City of Chattanooga
General Pension Plan

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Your Retirement Plan

The City of Chattanooga General Pension Plan will play an important role in providing you with the financial security you will need throughout retirement. To make sure you make the most of this valuable benefit, we encourage you to read the information contained in this booklet. It will answer most of the questions you may have about the Plan.

Question: *What is the purpose of the General Pension Plan?*

Answer:

The Plan is designed to provide a lifetime income after retirement. It also offers optional benefit payments to designated beneficiaries. The Plan's benefits are separate from any other retirement plan.

Question: *Who participates in the Plan?*

Answer: Employees of the City of Chattanooga, including elected officials, join the Plan on the date they become a permanent employee with the following exceptions:

- seasonal and temporary employees,
- sworn fire and police personnel,
- part-time employees who work *less* than 1,000 hours per year,
- persons rendering a service under contract.

Question: *How is the Plan funded?*

Answer: Participants contribute 2% of total earnings to the Plan. The City contributes an additional amount as needed to fully fund the Plan benefits.

Question: *Who administers the General Pension Plan?*

Answer: The Plan is administered by a Board of Trustees composed of seven members. All are appointed except the Mayor who serves by virtue of his position. The appointed members must be—or have the qualifications to be—a trust or investment officer of a financial institution.

Question: When may I retire?

Answer: You may retire under the following provisions:

Normal. You may retire at age 62 regardless of your years of credited service.

Rule-of-80. If you are less than age 62 *and* your credited service plus your age equals 80, you may retire. Under the Rule of 80, there is no reduction in benefits for early retirement.

Immediate Early. If you are ages 55 through 61 and have a *minimum* of five years of credited service, you may retire. The benefit amount is reduced by 2.5% for each year your retirement precedes age 62.

Question: *How are Normal Retirement benefits calculated?*

Answer: **At age 62**, monthly benefits are computed using one of the following formulas:

Formula 1
2% of average compensation
x number of years of credited service
(up to 20 years and 40% maximum)

plus

1% of average compensation
x each additional year of credited service
(over 20 years with no maximum)

-Or-

Formula 2

(applies only to employees hired before 1985) 60% of average compensation

plus

1% of average compensation x each additional year of credited service
(over 25 years with no maximum)

minus

50% of the age 62 Social Security benefit amount

Participants with 10 or more years of credited service on December 31, 1994 will receive the larger benefit from Formula 1 or Formula 2.All other participants will have their benefits calculated using Formula 1 only.

For example, John, who is age 62 with exactly 25 years of credited service, retires with an average annual earnings of $19,000 ($1,583.33 per month). Because he is age 62 and was hired before 1985, his benefit is calculated at Normal Retirement using both formulas to determine which produces the greater benefit:

Formula 1

$1,583.33 x 45% (20 years x 2% + 5 years x 1%) = $712.50 per month

– Or –

Formula 2
$1,583.33 x 60% = $950.00
$534.00 Social Security (at age 62) x 50% = $267.00
$950.00 - $267.00 = $683.00 per month

Formula 1 provides John with a $712.50 monthly pension benefit. Formula 2 provides a $683.00 monthly pension benefit. Since John was hired before 1985, his monthly benefit will be $712.50 since it is the greater of the two amounts.

If John had been hired after December 31, 1984, his benefit would have been calculated using only Formula 1.

Question: *What is the Deferred Retirement Option Plan (DROP)?*

Answer:

The Deferred Retirement Option Plan (DROP) allows you to convert a portion of your annual pension benefit to a lump-sum cash payment. If you have 26 or more years of service with the Plan, you may elect to convert one, two or three years of your pension benefit to a lump-sum cash distribution. The cash distribution will be your DROP payment.

Question: *If I elect the DROP, will my pension benefit be the same?*

Answer:

Yes, the total benefit will be the same; however, the payments aren't identical. If you elect the DROP, you will receive a monthly benefit plus a sizeable lump-sum payment when you retire. That lump-sum amount will reduce your monthly benefit, so your monthly benefit will be less than if you did not take the DROP.

Question: *How is the value of my DROP payment calculated?*

Answer: There are four steps to calculating the value of your DROP payment:

1. Use your current accrued benefit to estimate the benefit you would have received if you had retired one, two, or three years ago (depending on the DROP period you elect).
2. Multiply the amount in step 1 by the DROP period to give you the lump-sum cash benefit.
3. Calculate the value of your DROP payment by dividing the amount from step 2 by the number of years remaining in your life expectancy.
4. Determine your DROP-adjusted annual benefit by subtracting the answer to step 3 from your current accrued benefit.

For example, assume:
Current Age = 60
Current Life Expectancy = 10 years
Current Service = 30 years
Current Accrued Benefit = $12,000
DROP Election = 2 years

Step 1. $12,000 x 28/30 = $11,200
This is the approximate benefit you would have accrued if you had retired two years ago.

Step 2. $11,200 x 2 = $22,400
This is your two-year DROP lump-sum cash benefit, which will be paid to you at the time you retire.

Step 3. $22,400 / 10 = $2,240
This is the annual annuity value of the DROP payment and the amount your current accrued benefit will be reduced by each year.

Step 4. $12,000 - $2,240 = $9,760
This is your annual accrued benefit if you elect a two-year DROP.

