

~ DROP Handbook ~



July 2010

DROP Handbook

A guide to the Deferred Retirement Option Plan

We're here to help. Contact us:



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E-mail: web.master@trsl.org
Your questions will be answered within 1-2 business days.



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Office hours are 8 a.m. - 4:30 p.m., Monday-Friday (excluding holidays)

Member Access

You have secure, online access to your Teachers' Retirement System of Louisiana (TRSL) account information 24-hours a day through **Member Access** on our website. To register, just visit www.trsl.org, click on the **Member Access** link, and follow the easy instructions. If you have any problems with registration, contact the TRSL HelpDesk at support@trsl.org.

Directions to TRSL's office

TRSL is located in Baton Rouge in the Louisiana Retirement Systems Building at 8401 United Plaza Boulevard, which is just off Essen Lane between Interstates 10 and 12.



From Lafayette: Exit I-10 and turn left on Essen Lane, or exit I-12 and turn right on Essen Lane;

From New Orleans: Exit I-10 and turn right on Essen Lane;

From Hammond: Exit I-12 at Jefferson Highway/Drusilla Lane, turn left on Drusilla Lane, then right on Jefferson Highway. Proceed to Essen Lane, and turn left.

Turn at the United Plaza Boulevard traffic signal on Essen Lane at the sign that reads: "LA RETIREMENT SYSTEMS BLDG."

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What is DROP?

The Deferred Retirement Option Plan (DROP) is an optional program that allows an eligible member to freeze his or her regular monthly retirement benefit and have it deposited each month into a separate account at TRSL while the member continues to work for and draw a salary from a TRSL employer. DROP gives members the opportunity to build a savings nest egg on a tax-deferred basis.

Members will need to specify the period of planned participation: it can be as short as one month, but cannot exceed two or three years, depending on which participation period you qualify for. (See “Eligibility for DROP” on page 8.)

The retirement benefit deposited into the DROP account is calculated using years of service credit and average compensation at the time you enter DROP. Unused sick and annual leave are not included.

At the end of DROP, you can either terminate employment and begin regular retirement, or continue working.

What you need to consider

Knowing your DROP participation window is crucial.

The DROP participation window is the period of time you can participate in DROP starting from your first day of eligibility. Although there is no window for two-year plan members, members eligible under the three-year plan have a DROP window of three years.

CONSIDERING DROP?

Participation in DROP may not benefit everyone. Be sure you thoroughly understand DROP before signing on the dotted line. Remember, participation is irrevocable.

To make the most of your DROP participation, see “DROP Participation Period” on page 12.

DROP freezes the average of your three highest years of salary, consecutively earned, at the pre-DROP level.

Your final average compensation (FAC), which is the average of your three highest years of salary, consecutively earned, is calculated *before* you enter DROP (pre-DROP).

During DROP, your take-home pay may increase because neither you nor your employer makes retirement contributions to TRSL. However, your retirement benefit will not increase if any raises are granted after DROP participation begins.

If you anticipate a significant salary increase during or after DROP and can increase your FAC by continuing to work, you may wish to do so and not enter DROP.

(This assumption is based on an average life span and assumes that DROP account funds will earn an average of 7.75 percent annually after DROP ends. This suggestion is not a rigid rule, just a general guideline to consider.)

NOTE: Members who become eligible for DROP on or after January 1, 2004, are projected to earn an average of 3.5 percent on their DROP funds over their lifetimes, not 7.75 percent.

You may receive a larger retirement benefit if you continue working and do not enter DROP.

If you intend to work more than three years after what would be the end of your DROP participation, you may reach 100 percent accrual. This would allow you to take home a benefit almost equal to your salary before retirement.

If you are a Regular Plan member, continuing to work could make you eligible for a retirement benefit based upon a higher accrual rate.

If you continue working long enough to earn a 2.5-percent service benefit, you may want to consider skipping all or part of DROP and earn the 2.5-percent benefit, rather than entering DROP with a 2.0-percent benefit per year. Earning a 2.5-percent benefit is worth more than a DROP account, assuming you live an average lifetime (or longer).



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Eligibility for DROP

Who is eligible?

You may participate in DROP while on workers' compensation, annual, sick, or sabbatical leave, or official leave without pay. However, you are required to be employed for the entire period of DROP participation. A member who has retired or terminated employment or who is not employed with a TRSL qualifying agency on a continuous basis is not eligible for participation.

Eligibility requirements for DROP are based upon the retirement plan to which you belong. The following requirements must be met before a member is eligible to participate in DROP. Please make sure that you refer to the requirements for the appropriate retirement plan.

Regular Plan Members

2.5-percent benefit factor formula

To qualify for a benefit based on 2.5 percent of salary per year of service credit, Regular Plan members must meet one of the following eligibility requirements, whichever occurs first:

- Any age with 30 years of service/eligibility credit,
- At least age 55 with 25 years of service/eligibility credit, or
- At least age 65 with 20 years of service/eligibility credit

2.0-percent benefit factor formula

To qualify for a benefit based on 2.0 percent of salary per year of service credit, Regular Plan members must be at least age 60 with 10 years of service/eligibility credit.

NOTE: Members who enter DROP with a 2.0-percent accrual rate will always have that accrual rate, no matter how long they work after DROP.

Plan A Members

3.0-percent benefit factor formula

Plan A members may enter DROP after meeting one of the following eligibility requirements, whichever occurs first:

- Any age with 30 years of service/eligibility credit,
- At least age 55 with 25 years of service/eligibility credit, or
- At least age 60 with 10 years of service/eligibility credit

NOTE: Plan A members who did not contribute to TRSL until their employing agencies withdrew from Social Security coverage have a 1.0-percent benefit factor and receive \$24 per year for the years in which they only paid into Social Security. They will have a 3.0-percent benefit factor for the years that they contributed to TRSL. Members who were contributing to TRSL when their employer withdrew from Social Security coverage have a 3.0-percent factor for all years.

