable service. To participate in the DROP, you must be an active vested member of the Norfolk Employees' Retirement System (NERS) and eligible for a Normal Service Retirement (NSR) based upon your years of service and/or age.

Note: No type of leave can be used to meet retirement eligibility requirements.

You must be vested in NERS by attaining a minimum of five (5) years of creditable service as a NERS member and meet one of the following age and creditable service requirements to meet Normal Service Retirement (NSR) requirements and possibly participate in the DROP:

➤ Became a NERS member before 7/1/2018:

Public Safety Members: Age 55 or the age at which 25 years of creditable service are accrued.

General Members: Age 60 or the age at which 30 years of creditable service are accrued.

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➤ Became a NERS member after 7/1/2018:

Public Safety Members: Age 60 or age 50 with at least 25 years of creditable service.

General Members: Normal Social Security Retirement age or the combination of age + creditable service years equal to 90 (“Rule of 90”).

3. Why consider the DROP?

The DROP provides the financial security of a NERS member’s vested lifetime monthly benefit, as well as the opportunity to build additional retirement savings while you continue working and earning a salary. During the DROP participation period, you are considered a retiree and mandatory employee contributions to NERS will no longer be required. Participating in the DROP results in increased pay due to termination of mandatory contributions during the DROP period as well as the benefit of receiving a lump sum payment upon exiting the DROP that can be paid out directly to you or contributed into a qualified Individual Retirement Account (IRA).

4. Can I participate in the DROP before I reach the normal service retirement age?

No, you must be a vested NERS member and meet the requirements for a NERS Normal Service Retirement (NSR) to be eligible to participate in the DROP.

5. Are Virginia Retirement System (VRS) members eligible to participate in the DROP?

No, you cannot participate in the DROP if you are a VRS Plan 1, VRS Plan 2, VRS Enhanced Hazardous Duty or VRS Hybrid plan member. The DROP is available to NERS members only.

6. How do I apply for the DROP?

Make an appointment with the Retirement Office to determine or confirm if you are eligible to apply for a NERS Normal Service Retirement (NSR). Upon meeting NERS NSR eligibility, you will have the option to submit an application or request to receive a NSR application. A completed NSR application must be submitted to NERS between 30 and 90 days before your desired NSR effective date and simultaneous DROP entrance date. On your application, you will specify your anticipated DROP exit date (60 months maximum DROP participation). Once a member’s Normal Service Retirement (NSR) becomes effective, the member simultaneously enters the DROP and can participate in the DROP up to a maximum of sixty (60) months if they do not exceed any age restrictions (e.g., Public Safety Officers have a mandatory retirement age of 65).

Think carefully about your decision to participate in the DROP. Once your NSR/DROP application is approved, your DROP participation is irrevocable, and you have agreed to retire.

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This means if you elect to participate in the DROP for one (1) year at the time you apply for retirement, you cannot increase the number of years you participate in the DROP. However, you can exit the DROP early at any time by terminating your employment with the City of Norfolk.

7. What is my DROP entrance date?

Your DROP entrance date is the same date as your Normal Service Retirement (NSR), which is always effective the first of a month. The only way to enter the DROP is to be approved for a NERS NSR benefit. Your NSR effective date/DROP entrance date is the date you stop earning service credit in NERS and mandatory employee contributions stop because you are officially a NERS retiree. As a NERS retiree and DROP participant, 70% of your Normal Service Retirement (NSR) monthly retirement benefit will be deposited into a DROP account for a deferred disbursement upon exiting the DROP, while you simultaneously earn an active employee salary by continuing to work for the City.

8. Once I enter the DROP, am I still an employee or a retiree?

DROP participants are considered NERS retirees for all retirement-related purposes. While you participate in the DROP, you will be subject to the same employment rules and regulations as before you enrolled in the DROP. The City will continue to provide wages and benefits to you as an active employee.

Participation in the DROP does not guarantee your continued employment.

