THE CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN HANDBOOK

NOTE: This Handbook is subject to revision at any time. You should check the Pension Division web site, www.alexandriava.gov/pension, for updated versions. This booklet is intended to summarize the major provisions of the Pension Plan as in effect on February 21, 2004. It is not an official plan document. If there is any conflict between this booklet and the official plan document, the plan document will control and govern Plan determinations. You may view a copy of the plan document and amendments on the Pension Division web site.

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The City Of Alexandria Firefighters And Police Officers Pension Plan Handbook

INTRODUCTION

The City of Alexandria Firefighters and Police Officers Pension Plan is a continuation of the City of Alexandria Retirement Income Plan for Firefighters and Police Officers that was established on February 13, 1979. The Plan was converted from a defined contribution plan to a defined benefit plan by a resolution adopted by the City Council on February 21, 2004 and renamed the City of Alexandria Firefighters and Police Officers Pension Plan. The Pension Plan covers all sworn firefighters and police officers employed by the City. Although the Plan was adopted by the City Council on February 21, 2004, it is effective retroactively as of January 1, 2004 with respect to individuals who were actively employed as City firefighters and police officers on February 21, 2004.

The Plan is designed to provide firefighters and police officers with a specified level of retirement benefits. Individual accounts are not maintained for Plan participants, and participants do not make investment decisions or assume investment risks. The amount of the retirement benefit provided under the Pension Plan is not affected by investment gains or losses of the Pension Plan.

If you were a participant in the Retirement Income Plan prior to February 21, 2004, and you did not make a past service election, or you had a rollover or voluntary after-tax contributions credited to your account on December 31, 2003, you still have an individual account under the defined contribution portion of the Plan.

The Plan also incorporates the provisions of the City of Alexandria Firefighters and Police Officers Disability Income Plan, which was combined with the Plan effective February 21, 2004. The Plan now provides all service and non-service connected disability benefits to firefighters and police officers who become disabled prior to their normal retirement date.

This booklet only applies to individuals who are actively employed as firefighters or police officers on or after February 21, 2004. If the City determined that you were disabled, or you retired or otherwise terminated your employment with the City as a firefighter or police office before February 21, 2004, any benefits to which you are entitled under the prior Retirement Income Plan or Disability Income Plan will be determined under the provisions of those plans as in effect on the date that the City determined you were disabled or the date you retired or otherwise ceased to be employed as a City firefighter or police officer.

This booklet is intended to summarize the major provisions of the Pension Plan as in effect on February 21, 2004. It is not an official plan document. If there is any conflict between this booklet and the official plan document, the Plan document will control and govern Plan determinations. You can obtain a copy of the plan document from the Pension Administration Division or through the Pension Division's web site at www.alexandriava.gov/pension.

We hope you will read this booklet carefully and that you will find it helpful. We also hope that you will discuss it with your family. Please feel free to contact the Pension Administration Division with any questions about the Plan or your retirement benefits.

For more information about this Plan you may contact:

Pension Administration Division
City of Alexandria
301 King Street - City Hall Room 1600
Alexandria, Virginia 22314
703.746.3906

or visit the Pension Division's web site at www.alexandriava.gov/pension.

PLAN ELIGIBILITY AND ENROLLMENT

WHO DOES THE PLAN COVER?

The Plan covers individuals who are actively employed as City firefighters and police officers on or after February 21, 2004. You automatically become eligible to participate in the Plan on the day you are sworn in as a firefighter or police officer of the City of Alexandria.

Please note that the Plan does not cover parking enforcement officers, tag enforcement officers or employees covered under the City of Alexandria Pension Plan for Firefighters and Police Officers.

DO I HAVE TO ENROLL IN THE PLAN?

Yes. Participation in this Plan is mandatory and a condition of your employment with the City. When you are hired by the City as a sworn firefighter or police officer, you will receive an enrollment form from the Human Resources Department, which, among other things, authorizes the City to deduct from your paycheck the amount you are required to contribute to the Plan. You must complete this enrollment form and return it to the Human Resources Department.

WHEN DOES MY PARTICIPATION IN THE PLAN END?

Your participation in the Plan will end as soon as:

- you terminate employment as a firefighter or police officer (even if you remain employed by the City);
- you are discharged;
- you retire;
- you die;
- the Administrator determines that you are disabled;
- you commence an unauthorized leave of absence; or
- you fail to return to work following the expiration of an authorized leave of absence.

WHAT HAPPENS IF I AM LATER RE-HIRED AS A FIREFIGHTER OR POLICE OFFICER?