Plan B Members

2.0-percent benefit factor formula

Plan B members may enter DROP after meeting one of the following eligibility requirements, whichever occurs first:

- At least age 55 with 30 years of service/eligibility credit, or
- At least age 60 with 10 years of service/eligibility credit

REMEMBER: It is important to find out the exact date you first become eligible to participate in DROP. If you are not aware of this date and let it pass, you may unintentionally lose months, years, or the entirety of your DROP participation window.

Your DROP window

You cannot choose when your window begins. The three-year DROP window begins as soon as you reach one of the criteria listed above. Members who are eligible for the two-year DROP plan are not eligible for the three-year option and cannot choose to extend their participation period. (See “DROP Participation Period” on page 12.)

Eligibility for charter school employees

Members who teach at charter schools may enter or participate in DROP as long as they are within the participation window and are working at a charter school or other public education entity in a position eligible for TRSL membership.

After DROP, if these members continue to work, they can contribute to TRSL when the charter governing the charter school requires that they do so, or when they are on

leave from the school system that issued the charter.

Who is not eligible?

The following members are not eligible for DROP participation:

- Disability retirees
- Members who wish to retire under the 20-years-at-any-age retirement provision
- Members who have retired or terminated employment
- Members whose DROP eligibility windows have expired
- Optional Retirement Plan (ORP) members

Service credit

You may apply for DROP as early as six months before the date you are first eligible to participate. We recommend that you get all documentation in order early. Start by asking all of your employers to certify your service credit and complete any purchases or transfers of service credit prior to DROP participation.

Please note that there are restrictions in all plans as to whether military service credit can be used to meet eligibility requirements.

You should also be aware that credit given by school boards for purposes of seniority is not the same as years of service credit for which contributions were made to TRSL.

Total service credit is rounded to the nearest tenth.

Example:

9.95 years would be rounded to 10 years

24.94 years would be rounded to 24.9 years

Service credit earned after DROP is not rounded.

Unused annual and sick leave are not used in calculating the benefit deposited in the DROP account. Unused leave that is eligible for retirement credit will be used to increase the final retirement benefit when you complete DROP and terminate employment. The conversion of unused leave to retirement credit is calculated at the time of your final retirement benefit calculation.

For more information about service credit, including unused sick and annual leave, see the *TRSL Member Handbook* available on our website, www.trsl.org. If you need information about purchasing or transferring service credit, see our handbook, *Purchases and Transfers of Service Credit*, which is also available on our website.

REMEMBER: Complete all purchases of service credit and transfers of service credit before beginning DROP participation. No purchases will be permitted during DROP or during any periods of continued employment following DROP.

Understanding service credit and eligibility credit

It is important to understand the differences between service and eligibility credit and how they affect your retirement benefit, especially if you worked part-time at any point while contributing to TRSL.

Service credit is used to calculate your retirement benefit. You gain service credit by the amount of time and percent effort you work.

Eligibility credit is used to determine when you become eligible to retire. You gain eligibility credit for each day you work, whether it is at full- or part-time effort.

REMEMBER: Service credit — *not eligibility credit* — is used to calculate your retirement benefit.

DROP and eligibility credit

If you have a history of part-time employment, it's a good idea to contact your employer or TRSL to determine when you are eligible to retire. You may have received full eligibility credit for part-time service and may be closer to retirement than you think.



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Some members may not be aware that their service records include credit for part-time service. These members may either lose some months of participation under the three-year DROP or they may not realize their retirement benefit will be lower than expected because of the part-time credit.

Example 1:

A member who worked 20 years at 50% of full-time would be eligible for DROP at age 60, but would have his or her benefit calculated at 20% of average compensation, rather than 40%:

$$20 \text{ years} \times 2.0\% = 40\% \times 50\% = 20\%$$

In order to receive 1.00 year of eligibility credit, most members must work every day during the contract year to receive a full year of eligibility, even though they are working part-time.

Part-time university academic employees do not need to work every day to receive full-time eligibility credit, because faculty members on a full-time contract do not necessarily teach five days per week.

Example 2:

A part-time employee who works four out of eight hours a day for 180 days would receive 0.5 years of actual service credit, but would receive 1.00 year of eligibility credit toward retirement.

Some part-time employment is the same as full-time employment for meeting eligibility requirement for retirement. However, a part-time employee will receive reduced actual service credit.

Example 3:

A member with 29.5 years of service credit, but 30 years of eligibility credit, would be eligible for DROP based on his or her eligibility credit, but the benefit would be calculated according to the member's service credit.

Let's say that this member has a monthly final average compensation of \$3,000.

Here's the difference:

$$29.5 \text{ years} \times \$3,000 \times 2.5\% = \$2,212.50$$

Accumulated DROP deposits over 36 months would be \$79,650.

If the member waits six months before entering DROP, then here's what the amount would be:

$$30 \text{ years} \times \$3,000 \times 2.5\% = \$2,250.00$$

In this case, accumulated DROP deposits over 30 months would be \$67,500.

As you can see, if this member is aware of the eligibility credit that allows him or her to enter DROP earlier (even though the benefit is lower), the accumulated DROP deposits are higher.

If the member is unaware of the earlier eligibility, although his or her benefit is higher, he or she will lose six months of DROP participation and accumulate less DROP deposits.

DROP participation period

What you need to know

You may enter DROP as soon as you are eligible. DROP participation may begin or end any day of the month, and you do not have to wait for the beginning or end of a school year to enter.