9. How is my DROP benefit calculated?

Retirement staff will calculate your NERS NSR allowance using your average final compensation (salary information), NERS creditable service years including unused sick leave, and a retirement multiplier as of your NSR effective date/DROP entrance date. You will accrue 70% of your calculated NERS monthly allowance every month you participate in the DROP. The accrued 70% of your NSR monthly allowance is referred to as your DROP account balance that becomes payable to you in a lump sum at the time you exit the DROP.

Salary increases and sick leave accrued during the DROP will be excluded from your monthly NERS benefit. Your benefit remains unchanged for the duration of the DROP.

10. Do I pay taxes on my contributions to my DROP account?

Contributions to your DROP account balance are tax deferred. This means that you pay any taxes owed when you receive distributions from your DROP account balance instead of when the money was accrued during your participation in the DROP.

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11. Once I enter the DROP, can I receive a refund of my mandatory employee contributions to NERS?

No. If you are eligible to participate in the DROP, you met the requirements to retire, which includes being a vested NERS member with a minimum of 5 years membership. Vested members are not eligible for a refund of NERS mandatory employee contributions.

12. Do my employee benefits continue while in the Deferred Retirement Option Program?

Based on your continued employment while in the DROP, certain active employee benefits will continue, including health and life Insurance coverage. Contact the Department of Human Resources should you have any questions about your active employee benefits.

13. What happens to my leave accruals when I enter the DROP?

Your remaining sick leave balance at the time you retire and enter the DROP will be included in your NERS allowance calculation but will begin to accrue again while participating in the DROP. While you are participating in the DROP, you are also considered an active employee for purposes of leave accruals, and you will continue to accrue annual and sick leave and be entitled to City benefits. Your annual leave balance is carried forward and continues to accrue as you participate in the DROP, subject to maximum balance requirements. Any unused annual, compensatory or holiday leave balance will be paid out at the end of your DROP period, or may be rolled over to your voluntary City Deferred Compensation Plan.

There is no payout for other categories of unused leave. You will not be paid for any unused sick leave that is accrued while participating in the DROP.

14. Do my employee benefits continue while in the Deferred Retirement Option Program?

Based on your continued employment while in the DROP, certain active employee benefits will continue, including health and life Insurance coverage. Contact the Department of Human Resources should you have any questions about your active employee benefits.

15. Can I add funds to my DROP account balance?

No, you cannot voluntarily contribute additional funds to your DROP account balance. The DROP account balance consists of the accrued 70% of your retirement allowance for each month you are participating in the DROP.

You can, however, continue to contribute to your voluntary City Deferred Compensation Plan through MissionSquare Retirement (formerly ICMA-RC) while participating in the DROP.

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16. Can I keep contributing to my voluntary City 457 Deferred Compensation Plan while in the DROP?

Yes. You are an active employee receiving a salary while you are participating in the DROP and voluntary contributions to the City's Deferred Compensation Plan is highly encouraged through MissionSquare (formerly ICMA-RC).

17. Can I roll my deferred compensation account into my DROP account?

No. Deferred compensation funds cannot be rolled into your DROP account balance. You cannot voluntarily contribute additional funds to your DROP account balance. The DROP account balance consists of the accrued 70% of your retirement allowance for each month you are participating in the DROP.

18. Are there any fees for DROP participation?

No.

19. Do DROP benefits receive a Cost-of-Living Adjustment ("COLA") or an approved one-time supplement if approved by City Council during the DROP period?

No, generally, NERS benefits do not receive a COLA, however, the Norfolk City Council may authorize a COLA at its discretion.

20. Am I always fully vested in the DROP account balance?

Yes. If you participate in the DROP for one month, when you exit you will be entitled to your DROP account balance that will be valued at 70% of your NSR allowance multiplied by one month. The DROP account balance calculation is based on 70% of your NSR allowance multiplied by the number of months you participate in the DROP, not the number of months you elected at the time you applied to retire. Early exit from the DROP is allowable.

21. Can I exit the DROP program at any time?

Early exit from the DROP is allowable. If you leave before your DROP exit date for any reason (disability, death, job termination, etc.), remember you are a retiree and City employment ends. The value of your DROP account balance will be calculated based on the number of months you actually worked and participated in the DROP. Although you can exit the DROP at any time, you cannot work beyond the DROP exit date you selected at the time you applied for your retirement.