If you cease employment with the City as a sworn firefighter or police officer, but later return to your position, you will resume participation in Plan on the date you return to work as a sworn firefighter or police officer.

YEARS OF SERVICE AND YEARS OF CREDITED SERVICE

WHAT ARE YEARS OF SERVICE?

Your years of service determine whether you are eligible to receive a benefit under the Plan – that is, whether or not you are "vested."

WHAT ARE YEARS OF CREDITED SERVICE?

Your years of credited service determine the amount of the benefit you receive at retirement or the amount your spouse receives if you die before your retire. Years of credited service are also used to determine when you are eligible to retire.

HOW ARE MY YEARS OF SERVICE CALCULATED?

Your years of service are based on the period of time that you are continuously employed by the City as a sworn firefighter or police officer. In most cases, this period starts on your date of hire as a firefighter or police officer and ends on the date you cease to be a City firefighter or police officer for any reason (e.g., if you quit, retire, die, are discharged or are absent from service for any other reason).

Your "years of service" are only expressed in whole years. This is because vesting is based on whole years of service. Thus, if you have completed 4 years and 9 months of employment as a firefighter or police officer, you would have 4 years of service for vesting purposes.

HOW ARE MY YEARS OF CREDITED SERVICE CALCULATED?

Generally, your years of credited service are based on the same period of time that is used to calculate your years of service (i.e., the period that you are continuously employed by the City as a sworn firefighter or police officer). However, while all of your service as a firefighter or police officer is taken into account in computing your "years of service," periods of employment prior to January 1, 2004 are not taken into account in determining your "years of credited service," unless you were eligible for and actually made the past service election.

Your "years of credited service" are expressed in years and fractions of a year. Thus, if you have completed 5 years and 9 months of employment as a firefighter or police officer, you would have 5 3/4 years of credited service for purposes of calculating retirement benefits and determining retirement eligibility.

HOW ARE MY YEARS OF SERVICE AND CREDITED SERVICE CALCULATED IF I START (OR END) WORK AS A FIREFIGHTER OR POLICE OFFICER DURING A MONTH?

In calculating your years of service and years of credited service, only complete months of employment as a firefighter or police officer are taken into account (i.e., months during which you were employed as a firefighter or police officer on each day of the month). For example, if you became a firefighter or police officer on June 2nd, you would not begin receiving credit for "years of service" and "years of credited service" until July 1st. Similarly, if you terminate your position as a firefighter or police officer prior to the last day of a month, you will not receive service credit for the month of termination.

Note that while your credit for service may not start until the following month, you must begin making contributions to the Plan as soon as you are hired.

WHAT IF I TERMINATE EMPLOYMENT AND I AM SUBSEQUENTLY REHIRED?

If you are rehired as a firefighter or police officer, your prior service will be added to service completed after you are re-hired for purposes of determining your years of service and years of credited service. However, if you received a distribution of your employee contributions (and if you made the past service election, your minimum retirement benefit), you will be treated as a new employee unless you repay the <u>entire distribution</u> you received, plus interest at the rate of 7½% per annum from the date of distribution to the date of repayment. This repayment must be made (in full) within 90 days after the date you resume service as a firefighter or police officer. After this 90-day period expires, you will not be permitted to repay your prior distribution and have your prior service restored.

WHAT IF I AM ON A LEAVE OF ABSENCE?

Authorized Leave of Absence

Paid leaves of absence (such as vacation, sick days and paid holidays) are treated the same as active employment (i.e., you receive service credited during these periods).

If you are on an unpaid temporary absence from active service that is treated as an authorized leave of absence, you will not experience a break in your service credit, but you will not receive credit for the period you are on the authorized leave. However, if you fail to return to work at the end of your authorized leave, you will be treated as having terminated employment on the last day of your authorized leave.

Military Service

Military service is a period in which you are called to active duty in the uniformed armed services that includes active duty for training, initial and inactive duty training, full-time National Guard federal duty or absence from work for an examination to determine if you are eligible for military duty. The uniformed services include the armed forces (Army, Navy, Marine Corps, Air Force or Coast Guard), reservist or anyone designated by the President for military duty in time of war or emergency.

If you are called to active duty in the military while you are employed as a City firefighter or police officer, you will not experience a break in service for the period of time you are out on military leave. You will actually receive service credit for purposes of calculating the amount of your benefit.

In order to receive service credit, you must return to work with the City as a firefighter or police officer within the time period provided by the law following the completion of your military service. The length of your military service determines the time frame in which you must return to work for the City. If you do not return to work in the required time frame, then you are not eligible for service credit.

VESTING

WHAT IS MY VESTED INTEREST IN THE PENSION PLAN?