Question: *Are there any factors I need to consider before electing the DROP?*

Answer: There are several factors to consider before you decide to elect the DROP.

- The DROP reduces your monthly benefit payments. Carefully consider which is more beneficial in your personal circumstances: a lump-sum cash payment and smaller monthly benefit checks or no lump-sum cash payment and larger monthly benefit checks.

- The DROP can have a significant impact on your taxes. The DROP is taxable income and is reported to the IRS. The tax code requires that 20% of the DROP payment be withheld to offset your tax liability for the year.

- If you are less than age 55 at the time you receive your DROP payment, you will need to pay an additional 10% to the IRS as an early distribution penalty. The amount of after-tax employee contributions are not taxable; however, earnings on that amount are taxable. You may want to consult with your personal financial advisor or tax accountant before making a final decision to take the DROP.

Question: *If I elect to take the DROP, may I also elect an optional payment form such as Joint and Survivor?*

Answer: Yes, if you elect the DROP, you may also elect any of the optional payment forms available under the Plan for the annuity portion of your benefit; however, the DROP is calculated on your primary benefit amount, which is the life annuity amount.

Question: *What are the other payment form options?*

Answer:

A Plan participant may choose one of the following optional benefit payment forms.

Option A – 120 Payments and Life Certain Provides a decreased pension benefit payable for life to the retired participant, with the first one hundred twenty (120) payments guaranteed. Any guaranteed payments due after the death of the retired participant are paid to the designated beneficiary, if any, who survives the retired participant. If there is not a surviving beneficiary, the estate of the retired participant will receive all remaining payments.

Important note: Option A provides benefits to the designated beneficiary for the first 10 years of the participant's retirement. If a retired participant died seven years after retirement, the designated beneficiary would receive three years of benefits. If a retired participant died 11 years after retirement, there would be no continuation of benefits to the designated beneficiary.

Option B – Joint and Survivor

Option B provides a reduced retirement benefit form payable to the retired participant for life, which shall continue after death to the surviving beneficiary for life in the same amount as that payable to the retired participant.

Option C – Modified Joint and Survivor

Option C provides a reduced retirement benefit form payable to the retired participant for life, 50% of which shall continue after death to the surviving beneficiary for life.

Options D and E – Pop-up Provisions

Option D and Option E are joint and survivor *pop-up provisions* based on benefits paid under Option B or Option C.

If you elect either Option D or Option E, the joint and survivor benefit calculated under Option B or Option C respectively is paid at a reduced rate as long as your beneficiary is alive. If your beneficiary dies before you, your monthly benefit increases to the original life annuity amount.

Speak with a Personnel Representative for more information about Options D and E.

Questions: *How are optional pension benefit forms calculated?*

Answer: Optional pension benefit forms are calculated based on mortality tables. The benefit is a reduced amount based on age factors from the respective tables. Option A is calculated using the age of the participant. Options B, C, D, and E are calculated using the age of the participant and the age of his or her beneficiary.

Question: *May I continue working after I am eligible for pension benefits?*

Answer: Yes, if you choose to continue to work after you are eligible to receive pension benefits, your additional earnings and service are counted in determining your pension benefit when you actually retire.

Question: *Will the amount of my pension increase after I retire?*

Answer: Yes, each January 1, retired participants will receive a cost-of-living adjustment on their pension benefit. This must be approved by the Board of Trustees and cannot exceed 3% per year.

Question: *What about disability provisions of the Plan?*

Answer: The General Pension Plan provides a commercial Long-Term Disability insurance policy to Plan participants beginning on their first day of employment. The cost of the benefit is paid by the Plan, and participants do not pay for coverage. The benefit covers both job and non-job related disabilities. Booklets outlining the Long-Term Disability benefit are given to new employees during orientation. Booklets can also be requested from the City's Employee Benefits Office.

Question: *What happens if I leave employment with the City after five or more years of credited service under the Plan?*

Answer: If you have five or more years of credited service, you are considered vested under the terms of the Plan. At termination of employment, you may elect a refund of your contributions or remain vested. If you remain vested, you may elect to receive pension benefits under Normal, Rule of 80, or Immediate Early provisions, whichever is applicable.

Question: *How do I receive a refund of my contributions?*

Answer: Pension refund applications are mailed with separation notices to persons who terminate employment. You may also come by the Personnel Department to complete the form.

Question: *What benefits will my beneficiary receive if I die before retirement?*

Answer: If you have fewer than five years of credited service, your beneficiary will receive a refund of your contributions. If you have five or more years of credited service or are age 62 or older at the time of death, beneficiary may elect either a refund of your contributions or the optional benefit you designated. Your beneficiary is automatically covered by Option A provisions if a designation of optional benefit form is not on file.

Question: *What are the most important items to keep in mind concerning the Plan?*

Answer: There are three important items that you should keep in mind:

1 Keep your designated beneficiaries current.
2 Elect an optional benefit when you reach five years of credited service.
3 Plan ahead for your retirement years.

This booklet is intended to provide a non-technical explanation of important provisions of the City of Chattanooga General Pension Plan. Many of the technical details of the Plan are not included in this booklet. In the event of any discrepancy between the information contained in this booklet and the formal Plan Document, the Plan Document will govern. Please direct any questions concerning the City of Chattanooga General Pension Plan to:

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