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22. How will my DROP benefit be paid when I exit the DROP?

At the end of your DROP period, or upon exiting DROP early, you are a retiree and your City employment ends (60 months maximum DROP participation if you do not exceed any age restrictions, (e.g., Sworn Public Safety Officers have a mandatory retirement age of 65). As a retiree you will begin to receive your full NSR monthly benefit, in addition to the disbursement of your DROP Account Balance (the deferred seventy percent (70%) of the NSR benefit that was accrued while participating in the DROP). Your monthly NSR allowance will be paid directly through direct deposit to you the last business day of every month and no additional contributions will be made to your DROP account balance. Upon exiting the DROP, your DROP account balance becomes payable to you as a lump sum payment with associated taxes applied, or you can choose to transfer the balance to another qualified Individual Retirement Account (IRA) plan, or you may elect to receive a partial payout and transfer the remainder to another qualified Individual Retirement Account (IRA) plan.

23. How will my DROP benefits be taxed?

You do not pay taxes on funds in your DROP account balance until they are payable to you upon exiting the DROP.

DROP account balance payments paid directly to you are subject to federal tax withholdings and Virginia residents are subject to state tax withholding rates. Additionally, refunded contributions paid directly to you may be subject to a 10% Federal tax penalty at the time you file your taxes.

DROP account balances that are contributed or “rolled into” a qualified Individual Retirement Account (IRA) plan may not be subject any tax withholdings at the time of disbursement but may be subject to tax withholding at the time they are withdrawn from the investment vehicle.

NOTE: Retirement Office staff lack the expertise necessary to provide reliable tax-related advice. Contact a qualified tax specialist for tax advice.

24. What happens if my employment ends while in the DROP program?

If your employment is terminated before the end of the DROP period, the DROP account balance becomes payable to you as either a direct lump sum distribution (with associated tax implications) or a tax-deferred contribution into a qualified Individual Retirement Account (IRA) plan (with deferred tax implications at the time of withdrawal).

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25. What happens if I die while I am participating in the DROP?

NERS Death After Retirement benefits will apply, in addition to a lump sum payment equal to your DROP account balance that will be paid to your estate in accordance with City Code Sec. 37-84.

26. What happens to my leave accruals when I exit the DROP?

Upon exiting the DROP, you are eligible to receive a payout, or contribute to the City's Deferred Compensation Plan, the value of unused annual, compensatory or holiday leave. There is no payout for other categories of unused leave. You will not be paid for any unused sick leave. Accrued leave cannot be used past your DROP exit date.

27. When are my monthly retirement benefits paid after exiting the DROP?

Retirement benefits are always payable the last business day of the month in which you exit the DROP. For example, if your exit date is May 1, 2022, you would receive your monthly NERS benefit on May 31, 2022, via direct deposit.

28. Can I return to work for the City after I exit the DROP?

Once a retiree has exited the DROP, they can be rehired by the City of Norfolk as a retiree. If a retiree is rehired in any position other than as a retiree part-time employee, their Normal Service Retirement (NSR) monthly benefit **will stop** during the period of reemployment, and they will become a participating member of the Virginia Retirement System if they are entitled to additional retirement benefits. Upon termination of full-time City employment, the NERS NSR monthly benefit will begin again.

29. Will participation in DROP affect my Social Security or have other tax implications with respect to my retirement benefit?

Upon exit from DROP, your DROP balance may be considered income for that year, along with any other income you receive from working. If you have not reached Social Security normal retirement age, your social security benefit may be subject to reduction based on the amount of the DROP account balance that you receive as income, along with any other income you receive. The IRS also places a limit on the total annual retirement benefit a retiree may receive, although this will not be an issue for most retirees. You should consult with your tax preparer, financial advisor, or other retirement planning professional on how participation in DROP may affect your social security and other retirement benefits prior to electing to participate in DROP.