If you terminate your employment with the City as a firefighter or police officer prior to your early or normal retirement date, you will be entitled to receive a "deferred" retirement benefit if you are "vested." If you terminate employment and are not vested in your benefit, you will still receive the employee contributions you made towards your retirement benefit (plus interest), but you will not be entitled to a return of the contributions you made towards your disability benefit or any other benefits under the Plan.

The extent to which you are "vested" in your retirement benefit under the Pension Plan depends on whether you were employed by the City as a firefighter or police officer on December 31, 2003.

If you commenced or re-commenced employment as a City firefighter or police officer on or after January 1, 2004, you will be vested in your retirement benefit under the Plan in accordance with the following schedule:

Years of Service for Vesting Purposes	Vesting Percentages
Less than 5	0%
5 or more	100%

If you were employed by the City as a firefighter or police officer on December 31, 2003 (and have remained employed as a firefighter or police officer since that date), you will be vested in your retirement benefit under the Plan in accordance with the following schedule:

Years of Service for Vesting Purposes	Vesting Percentages
Less than 1	0%
1 but less than 2	20%
2 but less than 3	40%
3 but less than 4	60%
4 but less than 5	80%
5 or more	100%

You are always 100% vested in your employee contributions. This simply means that you are always entitled to receive 100% of your own employee contributions to the Plan when you terminate employment with the City, even if you are not "vested" in your retirement benefit under the Plan.

Also, if you made the past service election, your minimum retirement benefit is fully vested.

WHAT IF I STILL HAVE AN ACCOUNT UNDER THE RETIREMENT INCOME PLAN?

If you were a participant in the Retirement Income Plan prior to February 21, 2004, and you still have an account under the Retirement Income Plan, you are 100% vested in your account. (You would only have an account under the Retirement Income Plan if you did not make a past service election, or you had previously made voluntary after-tax contributions to the Plan or a rollover from an individual retirement account or another retirement plan prior to January 1, 2004.)

RETIREMENT BENEFITS

WHEN CAN I RETIRE?

If you are working as a City firefighter or police officer, you can elect to retire at any time after you have reached your normal retirement date or early retirement date.

NORMAL RETIREMENT

WHEN IS MY NORMAL RETIREMENT DATE?

Your “normal retirement date” depends on when you started working for the City as a firefighter or police officer.

If you were employed by the City as a sworn firefighter or police officer prior to January 1, 2004, your normal retirement date is the first day of the month following your 55th birthday.

If you commenced employment as a City firefighter or police officer on or after January 1, 2004, your normal retirement date is the first day of the month following the date on which you turn age 55 and complete 5 years of credited service.

You may retire at any time after you reach your normal retirement date.

HOW MUCH WILL I RECEIVE IF I RETIRE ON OR AFTER MY NORMAL RETIREMENT DATE?

If you retire on your normal retirement date, you will receive a monthly benefit that is equal to:

- 2.5% of your average monthly compensation for each of the first 20 years of credited service; plus

- 3.2% of your average monthly compensation for each year of credited service between 20 and 30 years.

The number of years of credited service taken into account in computing your retirement benefit cannot exceed 30 and your monthly benefit under the Plan cannot exceed 82% of your average monthly compensation.

Your "average monthly compensation" is the average of the 48 consecutive highest months of compensation from employment as a sworn firefighter or police officer for the City. For this purpose, compensation is limited to base compensation (i.e., regular pay based on grade and step and excluding overtime, differentials, allowances, FLSA adjustments, etc.). (See the definitions of "average monthly compensation" and "compensation" under the heading IMPORTANT TERMS USED IN THIS BOOKLET.)

Your retirement benefit is paid each month following your retirement from the City and continues for the remainder of your life. Upon your death, no further benefits are payable to anyone. This type of benefit is commonly referred to as a "single life annuity."

Instead of having your retirement benefit paid as a single life annuity, you can elect to have your retirement benefit paid in any of the alternative forms permitted under the Plan. For example, if you are married and want to ensure that your spouse continues to receive benefits after your death, you would elect to receive your retirement benefit in the form of a joint and survivor annuity.

If you elect an alternate form of payment, your retirement benefit will be actuarially adjusted (reduced) so that your optional form of payment is the actuarial equivalent of a single life annuity. The actuarial reduction is not a penalty; it merely accounts for the fact that benefits will continue for a specified period (under the guaranteed period option) or that payments may be made over two lives, instead of one (under the joint and survivor annuity option). (See the discussion under PAYMENT OF RETIREMENT BENEFITS.)

Here is an example of how the retirement benefit is calculated for someone who retires on his or her normal retirement date.

