



# General Employees Retirement Fund

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## Everything You Wanted to Know About Retirement Programs

### **Does a public employer have to provide a pension plan to all its employees?**

All public employers are now required, at a minimum, to cover their full and part time employees and any temporary and seasonal employees under Social Security or a retirement system deemed to provide a certain level of benefits or contributions. A pension plan is only one of several means of satisfying the federal requirement. The Retirement Plan for the City of Tampa is a Special Act of the Florida State Legislature specifically, Chapter 23559, Special Act Of 1945, as amended.

### **What are qualified plans?**

By meeting requirements of the Internal Revenue Code for qualified plans, most basic retirement plans provided by public employers are eligible for certain favorable tax treatment, such as tax-deferral of contributions and tax-free rollovers of distributions to IRAs and to plans of subsequent employers. The pension plans of state and local governments are normally structured as qualified plans that qualify for all available tax advantages for participants as the City's 457 Deferred Compensation Plan. The Section 457 deferred compensation plan, which provides similar tax deferral advantages to public-sector employees, is not a true qualified plan but still has the most important tax advantages of a qualified plan.

### **What are defined benefits plans?**

Defined benefit plans obligate the employer to pay you a stated benefit at the time of retirement. The benefit amount to be paid is determined by the plan's benefit formula. This formula contains factors for years of service with the employer, your salary over specified years, and a percentage benefit earned for each year of service (multiplier - 2% for the first 15 years of service and 2.5% for the next 15 years of service with a maximum of 30 years for Division A and 1.2% for Division B).

Example: A Division B participant with a 1.2% multiplier, 20 years of service and an annual average salary for the highest three years (out of the last six year from the day of retirement) of \$30,000 would have an annual pension benefit of \$7,200 (20 X 1.2 percent X \$30,000).

### **What is the standard retirement benefit from a defined benefit plan?**

Benefits vary widely. However, a defined benefit system will usually pay retirement benefits monthly based on its benefits formula when a participant becomes eligible through attaining a certain age, number of years of service, or both. You must have at least 6 years of continuous service and be age 55 in Division A, or age 62 in Division B to be eligible for Longevity Retirement with the City of Tampa. Division B employees may take an Early Retirement at age 55 which carries a 5% penalty for every year that you are not 62 years. There is a cost of living adjustment (COLA), which increases the payment amount annually based on a COLA index. Every January 1 there is a COLA increase of 2.2% for Division A and a 1.2% increase for Division B employees.

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### **What happens if I leave before I reach the retirement age?**

If you separate from service before you have become eligible to receive a retirement benefit from the defined benefit plan, your right to receive benefits at a future time (usually retirement age) is dependent on whether or not you have become *vested*. The vesting period is 6 years.

The most common vesting schedule in a defined benefit plan is known as cliff vesting: a participant is 0 percent vested until he/she becomes 100% vested on reaching a certain number of years of service with the employer. If you separate after working for 6 or more years with an employer that requires 6 years of vesting, but have not reached retirement age, you are entitled to a **deferred**, vested benefit.

This benefit is normally paid at retirement age and is based on the employer's benefit formula, with average salary figures determined as of your separation from service. The value of the resulting benefit will be eroded by inflation during the years from the date you terminate your employment until you are eligible to collect your benefit.

Regardless of how long your service is, you will always be vested in any contributions you make to the plan. Your plan will normally require that any contributions you make remain in the plan should you leave employment with an earned retirement benefit (either immediate or deferred). If you leave prior to having earned a deferred vested benefit, you will generally be given the opportunity to receive any contributions you have made to the plan plus a stated rate of return determined by the defined benefit plan.

### **In a defined benefit plan, does it matter how many employers I have over my career?**

Defined benefit plans favor longer-service employees because the formula generally gives you credits for all the years you have worked for the employer, but calculates benefits on only your highest wages. Thus, a series of jobs in different defined benefit plans will not produce the same level of benefit as a career with a single employer. Since fewer than 25% of governmental employees work for longer than 20 years with the same employer, relatively few public employees enjoy the full potential from a defined benefit plan.

### **What are spousal rights and how do they affect payments from a defined benefit pension plan?**

Many states and significant numbers of local jurisdictions (sometimes as a result of provisions in state statutes, sometimes due to local plan provisions) provide standard benefits in a form which gives continuation of some level of retirement income to a surviving spouse in the event of the death of a retiree. For City of Tampa Division A employees, the widow or widower (until he or she dies or remarries) will receive a monthly pension equal to 75% of the Employee's Accrued Pension; however, such monthly pension shall be reduced to 50% if such widow or widower remarries.

In addition, children under the age of 18 years will receive \$100 per month for each child until said child or children shall marry or reach the age of 18 years. For Division B employees, the widow or widower married to the deceased Employee on the date of retirement shall receive 50% of the Employee's Accrued Pension. If the deceased employee had a deferred retirement, the spouse would receive the benefit when the deceased Employee would have reached age 55 for Division A and 62 for Division B employees.

**My defined benefit plan has a DROP provision. Is this a good idea for me?**

Some governmental defined benefit plans have added a feature called a *deferred retirement option plan* (DROP). These programs generally allow participants of a certain age to be treated (for pension purposes only) as though they have retired while working an additional period of time, a maximum of 7 years for City of Tampa employees.

The pension payments which would have been made to the individual during this time are made available to the employee on actual retirement, including interest at actual rates of return (gains or losses). These DROP programs give you the chance to have access to a lump sum payment on retirement, or a roll-over to an IRA, deferred governmental plan or other qualified tax shelter programs.

Whether the plan is a good idea for you will depend on a number of factors concerning both the structure of the DROP and your circumstances, including length of time of DROP participation, imputed or real rates of return, and increases in salary over the final years of employment. You are highly encouraged to consult a financial planner to determine whether DROP participation benefits you.