However, TRSL reserves the right to adjust the beginning and ending dates of DROP participation in order to comply with the law. Notice of such adjustments will be sent to you and your current employer.

You will need to specify the consecutive period of time you plan to participate in DROP, up to two or three years, depending on eligibility. Once the participation period begins, the decision to participate is irrevocable. The participation period cannot be extended and can only be shortened by retirement, termination of employment, or death.

DROP participation period	
Two years	Members who became eligible to participate in DROP <i>before</i> January 1, 1994
Three years*	Members who became eligible to participate in DROP <i>on or after</i> January 1, 1994

*These members can participate in DROP for up to three years. An extra 60 days allows time for members to have service credit certified by their employers. This timeframe is called the DROP window, and begins when a

member is first eligible to enter DROP, even if that is with 10 years of service/eligibility credit at age 60.

NOTE: A Regular Plan member who is age 60 and enters DROP with 10 years of service credit will have his or her benefit calculated at the 2.0-percent formula no matter how long employment continues after DROP. This member may decide not to enter DROP so that he or she can retire later with a benefit calculated at 2.5 percent.

REMEMBER: Once chosen, the DROP participation period cannot be extended, and can only be shortened by retirement, termination of employment, or death.

Seniority status

Under Louisiana Revised Statute 11:787(A), participation in DROP will not change your seniority status or any other related benefits that you are entitled to as a condition of employment.

During DROP participation

Each month the DROP retirement benefits are deposited in a TRSL account. The account starts earning interest immediately after the member ends DROP participation, even if the member continues TRSL employment. No interest is earned during the DROP participation period. Members can make withdrawals from the DROP account once they terminate TRSL-covered employment and retire.

Members who terminate employment and end DROP early do not lose the money deposited in the DROP account through the date of termination. They can withdraw the deposited funds just as any other DROP participant.

Getting out of DROP before end of participation period

Members can get out of DROP only under the following conditions:

- Voluntary termination, in which the member terminates employment and retires;
- Involuntary termination (such as a lay off), in which the member is terminated by the employer and is not immediately re-employed with no break in service by an agency eligible to report to TRSL; or
- Death of the participating member. If a member dies within 30 days of beginning DROP, he or she is treated as an active member. When a DROP participant dies more than 30 days after the effective date of DROP participation but before TRSL receives the *Affidavit of Retirement Option Election* (Form 11ED), the surviving spouse will receive benefits under Option 2—the retirement option that provides the maximum benefit for a spouse.

If you are terminated (voluntarily or involuntarily), you will need to submit a *Termination of Employment at the End of DROP Participation* (Form 11H) to TRSL.

It is the member's responsibility to coordinate the date of retirement with his or her employer and to inform TRSL of any change before cashing or depositing a retirement check. Once a retirement payment is cashed or deposited, the member is retired as of the effective date of the retirement application, and the retirement cannot be canceled.



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Applying for DROP

Once you decide to participate in DROP, you will need to submit an *Application for Service Retirement, ILSB, or DROP* (Form 11). TRSL accepts faxed applications, but we will need to receive the original Form 11 from you as well.

The effective date for participation in DROP will be the date a properly executed DROP application is filed with TRSL or the stated effective date on the properly executed application, whichever is later.

The DROP application requires that you select a retirement beneficiary and DROP account beneficiary(ies):

- The **retirement beneficiary** is the person you select to receive a benefit in the event of your death.
- A **DROP account beneficiary** is the person you name to receive the money deposited in your DROP account if you should die while there are still funds in the DROP account.

The retirement beneficiary and the DROP account beneficiary do not have to be the same person. If you choose not to name a person as your beneficiary, you will need to list your succession/estate as your beneficiary.

Retirement options

As part of the application process, you will also need to select a retirement option, which is used to calculate your final retirement benefit as well as the amount of your DROP deposits. Your selection also determines the benefit your retirement beneficiary will receive upon your death.

REMEMBER: Once you select a retirement option, it can never be changed. (See the chart on the next page for more information about your retirement options.)

Required affidavit

An *Affidavit of Retirement Option Election* (Form 11ED) will be sent to you for selection of a retirement option. If your current marital status is “divorced,” TRSL will send you this affidavit once we receive a copy of your divorce documents.

Because Louisiana is a community property state, TRSL will send you an affidavit with your spouse listed as DROP beneficiary. If you have selected retirement beneficiaries other than your spouse, then you will also receive an affidavit for each person, listing him or her as DROP beneficiary. You will need to notarize and return only one affidavit to TRSL designating a beneficiary for your regular retirement benefit. The affidavit must be returned to TRSL within 90 calendar days after you receive it or within 90 calendar days after the DROP effective date, whichever is later.

If you are married and the retirement option you elect is Maximum, 1, 3A, 4, or 4A, or if you designate a beneficiary other than your spouse, your spouse must complete the spousal consent affidavit on Form 11ED in the presence of a notary. The selection of a retirement option is irrevocable, and the option will apply to all monthly benefits you receive, regardless of how long employment continues after DROP ends.

When you choose a DROP account beneficiary who is not your spouse, or leave your spouse less than 50 percent of your DROP account, you will need to submit a notarized *DROP or ILSB Account Spousal Consent* (Form 11G) to TRSL. This form should accompany the DROP application.

Retirement options

	Member Benefit	Beneficiary Benefit	Conditions
Maximum Option	Member receives largest monthly benefit possible.	There is no beneficiary benefit.	All benefits cease at death. Only the amount of member contributions that have not been paid out in monthly benefits or in DROP deposits and interest is due the member's estate.
Option 1	Member receives a monthly benefit less than Maximum Option, determined by the total amount of accumulated member contributions and member's age at time of retirement.	More than one beneficiary may be designated, and can be changed at any time by member/retiree.	Beneficiaries receive remaining balance of member's accumulated contributions in one lump-sum payment. (Option 1 may not be selected if member participates in Initial Lump-Sum Benefit.)