John is 55 years of age and commenced employment with the City as a firefighter on May 10, 1981. He has not had a break in service since his date of hire.

John elects to stop working on June 19, 2004, after he has completed 22 years of credited service. John made the past service election (and exchanged his City funded Retirement Income account for pre-2004 credited service under the Pension Plan). John's highest 48 consecutive months of compensation were as follows:

6/1/2003 through 5/31/2004 – $4,650
6/1/2002 through 5/31/2003 – $4,515
6/1/2001 through 5/31/2002 – $4,384
6/1/2000 through 5/31/2001 – $4,256

John would be entitled to a monthly benefit of $2,510 effective on July 1, 2004 and continuing for the rest of his life. John's benefit was calculated as follows:

<u>Step 1</u> – Determine Amount of Continuous Service

At the time of his retirement, John had 22 years of credited service. His credited service is measured from his date of hire to his date of retirement as a firefighter (May 10, 1981 to June 19, 2004). Since service is measured in complete calendar months, John does not receive any credited service credit for his month of hire (May, 1981) or his month of retirement (June, 2004).

<u>Step 2</u> – Determine John's Average Compensation

John's average compensation would be $4,451

12 months @ $4,650 =	$ 55,800
12 months @ $4,515 =	$ 54,180
12 months @ $4,384 =	$ 52,608
12 months @ $4,256 =	$ 51,072
	$213,660

$213,660÷ 48 = $4,451

Step 3 – Calculate Monthly Benefit Amount

2.5% times 20 years times $4,451 = $2,225
3.2% times 2 years times $4,451 = $ 285

Total benefit $2,510

John's benefit would continue for the rest of his life. John could also elect to have his retirement benefit paid in a form other than a single life annuity. If John elects an alternate form of payment, his benefit will be actuarially adjusted (reduced) so that the optional form of payment is the actuarial equivalent of a single life annuity. The actuarial reduction is not a penalty; it merely accounts for the fact that benefits will continue for a specified period (under the guaranteed period option) or that payments may be made over two lives, instead of one (under the joint and survivor annuity option). (See the discussion under PAYMENT OF RETIREMENT BENEFITS.)

Note that if you made the past service election, the amount of your monthly retirement benefit will be based upon the greater of (1) the monthly retirement benefit calculated under the "regular" retirement formula contained in the Pension Plan, or (2) the monthly benefit generated by the value of your minimum retirement benefit (i.e., the value of your Retirement Income account on December 31, 2003) and your employee retirement contribution benefit (i.e., your employee retirement contributions plus interest).

EARLY RETIREMENT

CAN I RETIRE EARLY?

Yes. If you are employed as a City firefighter or police officer on your early retirement date, you can retire early and receive either an unreduced or a reduced retirement benefit, depending on the number of years of credited service you have completed when you retire.

If you have completed 25 years of credited service, you can elect to retire before age 55 and begin receiving your full retirement benefit, without any reduction for the fact that you retired prior to your normal retirement date. The amount of your benefit is determined in the exact same manner as your normal retirement benefit.

In addition, you can also elect to retire early and receive a reduced retirement benefit once you have attained age 50 and completed at least 20 years of credited service.

If you have less than 25 years of credited service, your early retirement benefit is actuarially reduced to take into account the greater number of monthly payments you are expected to receive during your lifetime because you are retiring earlier than your normal retirement date. The early retirement reduction is not a penalty for retiring early; it merely accounts for the fact that the benefit you earned will be spread over a longer period of time. Therefore, you can expect to receive smaller payments but more of them.

The early retirement benefit is payable monthly for your life. You can also elect to have your early retirement benefit paid in a form other than a single life annuity. If you elect an alternate form of payment, your benefit will be actuarially adjusted (reduced) so that the optional form of payment is the actuarial equivalent of a single life annuity.

Here are some examples of how the retirement benefit is calculated for someone who retires early.

Unreduced Benefit After 25 Years of Credited Service

Andrew is 46 years of age and commenced employment with the City as a police officer on March 6, 1979. He has not had a break in service since his date of hire.

Andrew elects to retire effective April 1, 2004, after he has completed 25 years of credited service. Andrew made the past service election (and exchanged his City funded Retirement Income account for pre-2004 credited service under the Pension Plan). Andrew's highest 48 consecutive months of compensation were as follows:

4/1/2003 through 3/31/2004 – $4,650
4/1/2002 through 3/31/2003 – $4,515
4/1/2001 through 3/31/2002 – $4,384
4/1/2000 through 3/31/2001 – $4,256

Andrew would be entitled to a monthly benefit of $2,937 effective on April 1, 2004 and continuing for the rest of his life. Andrew's benefit was calculated as follows:

<u>Step 1</u> – Determine Amount of Continuous Service

At the time of his retirement, Andrew had 25 years of credited service. His credited service is measured from his date of hire to his date of retirement as a police officer (March 6, 1979 to March 31, 2004). Since service is measured in complete calendar months, Andrew does not receive any credited service credit for his month of hire

(March, 1979) but does receive credit for his last month of employment (March, 2004) since he worked the entire month.

