

EXHIBIT "F"

DROP Plan

Definitions

In this subtitle, the following words have the meanings indicated.

- (1) "DROP" means the Deferred Retirement Option Program in which a participant agrees to delay receipt of the employee's retirement benefit while the employee continues to work. Each participant receives the accumulated retirement benefit from the period of participation at retirement.
- (2) "DROP account" means the separate financial account established under this policy from which a participant is paid a lump sum distribution at retirement.
- (3) "DROP participant" means a participant who is eligible and who elects to participate in the DROP.
- (4) "DROP participation period" means the time that an employee participates in the DROP while actively employed by the City.
- (5) "Cost Neutral" means the City will not be required to expend additional funds to support the DROP program nor will the program adversely affect the funding status of the Pension Plan.
- (6) "Plan Year" means a calendar year commencing January 1 and ending December 31st.

Applicability

There is a Deferred Retirement Option Program in the City of Annapolis New and New Revised Police and Fire Retirement Plans.

Cost-Neutral

The DROP program is designed to be cost neutral and an actuarial analysis will be performed every three years and the plan actuary will include a report on whether the DROP is meeting the cost neutrality objective. In the event the DROP is not cost neutral, the City and, the Public Safety Unions shall meet and amend as needed the DROP to achieve cost neutrality. In the event the parties cannot come to an agreement, no new participants shall be enrolled until such time as the parties agree to and implement changes necessary to achieve cost neutrality.

Eligibility

Sworn Police and Fire personnel will have the option to elect DROP beginning on the date of eligibility for normal retirement, (20 years for those hired prior to 7/1/2012; 25 years for those hired on or after 7/1/2012). During the DROP the City will continue to make the employer contributions to the Retirement Plan. For those employees, who have commenced participation in DROP on or before June 30, 2018, who defer their DROP entry to normal retirement date plus 5 or more years of additional service no employee contribution shall be required during the DROP period; for all other employees, the employee contribution shall be required. Those employees who commence participation in DROP on or after July 1, 2018 shall be required to make an employee contribution of 4 % of pay as defined in the Plan for each year of participation in DROP.

Applications

- a) **Application required.** An employee who wants to participate in the DROP shall complete an application on the form required by the Human Resources Director.
- b) **Beginning date.** In addition to providing information requested by the Human Resources Director, the employee shall specify a beginning date of the employee's DROP participation period that corresponds to the requirements of the participation period noted in (c) below.
- c) **When submitted.** An application shall be submitted to the Human Resources Director at least 90 days before the beginning date of the employee's DROP participation period. An application may be submitted before an employee is eligible to participate in the DROP, provided that the employee is eligible as of the beginning date of the DROP participation period.

Limitation on the number of participants

- a) **Generally.** No more than 24 employees (12 Fire & 12 Police) may be participating in the DROP at any one time.
- b) **Initial participants.** Upon inception of the DROP participation in the DROP will be limited to eight (8) participants (4 Fire & 4 Police) per plan year until a maximum of 24 participants is realized.
- c) **When fewer than 24 employees are participating.** If there are fewer than 24 employees participating in the DROP as of the first day of any subsequent Plan Year, the number of additional employees who may begin participating in the DROP on that day shall be limited to the number that does not cause the total number of DROP participants to exceed 24, split evenly between Police and Fire to a maximum of 12 slots each.
- d) **Selection by seniority.** If the application of this section requires the number of participants to be limited, participants shall be selected by seniority as determined by the Human Resources Director on the basis of the amount of actual plan service of the applicants. Annually, in conjunction with the open enrollment period, applications for participation in the DROP will be accepted by the Human Resources Department.

In the event of a tie in seniority which will affect whether an employee may enroll in the DROP, the following methods will be used to break the tie:

For employees in Fire, a random selection method will be used to break the tie. For employees in Police, please refer to language in the Collective Bargaining Agreement which specifies how to proceed.

Participation period; mandatory retirement upon expiration

- a) **Generally.** A DROP participation period begins on the first day of a Plan Year and expires on the last day of a Plan Year.
- b) **Term of participation period.** The term of a DROP participation period is three (3) years for those employees commencing participation on or before June 30, 2018. Employees who commence participation on or after July 1, 2018 shall have a participation period of four (4) years.
- c) **Expiration before end of term.** A DROP participation period expires before the end of the current term if the DROP participant dies, voluntarily terminates or is involuntarily terminated from employment; retires (normal or disability); or becomes ineligible to participate in the plan for any reason, including a transfer to a position not covered by the plan.
- d) **Expiration of DROP participation.** Except as otherwise provided in this subtitle, a DROP participant shall terminate service and begin receiving a retirement benefit as of the first day of the month following expiration of the DROP participation period. A participant who fails to submit the documents requesting termination and retirement shall be involuntarily terminated and retired as provided in subsection (c).