Lifetime Benefit Options: Under the following lifetime benefit options, only one beneficiary may be named, and that beneficiary may not be changed. The benefits are actuarially reduced from the Maximum Option benefit based on reduction factors determined by your age and the age of your named beneficiary.

Option 2	Member receives a reduced monthly benefit.	Beneficiary receives same lifetime benefit member received.	
Option 2A (Pop Up)	Member receives a reduced monthly benefit.	Beneficiary receives same lifetime benefit member received.	If beneficiary dies before member, the reduced benefit "pops up" to Maximum Option.
Option 3	Member receives a reduced monthly benefit greater than Option 2 or 2A benefit.	Beneficiary receives lifetime benefit equal to ½ of benefit amount member received.	
Option 3A (Pop Up)	Member receives a reduced monthly benefit greater than Option 2 or 2A benefit but less than Option 3 benefit.	Beneficiary receives lifetime benefit equal to ½ of benefit amount member received.	If beneficiary dies before member, the reduced benefit "pops up" to Maximum Option.
Option 4	Member receives a reduced monthly benefit determined by cost of the amount member designates for beneficiary.	Beneficiary receives lifetime benefit designated by member, not to exceed Option 2 benefit amount.	
Option 4A (Pop Up)	Member receives a reduced monthly benefit determined by cost of the amount member designates for beneficiary.	Beneficiary receives lifetime benefit designated by member, but not to exceed the Option 2 benefit amount.	If beneficiary dies before member, the reduced benefit "pops up" to Maximum Option.

Additional Benefit Option: As indicated below, in 2009 the legislature approved a new benefit option that allows members to self-fund their own cost-of-living adjustments (COLA). (See *Annual COLA Option (ACO)* brochure for more details.)

Annual COLA Option (ACO)	Member receives an actuarially reduced retirement benefit based upon benefit option selected from above, and a 2.5-percent annual cost-of-living adjustment (COLA) starting on his or her anniversary date following the retiree's 55th birthday.	Spousal beneficiary receives lifetime benefit based upon benefit option retiree selected from above, and a 2.5-percent annual cost-of-living adjustment (COLA) starting on the retiree's anniversary date following what would have been the retiree's 55th birthday.	Non-spousal beneficiaries are ineligible for ACO. The DROP accounts of DROP participants who choose the ACO will be credited for the 2.5% ACO on their anniversary date during their DROP participation period if age criteria are met. If the DROP participant continues working after completing DROP, the ACO will be applied to any supplemental benefit earned after DROP participation ends.
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Your DROP account

DROP deposits

The amount of the retirement benefit deposited during DROP is determined by your final average compensation (FAC) during the years of service before DROP, your years of service credit, benefit accrual rate, and factors based on the retirement benefit option you select.

In general, your benefit will not be finalized before your DROP participation begins because of the time it takes to receive all required information and post all salary earnings. However, once your benefit is finalized and your account is set up, your deposits will be retroactive to the date you began DROP. You will also begin receiving quarterly DROP statements.

Deposits to DROP accounts will be made on the first day of each month during participation in the plan. A prorated partial deposit will be made for those who join DROP on a day other than the first day of a month or end DROP on a day other than the last day of a month.

Members may withdraw funds from the account after they terminate employment and retire. For more information about withdrawing DROP funds, see page 21.

Interest on DROP accounts

Once you complete DROP, your DROP account begins earning interest. Members earn interest on their DROP accounts based upon when they were eligible to participate in DROP.

Members eligible to participate in DROP before January 1, 2004

After DROP participation is completed, the account earns 0.5 percent less than TRSL's actuarially realized rate of return.

Interest rates vary from year to year. No minimum interest rate is guaranteed by TRSL. If the DROP interest rate is less than zero, then no interest will be posted to the DROP account in accordance with a 2002 state attorney general opinion.

Interest is posted annually (based on daily compounding), usually in February. Once posted, statements are mailed showing the new account balance, including interest.

Members eligible to participate in DROP on or after January 1, 2004

After DROP participation is completed, the account earns interest at the liquid asset money market rate less a 0.25-percent administrative fee. This rate is similar to the rate paid by financial institutions on regular savings accounts.

Interest is posted monthly.

The DROP account statement

DROP account statements are created on a quarterly basis. Statements issued during DROP participation reflect all account deposits for a quarterly period. Statements issued after completion of DROP and termination of employment will reflect all account withdrawals for a quarterly period. Each quarter, DROP statements are sent to all members who have balances in their accounts.

Interest rates on DROP accounts

Fiscal Year Ended June 30	DROP Interest Rate for members eligible before January 1, 2004	DROP Interest Rate for members eligible on or after January 1, 2004
1993	11.98%	--
1994	8.70%	--
1995	5.22%	--
1996	16.59%	--
1997	12.32%	--
1998	20.28%	--
1999	13.49%	--
2000	17.13%	--
2001	0.00%*	--
2002	0.00%*	--
2003	0.00%*	--
2004	9.35%	0.67%
2005	9.37%	1.48%
2006	15.15%	3.72%
2007	14.70%	4.88%
2008	4.65%	3.98%
2009	0.00%*	1.32%

*A 2002 state attorney general opinion ruled that DROP accounts could not be debited, so account interest rates were set to zero.

Completing DROP participation

Choices at the end of DROP participation

At the end of your DROP participation, you have two choices:

1. You can either continue working, or
2. You can terminate employment and officially retire.

If you continue working after DROP, you will begin making contributions again and, therefore, begin earning service credit again. Upon retirement, TRSL will calculate a supplemental retirement benefit for all post-DROP service.