<u>Step 2</u> – Determine Andrew's Average Compensation

Andrew's average compensation would be $4,451

12 months @ $4,650 =	$ 55,800
12 months @ $4,515 =	$ 54,180
12 months @ $4,384 =	$ 52,608
12 months @ $4,256 =	<u>$ 51,072</u>
	$213,660

$213,660÷ 48 = $4,451

<u>Step 3</u> – Calculate Monthly Benefit Amount

2.5% times 20 years times $4,451 =	$2,225
3.2% times 5 years times $4,451 =	<u>$ 712</u>

Total benefit $2,937

Because Andrew had completed 25 years of credited service when he retired, Andrew's benefit is not reduced for commencement prior to age 55.

Andrew's benefit would continue for the rest of his life. Andrew could also elect to have his retirement benefit paid in a form other than a single life annuity. If Andrew elects an alternate form of payment, his benefit will be actuarially adjusted (reduced) so that the optional form of payment is the actuarial equivalent of a single life annuity. The actuarial reduction is not a penalty; it merely accounts for the fact that benefits will continue for a specified period (under the guaranteed period option) or that payments may be made over two lives, instead of one (under the joint and survivor annuity option). (See the discussion under PAYMENT OF RETIREMENT BENEFITS.)

Early Retirement After Age 50 (With At Least 20 Years of Credited Service)

Sue is 50 years of age and commenced employment with the City as a firefighter on May 10, 1984. She has not had a break in service since her date of hire.

Sue elects to retire effective June 1, 2004, after she has completed 20 years of credited service. Sue made the past service election (and exchanged her City funded Retirement Income account for pre-2004 credited service under the Pension Plan). Sue's highest 48 consecutive months of compensation were as follows:

6/1/2003 through 5/31/2004 – $4,650
6/1/2002 through 5/31/2003 – $4,515

6/1/2001 through 5/31/2002 – $4,384
6/1/2000 through 5/31/2001 – $4,256

Sue would be entitled to a monthly benefit of $2,225 as of the first day of the month following her 55th birthday (i.e., effective June 1, 2009). Sue's benefit was calculated as follows:

<u>Step 1</u> – Determine Amount of Continuous Service

At the time of her retirement, Sue had 20 years of credited service. Her credited service is measured from her date of hire to her date of retirement as a firefighter (May 10, 1984 to May 31, 2004). Since service is measured in complete calendar months, Sue does not receive any credited service credit for her month of hire (May, 1984) but does receive credit for her last month of employment (May, 2004) since she worked the entire month.

<u>Step 2</u> – Determine Sue's Average Compensation

Sue's average compensation would be $4,451

12 months @ $4,650 =	$ 55,800
12 months @ $4,515 =	$ 54,180
12 months @ $4,384 =	$ 52,608
12 months @ $4,256 =	$ 51,072
	$213,660

$213,660÷ 48 = $4,451

<u>Step 3</u> – Calculate Monthly Benefit Amount

2.5% times 20 years times $4,451 = $2,225

Sue's benefit would commence in June 2009 (following her 55th birthday), and would continue for the rest of her life. Sue could also elect to begin benefits immediately, in which case her benefits would be actuarially reduced to account for the fact that her retirement benefit will be paid over a longer period of time. In Sue's case, if she elected to commence benefits immediately in the form of a single life annuity, her benefit would be reduced from $2,225 to $1,392.

Sue could also elect to have her early retirement benefit paid in a form other than a single life annuity. If Sue elects an alternate form of payment, her benefit will be subject to another actuarial adjustment (reduction) so that the optional form of payment is the actuarial equivalent of a single life annuity. The actuarial reduction is not a penalty; it merely accounts for the fact that benefits will continue for a specified period (under the guaranteed period option) or that payments may be made over two lives, instead of one (under the joint and survivor annuity option). (See the discussion under PAYMENT OF RETIREMENT BENEFITS.)

DEFERRED RETIREMENT

CAN I ELECT TO WORK PAST MY NORMAL RETIREMENT DATE?