Status during participation

- a) **Active employee.** A DROP participant is an active employee of the City and, except as provided in this subtitle, is entitled to the benefits of that employment and is subject to the laws, regulations, and policies governing that employment.
- b) **Police and Fire Retirement Plan.** A DROP participant is a participant in the Police and Fire Retirement Plan under the conditions described in the respective plan, except that a DROP participant will have exercised the option to elect DROP subject to the following conditions:

Anyone who has elected and entered the DROP beginning on the date of eligibility for normal retirement, (20 years) shall continue to make the required employee contribution. During the DROP the City will continue to make the employer contributions to the Plan. For those employees who commence participation on or before June 30, 2018, who defer their DROP entry to normal retirement date plus 5 or more years of additional service no employee contribution shall be required during the DROP period.

DROP account

- a) **Account established.** The Human Resources Director shall establish an account in the pension fund for recording the actions required by this section and is not required to establish an individual account for each DROP participant.
- b) **Retirement benefits.** The Human Resources Director shall determine, based on the standard actuarial calculation accounting for years of service and salary, the annual retirement benefit under the Police and Fire Retirement Plan a DROP participant is entitled as of the first day of the DROP participation period. The retirement benefit excludes service and salary during the DROP participation period for purposes of calculating the entitlement to and amount of the retirement benefit.
- c) **Account balance.** The account balance credited to a DROP participant is subject to the following:
 - (1) it includes the amount of the retirement benefit determined under subsection (b);
 - (2) For employees who commence participation in DROP on or before June 30, 2018, it includes credited interest calculated under the Composite Corporate Bond Rate, based on an average of the June-November rates from the prior year for the Plan Year ahead:
 - i. compounded on the account balance as of the first day of each month;
 - ii. credited to the DROP participant from the beginning to the expiration of the DROP participation period.
 - iii. amounts in the account are NOT increased by COLA granted to actual retirees.
 - (3) For employees who commence participation in DROP on or after July 1, 2018, the credited interest rate shall be 3.25 %
- d) **Statement of account balance.** At least once a year, the Human Resources Director shall provide to a DROP participant a statement of the account balance credited to the DROP participant as described in subsection (c).

Early-withdrawal from participation

- a) **Election to withdraw.** Except as provided in subsection (b), a DROP participant may elect to withdraw from participation in the DROP only by terminating employment with the City.
- b) **Withdrawal before end of participation period.** A DROP participant whose participation ends prior to the end of the DROP participation period because of a termination of employment or ineligibility to participate in the plan for any reason:
 - (1) forfeits any entitlement to the DROP benefit and
 - (2) if otherwise eligible, shall have a retirement benefit determined that includes service and salary during the DROP participation period for purposes of calculating the entitlement to and amount of the retirement benefit and that is

reduced by an amount actuarially equivalent to the employee contributions not made during the DROP participation period.

- (3) Interest shall not accrue on an account balance for any period of DROP participation that is less than a full year.

Disability during participation

- a) **Permitted.** A DROP participant may apply for a disability pension during the DROP participation period.
- b) **Effect of disability pension.** If a DROP participant receives a disability pension:
 - (1) the benefit includes service and salary during the DROP participation period for purposes of calculating the amount of the benefit and is reduced by an amount actuarially equivalent to the employee contributions not made during the DROP participation period; and
 - (2) the participant forfeits any entitlement to the DROP benefit.

Death during participation

- a) **Generally.** If a DROP participant dies during the DROP participation period, the beneficiary or beneficiaries of the participant as described in the Fire & Police Retirement Program are entitled to a death benefit under the retirement plan.
- b) **Death result of active duty.** If the death occurs as the direct result of the active performance of duties as described in the City Code, the death benefit includes service and salary during the DROP participation period for purposes of calculating the amount of the benefit and is reduced by the actuarial equivalent of the employee contributions not made during the DROP participation period.
- c) **Death not result of active duty.** If the death does not occur as a direct result of the active performance of duties, the death benefit excludes service and salary during the DROP participation period for purposes of calculating the amount of the benefit and is not reduced by an amount actuarially equivalent to the employee contributions not made during the DROP participation period.
- d) **Beneficiaries.** If a DROP participant dies during the DROP participation period, the beneficiary or beneficiaries of the participant as described in the City Code are entitled to a lump sum payment in cash of the account balance credited to the DROP participant as of the date of the death of the participant. Any payment(s) of the annuity will be determined by the election the employee made upon entering the DROP.