Continuing to work after DROP

A DROP participant who has not submitted a *Termination of Employment at End of DROP Participation/Employment* (Form 11H) will be automatically re-enrolled in TRSL on the day following the last day of DROP participation.

Employer and employee contributions to TRSL resume during this period of continued employment, even if for only one day, and service credit will begin accruing again.

These contributions are not refunded to the member, and DROP account withdrawals are permitted only after you officially retire.

NOTE: Members with at least 40 years of service credit who enter DROP on or after January 1, 1998, will not earn any service credit by working after DROP. Therefore, any increases in salary received after DROP do not affect their final retirement benefit, no matter how long they work.

If employment continues after DROP participation ends, the final retirement benefit will include the retirement benefit you would have received if you had not continued working (your base retirement amount), plus an additional benefit which will include additional service credit earned after DROP as well as conversion of unused annual and sick leave earned during your TRSL career.

If employment continues for less than three years after DROP participation ends

The supplemental benefit for members with less than three years of post-DROP service is based on the final average compensation (FAC) calculated before entering DROP:

Formula	number of years (less than 3)
	×
	benefit factor (2.0%, 2.5%, or 3.0%)
	×
	pre-DROP monthly FAC
	×
	retirement option factor
=	
supplemental benefit	

If employment continues for three years or more after DROP participation ends

For members with at least three years of after-DROP service, the supplemental benefit is based on a new, final average compensation (FAC) calculated using their highest three years of salary after DROP. The new FAC is subject to the 10-percent cap on salary increases, and is calculated as follows:

Formula	number of years after DROP (3 or more)
	×
	benefit factor (2.0%, 2.5%, or 3.0%)
	×
	after-DROP monthly FAC
	×
	retirement option factor
=	
supplemental benefit	

The supplemental benefit will be calculated using the FAC from the period of employment after DROP, even if the new FAC is less than the final average compensation calculated before DROP.

TAKE NOTE: Working three or more years after DROP participation does not change the average of your three highest years of salary, consecutively earned, for the years before DROP.

Terminating employment

If you are ready to retire, the first thing to do is submit a completed *Termination of Employment at End of DROP Participation/ Employment* (Form 11H) and *Direct Deposit of Benefits* (Form 15D). These forms can be submitted to TRSL up to six months before your date of retirement. A retirement benefit can be issued once TRSL has this information on file for you.

NOTE: For all retirements effective on or after January 1, 2002, benefit payments are made by direct deposit. You will need to complete and submit the Direct Deposit of Benefits (Form 15D) before any check is issued.

Please coordinate your date of retirement with your employer and inform TRSL of any change before cashing or depositing a retirement payment (including the DROP account). Once you cash, deposit, or receive direct deposit of a retirement check, you are retired as of the effective date specified on your retirement application, and your retirement cannot be canceled.

Retirement benefit payments

TRSL issues retirement benefit checks on the first of each month for that month. If you have submitted the following forms by the first week of the month in which you terminate, you can expect to receive an estimated benefit payment the next month.

- *Termination of Employment at End of DROP Participation/Employment* (Form 11H)
- *Direct Deposit of Benefits* (Form 15D)

A retiree's first payment is always a paper check which will be sent to the address on the retirement application submitted. You will continue to receive estimated payments until we finalize your retirement benefit. The amount of the estimated payment is your DROP deposit plus your after-DROP estimated benefit.

The formula used to compute the after-DROP estimated benefit is as follows:

After-DROP estimated benefit
after-DROP service credit
×
retirement factor (2.0%, 2.5%, or 3.0%)
×
pre-DROP average compensation
×
90%
+
DROP deposit amount

NOTE: For your protection, retirement checks are not forwarded to new addresses. To change your address, please submit to TRSL the appropriate change of address form:

- **Active member** — *Active Member Change of Address Authorization (Form 2AC)*
- **Retired member** — *Retiree Change of Address Authorization (Form 15C)*

Retroactive payment

After the final retirement benefit amount is calculated, your “retro” payment will be computed. This payment will include the difference between the amount of the estimated payments received, and the final monthly amount plus any partial or whole months not paid after your retirement date.

Example:

If your retirement date is June 6, and you receive estimated benefit payments July 1 and August 1 for \$2,000 each and your final benefit is \$2,100, we will owe you a “retro” amount of \$1,949.93, which is calculated as follows:

$$\begin{aligned} \text{June 6 - August 31} &= 2.8333 \text{ months;} \\ 2.8333 \text{ months} \times \$2,100 &= \$5,949.93; \\ \$5,949.93 - \$4,000 &= \$1,949.93. \end{aligned}$$

The “retro” payment will be issued. Then, your next retirement payment will be for the final monthly amount.



For your convenience, all TRSL publications and forms are available online!

Visit the TRSL website at www.trsl.org.

Withdrawing from your DROP account

What you need to know

After you end participation in DROP and terminate employment, you may begin withdrawing from your DROP account.

Once you are eligible to start withdrawals, it is important that TRSL receives your completed withdrawal application at least 30 days prior to the disbursement of funds. Be sure you submit the appropriate form to TRSL.

- **DROP/ILSB retirees who are younger than 70½** should use *DROP or ILSB Retiree Withdrawal Method Selection* (Form 11J).
- **DROP/ILSB retirees who are 70½ or older** should use *DROP or ILSB Retiree Withdrawal Method Selection* (Form 11N).

Payment of DROP withdrawals

Withdrawals from your DROP account will be paid to you on the 15th of each month, following payment of your first monthly retirement benefit. Withdrawals will be disbursed according to the withdrawal method you select.