Yes. You do not have to retire on your normal retirement date. If you continue to work after your normal retirement date, you will continue to participate in the Plan (as long as you remain employed as a City firefighter or police officer) and your retirement benefit will not be distributed to you until your actual retirement. However, please keep in mind that no more than 30 years of credited service can be taken into account in computing your retirement benefit and your monthly benefit under the Plan cannot exceed 82% of your average monthly compensation.

WHAT IS THE DEFERRED RETIREMENT OPTION PROGRAM (DROP)?

The DROP is a program that allows you to continue working for the City as a firefighter or police officer for a period of up to 3 years and to have your retirement benefits credited to a deferred account at the same time. Participation in the DROP is entirely *voluntary.* If you do not want to commit to a retirement date, you can continue working until you are ready to retire.

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WHO IS ELIGIBLE FOR THE DROP?

The deferred retirement program is available to participants who have competed 30 or more years of credited service and are not ready to retire.

While the DROP is voluntary, once you elect to participate in the DROP, you must actually retire within 3 years from the date your DROP election becomes effective.

CAN I CHANGE MY MIND ABOUT RETIREMENT ONCE I ELECT TO PARTICIPATE IN THE DROP?

Your election can be revoked any time within 7 days. After this 7 day period has expired, your election to participate in the DROP is irrevocable.

DO I HAVE TO WORK FOR 3 YEARS IF I ELECT TO PARTICIPATE IN THE DROP?

No. You can elect to retire at any time. However, you must retire no later than 3 years after your DROP effective date.

DOES MY STATUS CHANGE IF I ELECT TO PARTICIPATE IN THE DROP?

For purposes of the Plan, you would be treated as if you actually retired and commenced retirement benefits on the date your DROP election takes effect. Thus, for example, compensation increases after your DROP effective date will not increase or affect your average monthly compensation or the amount of your future retirement benefit. In addition, once you reach your DROP effective date, you would no longer be required to make employee retirement or disability contributions to the Plan and you will not receive credit for service completed during your DROP period.

If you elect to participate in the DROP, your retirement benefit will be paid in one of the annuity forms permitted under the Plan. The limited lump sum option discussed on page 20 will not be available when you start receiving your retirement benefits.

Except for purposes of the Plan, you are treated like any other active firefighter or police officer (and are eligible for pay increases, promotions, etc.) during your DROP period.

Participation in the DROP is not a guarantee of continued employment. You are subject to discharge, suspension, lay-off, etc. on the same basis as any other active firefighter or police officer.

How Do I Elect To Participate In The DROP?

If you are eligible, you can elect to participate in the DROP by filing a DROP election at least 60 days prior to your proposed DROP effective date. You can obtain a DROP election form from the Pension Administration Division.

What Do I Receive If I Elect To Participate In The DROP?

If you elect to participate in the DROP, the amount of retirement benefits you would normally receive are credited to a special “DROP account” in your name. You can choose to have the credit to your DROP account based on any of the optional annuity forms permitted under the Plan (a life annuity; a joint and 50%, 66 2/3% or 100% survivor annuity; or a 60, 120, 180 or 240 month guaranteed period option). However, the limited lump sum option would not apply.

Interest is credited on your DROP account at the rate of 3% per annum. In addition, your DROP account is credited with any cost of living adjustment that you would have received if you had actually retired.

When Do I Receive My DROP Account And How Is It Paid?

Your DROP account is paid to you when you actually retire. The account can be paid as a lump sum or used to increase your retirement annuity (at your option). It can also be rolled over to an individual retirement account or another eligible retirement plan.

What Happens If I Become Disabled During The DROP Period?

Since you are treated as if you retired on your DROP effective date, you are not eligible for any disability benefits under the Plan. However, if you have not yet reached age 55 (when coverage for a disability normally ends), you would receive disability benefits if you sustain a service connected total or partial disability prior to age 55.

What Happens If I Die During The DROP Period?

If you die during the DROP period, your beneficiary will receive the balance of your DROP account. However, the determination of whether any other death benefits are payable will be based on the form in which you elected to have your retirement benefit paid to your DROP account. Thus, if you elected to have your benefit credited to your DROP account in the form of a life annuity (with no survivor benefits) and you die during your DROP period, the only benefit payable upon your death would be the amount actually credited to your DROP account before your death. On the other hand, if you elected a joint and 100% survivor annuity, your beneficiary would continue to receive annuity payments following your death.

Can I Change The Way In Which My Benefit Is Paid After I Actually Retire (At The End Of The DROP Period)?

