EXHIBIT 3
DATE 2-16-05
HB 586

Montana Public Employee Retirement Administration

Municipal Police Officers' Retirement System

DROP

Deferred Retirement Option Plan

March 21, 2001

DROP FEATURES

- Deferred Retirement Option Plan
  - DROPs are optional payment forms under defined benefit plans that allows partial lump-sum payments
  - Voluntary election by member
  - Employer treats member as employee
  - Retirement plan treats member as retiree

- Purpose of DROP
  - Enticement to continue working
  - Lump sum distribution of partial benefit
    - popular with members
    - college, payoff mortgage, etc.

DROP In Action

- Eligibility Criteria
  - 20 years of service any age
- Duration of DROP
  - Up to 5 years
- Election Period
  - Any Time after 20 years of service
  - One Time
  - Irrevocable

During DROP

- Contributions into System
  - Employee, Employer, and State Contributions continue to be paid to System but will not be credited to DROP Account.

- Drop Calculation
  - Pension Payment (calculated at election)
  - Credited monthly during DROP period
  - DROP calculation includes any post retirement adjustments
  - Interest Credits - based on the entire investment portfolio of the Municipal Police Officers' Retirement System

DROP Cost Impact

- Current Design is cost neutral
  - This assumes there would be no change in the pattern of retirement by age
- Administrative Cost
  - More retirement estimates
  - More complex calculations
  - Heavy demand at inception of DROP

Post DROP

- Retirement at End of DROP
  - Voluntary
- Continue Employment
  - DROP continues to accrue interest
  - If continue employment ultimate benefit will be benefit at start of DROP plus benefit based on post DROP salary and service
- Termination & Retirement
  - Payment of pension
  - Plus DROP Account in Lump Sum

PRO's and CON's

- PRO's
  - May be an enticement to continue working
  - Ability to receive a partial lump-sum distribution

- CON's
  - Give up increases in retirement benefits during DROP
  - Much easier ways to provide partial lump-sum payment
  - Leapfrogging effect

Montana Public Employee Retirement Administation
HB546 - Revise MPORS DROP
Drop Account Examples

Years of Service	*20*
Age at DROP Election	*48*
Years in DROP	*5*
Salary Entering DROP	*$57,000*
Age at Death	*82*
Contributions Paid In at DROP Election	$66,500
Contributions Paid In During DROP	$27,900
Total Contributions Paid In	$94,400

DROP Account

Age	Pension	Interest	Account
49	$28,500	$1,577	$30,077
50	$29,355	$3,482	$62,914
51	$30,236	$6,142	$99,291
52	$31,143	$9,085	$139,519
53	$32,077	$12,338	$183,934

Value Comparison

	Pension	Value	Drop Account	Total Value
DROP	**$33,039**	**$493,896**	**$183,934**	**$677,830**
NO DROP	**$42,078**	**$628,709**	**0**	**$628,709**
Added Value of Drop				**$49,121**

No Magic Money Formula

$\mathbf{B = C + I - E}$

Benefits = Contributions + Investment Income – Expenses

The amount of benefits that can be paid will always equal the amount of contributions (employer contributions and employee contributions) into the pension trust fund plus the investment income from the investment of that trust fund, minus the expenses of investment and administration of the system.

Each benefit improvement requires additional contributions into the pension trust fund.

Q How much interest will my DROP account earn?

A The interest rate will be fixed at the end of each fiscal year (June 30) and will equal the total rate of return for the trust fund. Interest rates for any part of the current fiscal year will be based on the previous fiscal year's total rate of return. If the rate of return is negative, then you will earn 0% interest for the following year.

Q Does my DROP account receive guaranteed annual benefit adjustments (GABA) while I am working?

A Yes, if you are eligible for the GABA, the DROP account will receive the GABA increases while you participate in the DROP. Otherwise, you will receive the appropriate minimum benefit increases.

If you continue to work after the DROP period, you will not receive any increases to your DROP account as you will not be receiving a monthly retirement benefit.

Q Are there any disadvantages to the DROP?

A There are some potential disadvantages.