When your withdrawals must begin

There are specific requirements about when DROP retirees must begin taking withdrawals. Withdrawal requirements are based upon the age of the DROP retiree at the time of retirement.

DROP retirees younger than 70½ at the time of retirement must begin withdrawing at least the minimum amount within 12 months after retirement.

DROP retirees who are 70½ or older at the time of retirement must begin withdrawing a minimum amount by April 1 of the calendar year in which they turned 70½ or within 12 months after retirement, whichever is earlier. Failure to meet this required minimum distribution (RMD) will subject those members to an excise tax of 50 percent of the difference between the required withdrawal amount and the actual withdrawals made during the year.

For more information about RMD, see our *Special Tax Notice* booklet available at www.trsl.org.

Withdrawal requirements based on life expectancy

IRS regulations require you to withdraw the entire account balance within your projected life expectancy which is based on your age at retirement. The *IRS Single Life Expectancy Table*, a portion of which is shown on the next page, shows the required monthly/annual payout by age.

Withdrawals sufficient to exhaust the account balance within a retiree's projected lifetime are not subject to the mandatory 20-percent federal withholding tax, nor are they eligible for rollover to another qualified plan.

Withdrawals that will exhaust the account balance in 10 years or less are subject to the mandatory 20-percent federal withholding tax, but can be rolled over into another qualified plan.

For a list of qualified plans, see the chart on the next page.

**Portion of the IRS Single Life Expectancy Table
for those who retired on or after January 1, 2003**

Age at retirement	Number of months for payout or recovery	Number of years for payout or recovery	Age at retirement	Number of months for payout or recovery	Number of years for payout or recovery
50	410	34.2	63	272	22.7
51	399	33.3	64	261	21.8
52	387	32.3	65	252	21.0
53	376	31.4	66	242	20.2
54	366	30.5	67	232	19.4
55	355	29.6	68	223	18.6
56	344	28.7	69	213	17.8
57	334	27.9	70	204	17.0
58	324	27.0	71	195	16.3
59	313	26.1	72	186	15.5
60	302	25.2	73	177	14.8
61	292	24.4	74	169	14.1
62	282	23.5	75	160	13.4

If your age is not listed, please contact TRSL at 225-925-6446 or refer to the complete tables in IRS Publication 590, *Individual Retirement Arrangements (IRAs)*, which can be found on the IRS website at www.irs.gov.

Example:

A 58-year old retiree has a DROP account balance of \$84,500.00. According to the *Single Life Expectancy Table*, the minimum amount this retiree will need to withdraw based upon his or her projected life expectancy will be \$260.80 a month, or \$3,129.63 a year.

Monthly: $\$84,500.00 \div 324 = \260.80

Annually: $\$84,500.00 \div 27 = \$3,129.63$

Types of qualified plans

Rollover Eligible	<ul style="list-style-type: none"> • IRC Section 401(a) • IRC Section 401(k) • IRC Section 403(b) tax-sheltered annuities • IRC Section 457 governmental deferred compensation plans • Roth IRAs • IRC Section 408(a) traditional IRAs
Rollover Ineligible	<ul style="list-style-type: none"> • Simple IRAs • Coverdell Savings Accounts

Methods of withdrawal

DROP/ILSB retirees have several options regarding how withdrawals are made from their accounts. Your withdrawals can be taken monthly, annually, as a partial single-sum withdrawal, and as a total account balance withdrawal.

Monthly withdrawals can be taken in an amount to be determined by your life expectancy or any amount specified by you to last for a period less than your life expectancy. This periodic payment may not vary from month to month, but you will have an opportunity to increase this amount once in a 12-month period.

Annual withdrawals can be taken in an amount to be determined by your life expectancy or any amount specified by you to last for a period less than your life expectancy. This periodic payment may not vary from year to year, but you will have an opportunity to increase this amount once in a 12-month period. You must select the month in which the annual payment is to be made.

NOTE: Whether monthly or annually, the first payment must be made within the 12-month period immediately following DROP participation and termination of employment.

A partial single-sum withdrawal, in an amount determined by you, can be taken once in the lifetime of you or your spousal beneficiary.

If taken **when beginning withdrawals**, the balance of the account must be taken out monthly or annually not to exceed your life expectancy.

If taken **after withdrawals have begun**, the previous monthly or annual withdrawal cannot be decreased. Taking a partial single sum may change the way taxes are withheld from future monthly or annual withdrawals. This may result in a change from a voluntary federal income tax withholding to a mandatory 20-percent federal income tax withholding.

In order to take a partial single sum after withdrawals have begun, certain conditions must be met:

- You must have been at least age 55 at retirement, or
- You must be at least age 59½ at the time you receive the partial single sum

REMEMBER: If you are married when you take a partial single-sum withdrawal, a spousal consent form must be signed—*DROP or ILSB Retiree Spousal Consent to Withdrawal Method (Form 11G-1)*.

For required minimum distribution (RMD) information relating to single-sum withdrawals, see our *Special Tax Notice* booklet on the TRSL website, www.trsl.org.

A total account balance withdrawal can be chosen at any time after ending DROP participation and terminating employment, even after beginning a series of withdrawal payments. There are potential tax issues if you do this. TRSL recommends that you consult a qualified tax advisor before making any decisions about withdrawing your funds.

Total account balance withdrawals or withdrawals that are scheduled to be paid out over a period of less than 10 years are subject to a mandatory 20-percent withholding for federal income tax unless TRSL transfers the

withdrawal directly to another qualified plan. See a list of the qualified plans on page 22.

See TRSL's brochure *Special Tax Notice* for more tax information related to your DROP withdrawal.

