



Los Angeles

Fire & Police Pensions

TO SERVE THOSE WHO PROTECT

DEFERRED RETIREMENT OPTION PLAN (DROP) DROP DISTRIBUTION SUMMARY

INTRODUCTION

The Los Angeles Fire and Police Pension Plan is required to provide you with this Summary under Section 402(f) of the Internal Revenue Code. Distributions from your DROP account may have significant federal and state income tax consequences for you. The information within this Summary merely summarizes the federal (not state) tax rules which might apply to your DROP payment; more detailed information is included in the "Special Tax Notice Regarding Your Rollover Options." The relevant federal income tax laws are complex, contain many conditions and exceptions that are not included in this Summary, and are modified frequently. This Summary is not intended to be a complete description of all of the federal income tax consequences of distributions to you from your DROP account and of all the requirements that must be met to qualify under various tax rules. This Summary is not intended to give you personal tax advice. Both before you enter DROP and before you leave DROP, we encourage you to consult with your personal tax advisor. More detailed tax information is contained in IRS Publication 575, *Pension and Annuity Income*, which is available from your local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORMS.

SUMMARY OF DROP DISTRIBUTION OPTIONS – EFFECTIVE JANUARY 1, 2014

You will have ninety (90) days from the date you exit DROP to submit the DROP Distribution Election Form to Los Angeles Fire and Police Pensions. There are three ways in which you may receive the funds in your DROP account: 1) you may receive it as a lump sum; 2) you may roll it over to a traditional Individual Retirement Account ("IRA"), a Roth IRA, or to an eligible employer plan; or 3) you may elect a partial rollover and a lump sum distribution of the balance of your DROP account. Additional tax information regarding these options is provided in the "Special Tax Notice Regarding Your Rollover Options" provided to you. You may request a paper copy of this Notice from the plan administrator at no charge to you. You should review these options with your financial, legal and/or tax professional to select a distribution election for both your taxable and non-taxable DROP funds.

NOTE: Failure to meet the 90-day deadline to complete the forms and documentation required by DROP/Service Pensions staff will result in distribution of your DROP account as a lump sum cash payment only, subject to mandatory 20% Federal tax withholding for the taxable account balance. You still will have certain rollover rights related to a lump-sum distribution in this situation (see section under the Special Tax Notice titled "Rollover Within 60 Days After Receiving a Lump Sum Payment"). You should consider all of your options with your financial, legal and/or tax professionals.

HOW AFTER-TAX CONTRIBUTIONS AFFECT YOUR DROP FUNDS

If you made after-tax contributions, your DROP funds may include after-tax "basis". "Basis recovery" is the process by which your after-tax employee pension contributions are returned to you, free of taxes, as part of your pension benefits. You may have made after-tax contributions for any of the following reasons:

- From 7/1/82 – 12/20/96, mandatory pension contributions were collected after-tax.
- Elective increases of service credit made by contract or lump sum payments were collected after-tax. (Trustee-to-trustee transfers from Deferred Compensation are pre-tax.)

TO SERVE THOSE WHO PROTECT



Los Angeles

Fire & Police Pensions

TO SERVE THOSE WHO PROTECT

DEFERRED RETIREMENT OPTION PLAN (DROP) DROP DISTRIBUTION SUMMARY

- The voluntary 2% "opt-in" pension contribution by certain members in order to vest future retiree medical subsidy increases are collected after-tax. (Note: This does not apply to Tier 6 members.)

The Internal Revenue Code includes a provision that allows you to recover your after-tax contributions using a basis recovery method. When you exit DROP, you will be subject to this basis recovery method which provides that you will:

- Recover pre-1987 after-tax contributions entirely from the lump sum DROP distribution
- Have any post-1986 after-tax contributions allocated pro-rata between the lump sum DROP distribution and your ongoing monthly pension annuity under a formula developed by the IRS.

LUMP SUM DISTRIBUTION

- By "lump sum," we mean having a portion of or your entire DROP account balance distributed in the form of a single check to you or by direct deposit to the checking/savings account you select.
- If you take your entire distribution as a lump sum, you will receive a check for only 80% of the taxable amount distributed because the Los Angeles Fire and Police Pension Plan is required to withhold 20% for federal income tax withholding. You can elect to have California State income tax withheld.
- The full amount of your taxable distribution will be taxed in the year of distribution (unless you roll it over within 60 days--see section under "Rollover Within 60 Days After Receiving A Lump Sum Payment").
- If you are not age 50 or older during the year you receive this payment, your distribution will be subject to an early withdrawal penalty (unless you roll it over within 60 days-- see section under "Rollover Within 60 Days After Receiving A Lump Sum Payment").
- The federal and state penalties consist of an additional tax of 10% and 2½% respectively.

ROLLOVER DISTRIBUTION

- By rollover, we mean having your DROP distribution paid directly into a traditional IRA, Roth IRA, or an eligible employer plan that agrees to accept your rollover.
- Whatever taxable portion of your distribution you rollover directly to a traditional IRA or eligible employer plan will not be taxed in the current year, will not be subject to mandatory income tax withholding, and will not be subject to early withdrawal penalties. These rules differ for Roth IRA's—see the "Special Tax Notice Regarding Your Rollover Options" for more information or consult your tax advisor.
- Your taxable rollover distribution will be taxed later when you take distribution from the traditional IRA or eligible employer plan. Roth IRA's are subject to different tax rules—see the "Special Tax Notice Regarding Your Rollover Options" for more information.
- You may obtain further information concerning rollovers from your tax advisor.

TO SERVE THOSE WHO PROTECT



Los Angeles

Fire & Police Pensions

TO SERVE THOSE WHO PROTECT

DEFERRED RETIREMENT OPTION PLAN (DROP) DROP DISTRIBUTION SUMMARY

ROLLOVER WITHIN 60 DAYS AFTER RECEIVING A LUMP SUM PAYMENT

If you don't request a direct rollover, you can still rollover your distribution within 60 days after receipt into a traditional IRA or an eligible employer plan and avoid taxation (including early withdrawal penalties) in the year of distribution on the amount that is rolled over. In order to do this, you must pay into the IRA or eligible employer plan the full amount of your distribution (including the amount withheld for taxes). This would require you to come up with additional funds to avoid paying any taxes at this time. Any portion not rolled over within 60 days will be subject to taxation in the year of distribution. See your tax advisor for further information.

IMPORTANT TAX INFORMATION FOR SPOUSE OR FORMER SPOUSE OF MEMBER

The above information is addressed to the Member, but the same rollover and mandatory 20% federal tax withholding rules set forth above also apply to:

- A current or former spouse who receives funds from a DROP account based upon a domestic relations order.
- A spouse who receives funds from a DROP account due to the Member's death.

A spouse or former spouse, however, is not subject to the early distribution penalty that applies to the member. [NOTE: This applies to both opposite sex and same-sex spouses, but not domestic partners.]

IMPORTANT TAX INFORMATION FOR BENEFICIARIES OTHER THAN A SPOUSE

The above information is addressed to the Member, but the same rollover and mandatory 20% federal tax withholding rules set forth above also apply. In the event of the Member's death, if the beneficiary is not an opposite-sex or same-sex spouse, the only rollover option you have is to do a direct rollover to an inherited IRA. The non-spouse beneficiary is not subject to the early distribution penalty.