Yes. When you actually retire, you can elect to have your retirement benefit paid in any of the annuity or guaranteed period forms permitted under the Plan – regardless of the method you choose to have your benefit paid during the DROP period. Thus, if you had elected to have your benefit paid in the form of a joint and 100% survivor annuity during the DROP period, after you actually retire you can change your mind and elect to have benefits paid after your actual retirement in the form of a life annuity. However, you could not elect the limited lump sum in lieu of your retirement benefits.

Return To Service Following Retirement

What Happens To My Retirement Benefit If I Return To Work With The City After I Retire?

If you retire and then return to work as a firefighter or police officer after you start receiving your benefits under the Pension Plan, your retirement benefits will stop while you are working as a City firefighter or police officer. The calculation of your retirement benefit will change when you stop working again because you will have additional credited service when your retirement benefit is recalculated. When you retire again you will receive your recalculated benefit, minus any amounts you previously received before coming back to work for the City.

If you return to work for the City in any other capacity (i.e., in a position other than as a firefighter or police officer), your retirement benefit will not stop while you are working for the City. However, if you retire prior to your normal retirement date, you cannot retire and be re-employed immediately in another capacity. Instead, it must be clear that you actually terminated all employment with the City and were later hired in a capacity other than as a firefighter or police officer. Also, note that if you are re-employed in any other capacity you will not earn any additional benefits under the Plan with respect to your service as City employee.

TERMINATION PRIOR TO RETIREMENT

WHAT HAPPENS TO MY BENEFIT IF I CEASE EMPLOYMENT AS A FIREFIGHTER OR POLICE OFFICER BEFORE BECOMING ELIGIBLE FOR EARLY OR NORMAL RETIREMENT?

If you cease to be a City firefighter or police officer before you become eligible for early or normal retirement, you will still be eligible for a retirement benefit (based upon your average monthly compensation and years of credited service at that time) as long as you are vested in all or a portion of your benefit when you terminate employment with the City as a firefighter or police officer. This is called a deferred vested benefit. Note that any benefit to which you may be entitled will be based on the terms of the Plan in effect on the date you terminate employment with the City as a firefighter or police officer (including, for example, the pension multiplier).

The deferred vested benefit is payable to you at age 55.

If you terminate with a deferred vested benefit, you can elect to receive a lump sum cash payment in an amount equal to the sum of the your employee retirement contributions (plus interest) and, if applicable, your minimum retirement benefit. Your election can be made anytime after you are no longer employed by the City in any capacity, or you attain age 55. However, it must be made prior to the date your deferred vested benefit is due to commence.

If you are not vested in your benefit when you cease to be a firefighter or police officer, you will automatically receive a return of your employee contributions plus interest shortly after the date you terminate all employment with the City.

If you are vested in all or part of your retirement benefit, but the present value of your benefit is $5,000 or less (including your employee retirement contributions plus interest), you will automatically receive a lump sum distribution of your benefit shortly after the date you terminate all employment with the City.

PAYMENT OF RETIREMENT BENEFITS

HOW IS MY RETIREMENT BENEFIT PAID?

The normal form of a retirement benefit under the Plan is a single life annuity; that is, a regular monthly income to you *only* for your life.

DO I HAVE ANY OPTIONS REGARDING THE PAYMENT OF MY RETIREMENT BENEFIT?

Yes. You can elect to have your retirement benefit paid in any of the optional forms of payment permitted under the Plan. However, your election must be made before your benefits begin.

The Plan provides for several different forms of payment of your retirement benefit. You may elect one of the optional forms of payment. If your benefit is paid under a form other than the single life annuity, your benefit will be actuarially adjusted (i.e., reduced). The amount of the reduction is based on the value of any benefit that continues after your death and reflects the longer period of time a payment may be required.

Once your benefit begins, you cannot change the manner in which your benefit is paid.

WHAT OPTIONAL FORMS OF PAYMENT DOES THE PLAN PROVIDE?

The Plan allows you to have your Retirement Benefit paid in any of the following forms:

Joint & Survivor Annuity Option

A joint and survivor annuity provides monthly payments to you during your life and, upon your death, either 50%, 66 2/3% or 100% of your payment (as elected by you) will be made to your designated beneficiary for the rest of his or her life. No benefits will be paid to anyone after the death of you and your beneficiary. If your beneficiary dies before you, no further payments will be made to anyone after your death.

You are only allowed to designate your spouse, your natural or legally adopted children, or your stepchildren (by marriage) as your beneficiary under the joint and survivor option.

Once your benefits commence under the joint and survivor annuity option, you cannot change your designated beneficiary. Thus, for example, if you retire and designate your spouse as your beneficiary, and later get divorced and remarry, you cannot change your beneficiary to your new spouse.

If you elect a joint and survivor annuity, your monthly payments will be reduced in order to reflect the fact that payments are expected to continue to your beneficiary after your death.