Changing the withdrawal method and/or amount

You will have one opportunity in a 12-month period to change the periodic withdrawal method and/or amount. Disbursements should always be greater than the previous amount of the periodic payment, unless you retired before January 1, 2003, and are now age 70½ or older. Call TRSL for more information on this situation. You may make a total withdrawal of all funds in the DROP account at any time following termination of employment, even after periodic withdrawals have begun.

Suppose you are under age 55 and elect to receive your distribution for life. If, within the next five years or before you are age 59½, you change the payout schedule to less than life, you will be subject to a federal recapture tax of 10 percent plus interest on all the amounts you received prior to age 59.

Understanding the tax consequences of withdrawals

The manner in which funds are withdrawn from DROP accounts can have serious tax consequences. TRSL recommends that you consult a qualified tax advisor before making any decisions about withdrawing your funds. TRSL staff are also available to discuss the options available to you when deciding how to withdraw from your DROP account.

Taxes are deferred on DROP account deposits and become due as funds are withdrawn. TRSL reports withdrawals to the IRS at the end of each calendar year. DROP withdrawals must be made in accordance with IRS regulations and established TRSL rules and regulations.

State income tax

If TRSL pays your DROP withdrawal amount directly to you, it is exempt from Louisiana state income tax. However, you are subject to state income tax if you roll your DROP withdrawal over to an IRA or another qualified plan and later make a withdrawal from the IRA or other qualified plan account. (See page 22 for a list of qualified plans.)



**Need to send us overnight
or certified mail? Use our
physical address:**

8401 United Plaza Blvd., Ste. 300 • Baton Rouge, LA 70809-7017

Other information

Changing jobs while in DROP

A member can change jobs while in DROP and continue to participate, provided the new position is with an agency eligible to report to TRSL, and there is no break in service. For example, a member who was teaching in a school could take a job in a college, school board office, or state agency eligible to report to TRSL. A member must retain membership in TRSL to remain in DROP.

Leave during DROP

As long as a participating member is employed in an eligible position, he or she may continue to participate in DROP even if on paid or unpaid leave from that employer.

Voting in TRSL board elections

DROP participants vote as active members for their appropriate representatives on the TRSL Board of Trustees until terminating employment and becoming eligible to vote as TRSL retirees.

An alternative to DROP: Initial Lump-Sum Benefit (ILSB)

The Initial Lump-Sum Benefit (ILSB) may be considered as an alternative to participation in DROP. Retiring members who have met the same eligibility requirements for DROP and have not participated in DROP may choose ILSB.

ILSB provides a one-time, lump-sum payment of up to three years of Maximum Option benefits, plus a reduced regular monthly benefit for life. For more information about ILSB, see the TRSL brochure, *Initial Lump Sum*

Benefit (ILSB), available on our website at www.trsl.org.

Retirement counseling

If you would like personal counseling, contact TRSL at 225-925-6446 or toll free (outside the Baton Rouge area) at 1-877-ASK-TRSL (1-877-275-8775). Your call will be directed to a retirement analyst. Most questions can be answered over the phone, saving you a trip to TRSL.

TRSL also has DROP workshops and individual counseling sessions throughout the year in different parts of the state. To find out when and where these sessions are scheduled for your area, call our retirement education department at 225-925-6582 or check the workshop schedule on TRSL's website at www.trsl.org.

Permanent Benefit Increases (PBIs, formerly known as COLAs)

DROP participants are not eligible for PBIs granted to retirees during the DROP participation period or during the period of continued employment after DROP.

Participants will become eligible to receive future PBIs no sooner than one year after termination of employment.

DROP examples

NOTE: These examples assume a maximum benefit for members who have not reached 100 percent accrual.

A 55-year-old member enters DROP

A 55-year-old Regular Plan member with 25 years of service credit enters DROP July 1, 2001. The member's final average compensation (FAC) is \$35,433. She selects the Maximum Option and the annual DROP benefit is \$22,446; or \$1,871 per month.

That figure results from the following computation:

$$\begin{array}{r} 25 \text{ years of service credit} \times 2.5\% \text{ (benefit factor)} \\ \times \\ \$35,433 \text{ FAC} \\ + \\ \$300 \text{ supplement (for retirees who joined TRSL before July 1, 1986)} \\ = \\ \$22,446 \end{array}$$

Unused sick and annual leave are not used in computing the retirement benefit deposited to the DROP account. The annual total of \$22,446 is divided by 12 to get \$1,871, the amount deposited monthly to her DROP account. After three years, the DROP account accumulates \$67,356 (\$1,871 per month \times 3 years = \$67,356).

She completes DROP and retires

After three years of DROP, the member is now 58. Her TRSL sick leave credit is 1.5 years. She terminates her job and begins retirement. She will receive her regular retirement benefit and must make withdrawals from her DROP account.

When she completes DROP, her final annual retirement benefit will be \$23,772 or \$1,981 per month because she receives an additional \$111 each month for credit for her unused sick leave ($[1.5 \text{ years} \times 2.5\% \times \$35,433] \div 12 = \$110$). The calculation of the benefit is based on a final average compensation of \$35,433. She also has \$67,356 in her DROP account and, under IRS regulations, she must withdraw her deposited DROP benefits in 355 months assuming the *Single Life Expectancy Table*. If we assume the account will accrue interest at the rate of 7.75 percent per year, she may choose to withdraw an average of \$469 each month over the 355 months.

The total amount available for withdrawal from the DROP account will be dependent upon the actuarial interest rate computed for TRSL investments each year. In this example, assuming an interest rate of 7.75 percent for 469 months, the member would withdraw slightly more than \$166,495 from her DROP account over her IRS life expectancy. The monthly withdrawal cannot vary, but if interest earnings decline, the account will be exhausted sooner because the total she draws against will be smaller. She can draw out the total at any time after termination of employment.