DROP participation makes you **ineligible** for:

- disability retirement
- purchasing service
- service credit
- a refund

You should also be aware that:

1. Your retirement benefit is based on your highest compensation **prior** to the start of the DROP period; and
2. There are tax implications if you receive the DROP benefit as a lump sum at the end of the DROP period.

Q What happens when my DROP period ends?

A When your DROP period ends and MPORS-covered employment is terminated, you will begin receiving your MPORS monthly retirement benefit payment and your DROP benefit will be distributed. You will receive your DROP benefit as a lump sum payment or a direct rollover to another eligible retirement plan as allowed by the IRS. If you do not designate a distribution method within 60 days after termination of employment, the DROP benefit will be paid in a lump sum. Required federal and state withholding will reduce any lump-sum payment.

Q What is the DROP accrual?

A The DROP accrual is the monthly benefit including any post retirement adjustments you would have received if you had terminated employment and retired.

Q What is the DROP benefit?

A The DROP benefit is the lump sum benefit you will receive upon termination of employment.

This is an official publication of the Montana Public Employee Retirement Administration (MPERA). If you have questions not answered in this publication, we invite you to write or call.

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Municipal Police Officers' Retirement System

DEFERRED RETIREMENT OPTION PLAN

December 2004

Montana Public Employee Retirement Administration

The Deferred Retirement Option Plan (DROP) provides eligible active members of the Municipal Police Officers' Retirement System (MPORS) an alternative method for payment of benefits. Participation in the DROP is optional, however, it cannot be terminated or changed once you choose to participate. This publication will answer some of your questions regarding the DROP.

Q What is the DROP?

A The DROP allows active MPORS members to begin accumulating their retirement benefit, without terminating employment, for up to 60 months from the effective date of the DROP period. While participating in the DROP, your monthly retirement benefit remains in the MPORS trust fund, on a tax-deferred basis. **This is your DROP account**. Your DROP account will continue to grow while you continue to work and receive your regular pay. You and your employer must pay the regular contributions to the MPORS while you participate in the DROP, however, you will not earn additional membership service or service credit. Once you terminate employment and complete all necessary documents, you will receive your monthly retirement benefit payment. You will also need to decide if you want to receive the DROP benefit as a lump sum, or roll it into another eligible retirement plan as allowed by the IRS.

Q Who is eligible to participate in the DROP?

A You may participate in the DROP if you are an active member of the MPORS with at least 20 years of membership service.

Q How do I apply for the DROP?

A You must request DROP information from the Montana Public Employee Retirement Administration (MPERA). The request must include your:

- Full name
- Social Security number
- Mailing address
- Date of birth
- Anticipated date to start the DROP

MPERA will send you the DROP estimate and a DROP application. The completed DROP application must be filed with the MPERA at least **two weeks** before the first day of the month you want to start the DROP.

Q What is the DROP period?

A The DROP period is the number of months you participate in the plan. It may be from one month up to a maximum of 60 months (five years). The DROP period must begin on the **first** day of a month and end on the last day of a month. You must provide a beginning date and end date on your DROP application.

Q What happens if I terminate employment before the end of the DROP period?

A If your MPORS-covered employment is terminated during the DROP period, your DROP benefit will be distributed as you direct and payment of your monthly service retirement benefit will begin. The DROP period ends on the last day of the last full month of active service.

Q What happens if I die while participating in the DROP?

A Your surviving spouse or dependent children are entitled to your DROP benefit. Your surviving spouse or dependent children are also entitled to your monthly retirement benefit. If you do not have a surviving spouse or dependent children, then your designated beneficiary may receive the balance of your retirement account and a lump-sum payment of the DROP benefit.

Q What happens if I become disabled during the DROP period?

A You will not be eligible for MPORS disability benefits. If you must terminate your service, your service retirement benefit will be paid to you rather than to your monthly DROP account. You will also be eligible to receive your DROP benefit.

Q What if I decide to continue working following the DROP period?

A You may continue to work after the DROP period ends, but you will be considered newly hired. You will not receive your service retirement benefit or your DROP benefit during the time you continue to work. The balance of your DROP account will continue to earn interest. Upon retirement, you will receive an additional benefit based on service credit and final average compensation earned after DROP participation.