Retirement benefits of participants

- a) **Generally.** On the first day of the month following expiration of the DROP participation period and the DROP participant's termination from City employment, the participant is

entitled to receive the first payment of an annual retirement benefit under the Police and Fire Retirement Plan.

- b) Benefit determined as if the participant had retired on the first day of the DROP participation period, using final average basic pay and including credit for residual unused sick leave for the determination of the final benefit at separation of service;
- c) **Payment.** The participant shall receive payment of the account balance credited to the DROP participant.

Manner of payment

- a) **Lump sum payment.** Unless elected otherwise by a DROP participant, payment of the account balance shall be made in a lump sum to the participant within 30 days of the first day of the month following expiration of the DROP participation period and the DROP participant's termination from City employment.
- b) **One-time deferral of the lump sum payment.** The participant may elect a one-time deferral of the lump sum payment of the account balance on the form required by the Human Resources Director, provided the election is submitted no later than the expiration of the DROP participation period; the participant is not entitled to interest on the account balance because of the deferral; and payment is made within 30 days after a request is submitted to the Human Resources Director on the form required on or before the participant is 70 1/2 years of age.
- c) **Payment in cash; exception.** Unless otherwise elected by a DROP participant, a lump sum payment under subsection (a) or subsection (b) shall be made in cash. If permitted by federal law at the time of the payment, payment may be made by transfer or direct rollover to an eligible retirement plan as defined in the Internal Revenue Code.
- d) **An increase in the monthly annuity amount.** The participant may elect to use the DROP balance to increase the monthly annuity payment amount by the actuarial equivalent based form of payment election at DROP entry and the ages of the participant and, if applicable, the beneficiary at DROP exit date.
- e) **Sole responsibilities of participant.** Selection of the retirement account, plan, or annuity and the tax consequences of a transfer or direct rollover under subsection (c) are the sole responsibility of the participant and, upon transfer or direct rollover of the account balance to the retirement account, plan, or annuity, the City has no further obligation regarding the account balance credited to the participant.

Beneficiaries

A DROP participant's beneficiary is the beneficiary on file for the pension plan with the Human Resources Department.

Future Employment

If an employee exits the DROP and is retired from the City, and subsequently is re-employed by the City in a position which is covered by the Police and Fire Retirement Plan, the employee shall not be eligible to participate in the Plan.

July 25, 2014

Re: Annapolis Police and Fire DROP Program

Dear Carol and Yolanda:

This Side Letter confirms the terms under which the City of Annapolis, UFCW Local 400, and IAFF Local 1926 (hereinafter collectively referred to as "the Parties") have agreed to resolve Local 1926's grievance challenging the manner in which the City permits public safety employees to use military service time in connection with the Deferred Retirement Option Program ("DROP") of the City of Annapolis Police and Fire Retirement Plan.

1. The Parties agree that up to three years of active duty service with the armed forces of the United States may be counted towards the five or more years of additional service beyond the Normal Retirement Date that must be completed prior to entry in the DROP in order to be relieved of the obligation to make employee contributions to the New and New Revised Police and Fire Retirement Plans.

2. The Parties agree that periods of active service with the armed forces of the United States may not be credited toward the Years of Active Service required to reach the Normal Retirement Date that is required to be eligible to participate in the DROP.

3. The Parties agree that any employee hired on or after August 1, 2014 who wishes to receive military service credit toward retirement eligibility must give written notice to the City's Human Resources Department of their intent to do so no later than six (6) months after their date of hire. The employee must complete any forms related to the military service credit required by the Human Resources Department. The failure to notify the City's Human Resources Department and complete required forms within the required time period will preclude the employee from receiving military credit for any purpose related to retirement eligibility.

4. The Parties agree that current sworn police and fire employees will receive a memo from the Director of Human Resources on or before September 1, 2014 advising them that, if they wish to use military service time as a credit toward retirement eligibility, they must give written notice to the City's Human Resources Department of their intent to do so no later than January 1, 2015. The employee must complete any forms related to the military service credit required by the Human Resources Department. The failure to notify the City's Human Resources Department and complete required forms within the required time period will preclude the employee from receiving military credit for any purpose related to retirement eligibility.

By signing below, the Parties agree to the terms and conditions of this Side Letter, and further agree that the provisions of this Side Letter shall be incorporated into the Plan Document for the Police and Fire Retirement Plan.

Sincerely,

Paul M. Rusted
Director of Human Resources

AGREED & ACCEPTED