NOTE: These DROP withdrawal examples apply to members who were eligible for DROP before January 1, 2004. Members who are eligible for DROP on or after January 1, 2004, will have an assumed interest rate of 3.5 percent.

If she continues to work after DROP

If the member completes DROP and decides to continue working for two more years, an additional monthly benefit of \$273 is added to her base benefit of \$1,871 for having an additional two years service credit and 1.7 years of sick leave credit.

The benefit, which now totals \$2,144 a month, is again based on a final average compensation (FAC) of \$35,433.

To establish a new FAC for the years worked after DROP, a member must work at least three years after completing DROP.

Suppose she completes DROP, works four more years, and does not take any sick leave during that time.

By working more than three years, she establishes a new FAC of \$38,000 **for the additional benefit only**. To her original base benefit (which includes no leave credit) of \$1,871, an additional benefit of \$459 is added. The additional benefit includes 1.5 years of sick leave credit before DROP, four years of service credit after DROP, and 0.3 years of sick leave during and after DROP:

$$(1.5 + 4 + 0.3) \times 2.5\% \times \$38,000 \div 12 = \$459.$$

A friend gets out of DROP early

Now let's look at the member's friend, who, with the same age, years of service credit, final average compensation, leave balance and retirement benefit option, must terminate DROP participation early.

This member first agreed to work two years in DROP, but after one year personal circumstances force him to get out of the plan.

He terminates his job and retires. He begins receiving a benefit of \$1,871 (based on the Maximum Option), which is the benefit he received while in DROP plus credit for unused sick leave. He must also begin withdrawing from his DROP account. After one year of DROP participation, he has \$22,446 in his DROP account.

Even though he did not complete his full DROP participation, if he returns to work in a TRSL-eligible position, he will be restricted by the return-to-work provisions detailed in our brochure, *Returning to Work after Retirement* and available at www.trsl.org.

Estimated benefits, Regular Plan

The following table gives the estimated maximum monthly DROP benefit deposited to member accounts after they enter DROP. A member who is at least age 60 with 10 years of service, excluding military service, would receive 20 percent of his or her average salary; a member who is at least age 55 with 25 years, 62.5 percent; a member at any age with 30 years, 75 percent; and a member who is at least 65 with 20 years, excluding military service, 50 percent.

Estimates are based on the Maximum Option and will be reduced if other options are chosen. Add an additional \$25 per month if the member enrolled in TRSL before July 1, 1986.

On the left side of the table below, find the figure closest to the member's highest average annual salary, and read across to the eligibility requirements used to qualify for DROP.

Regular Plan estimates			
Highest 3-year average annual salary	Estimated monthly DROP benefit if service credit and age are:		
	10 years at 2.0% at age 60, excluding military service	25 years at 2.5% at age 55	30 years at 2.5% at any age
\$ 9,600	\$ 160	\$ 500	\$ 600
12,000	200	625	750
14,400	240	750	900
16,800	280	875	1,050
19,200	320	1,000	1,200
21,600	360	1,125	1,350
24,000	400	1,250	1,500
26,400	440	1,375	1,650
28,800	480	1,500	1,800
31,200	520	1,625	1,950
33,600	560	1,750	2,100
36,000	600	1,875	2,250
38,400	640	2,000	2,400
40,800	680	2,125	2,550
43,200	720	2,250	2,700
45,600	760	2,375	2,850
48,000	800	2,500	3,000
50,400	840	2,625	3,150
52,800	880	2,750	3,300
55,200	920	2,875	3,450
57,600	960	3,000	3,600
60,000	1,000	3,125	3,750

Estimated benefits, Plans A and B

The following table gives estimated monthly DROP benefits of Plan A and Plan B members. The figures for Plan A only reflect benefits payable on years in which contributions were made to TRSL Plan A. (Plan A members may also have additional benefits. Contact TRSL for further details.)

Plan A members generally receive three percent of their average salary for each year of service. Plan B members receive two percent of salary for each year of service.

Military service cannot be used for eligibility in any plan with 10 years of service when at least age 60. All estimates are based on a choice of the Maximum Option. Estimates would be reduced if other retirement options are chosen. On the left, find the figure closest to the member's highest, three-year average annual salary and read across to plan, years of service, and age.

Plan A and Plan B estimates					
Highest 3-year average annual salary	Estimated monthly DROP benefit based on the following service credit and age:				
	Plan A at 3.0% of salary			Plan B at 2.0% of salary	
	10 years at age 60, excluding military service	25 years at age 55	30 years at any age	10 years at age 60, excluding military service	30 years at any age
\$ 4,800	\$ 120	\$ 300	\$ 360	\$ 80	\$ 240
6,000	150	375	450	100	300
7,200	180	450	540	120	360
8,400	210	525	630	140	420
9,600	240	600	720	160	480
10,800	270	675	810	180	540
12,000	300	750	900	200	600
13,200	330	825	990	220	660
14,400	360	900	1,080	240	720
15,600	390	975	1,170	260	780
16,800	420	1,050	1,260	280	840
18,000	450	1,125	1,350	300	900
19,200	480	1,200	1,440	320	960
20,400	510	1,275	1,530	340	1,020
21,600	540	1,350	1,620	360	1,080
22,800	570	1,425	1,710	380	1,140
24,000	600	1,500	1,800	400	1,200
25,200	630	1,575	1,890	420	1,260
26,400	660	1,650	1,980	440	1,320
27,600	690	1,725	2,070	460	1,380
28,800	720	1,800	2,160	480	1,440
30,000	750	1,875	2,250	500	1,500

The Teachers' Retirement System of Louisiana is an equal opportunity employer and complies with the Americans with Disabilities Act.

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