Guaranteed Payment Option

The guaranteed payment option guarantees that your monthly retirement benefit will be paid for 60, 120, 180, or 240 months (as elected by you). If you die before the number of guaranteed monthly payments (60, 20, 180 or 240) have been made, your designated beneficiary will receive your payments until the total number of guaranteed payments have been made to you and your beneficiary. Inasmuch as this option simply assures that at least 60, 20, 180 or 240 monthly payments (as elected by you) will be made, if you die after the selected number of guaranteed monthly payments have been made to you, no payments will be made to your beneficiary after your death. If your beneficiary dies before you die, you can designate another beneficiary to receive any benefits payable after your death. You may also change the designated beneficiary under the guaranteed payment option at any time (even after benefits commence) by completing another election form and submitting it to the Plan Administrator.

If you elect this form of payment, your monthly payments will be reduced to reflect the value of the guaranteed payment period.

Lump Sum Option

You can elect to receive the value of your DROP account or Retirement Income Plan account in a single lump sum.

If you terminate employment prior to becoming eligible for normal retirement, you can also elect to receive a lump sum cash payment in an amount equal to the sum of the your employee contributions account (and, if applicable, your minimum retirement benefit). If you elect to receive a lump sum payment of your employee contributions and minimum retirement benefit, this payment will be in lieu of all other benefits you are entitled to receive under the Pension Plan. This option does not apply if you have reached your normal retirement date or you are receiving disability benefits. In addition, the lump sum option is not available to participants in the DROP.

If I Elect To Have My Benefit Paid In One Of The Optional Forms, How Much Will My Benefit Be Reduced?

Retirement benefits under the Plan are based on a single life annuity. Thus, if you want your benefit paid in another form, the amount you receive must be adjusted to reflect that benefits may be paid over a longer period. The different forms of benefit are designed so that they are equivalent, from an actuarial standpoint. Although the amount of the adjustment depends on your age and the age of your beneficiary (if you elect a joint and survivor option), we will try to give you some idea of the adjustment you could expect.

Paul retires at age 55 with 25 years of credited service and average monthly compensation of $5,000. Paul is married and his spouse is also 55 years old. The following illustrates the amount Paul could expect to receive under a joint and survivor annuity or guaranteed period options:

Optional Form of Benefit	Amount Payable During Paul’s Lifetime	Amount Payable To Paul’s Beneficiary
Life Annuity	$3,300	$0

Joint and 50% Survivor Annuity	$3,018	$1,509
Joint and 66-2/3% Survivor Annuity	$2,934	$2,200
Joint and 100% Survivor Annuity	$2,779	$2,779
60 month Guaranteed Period Option	$3,285	*$3,285
120 month Guaranteed Period Option	$3,243	*$3,243
180 month Guaranteed Period Option	$3,171	*$3,171
240 month Guaranteed Period Option	$3,071	*$3,071

*Amount only payable if Paul dies before expiration 60, 120, 180 or 240 month guaranteed payment period.

When you are ready to retire, the Pension Administration Division will supply you with an estimate of the benefits you would receive under the various optional forms permitted under the Plan.

Does My Spouse Have To Consent To The Payment Of My Benefit In A Form Other Than A Joint And Survivor Annuity?

No. However, if you are married and you elect a form of benefit other than a joint and survivor annuity (with your spouse as your beneficiary), the Plan Administrator will advise your spouse of your benefit election before it becomes effective.

Designation of Beneficiary

When you complete your application for a retirement benefit, you will be asked to designate a beneficiary if you elect a joint and survivor annuity or the guaranteed payment option.

You *must* designate a beneficiary at the time you complete your retirement application in order to receive your benefit under the joint and survivor annuity option. Your beneficiary under the joint and survivor annuity option must be your spouse, one or more natural or legally adopted children, or your stepchildren (by marriage). Once your benefits commence under the joint and survivor annuity option, you cannot change your beneficiary for any reason.

If you elect the guaranteed payment option, you can change the designated beneficiary at any time (even after benefits commence) by completing another election form and submitting it to the Plan Administrator. If you fail to designate a beneficiary, or your designated beneficiary dies before you die and you do not designate a new beneficiary, then any amount payable following your death will be paid to your spouse, children, parents or your estate (in that order).

Application for Benefits

Your retirement benefit is not paid automatically. You must apply for your retirement benefit. You can obtain the necessary application forms from the Pension Administration Division or call 703.746.3885. Contact the Pension Administration

Division for a retirement appointment six months prior to your planned retirement date. You can also obtain the necessary forms from the Pension Administration Division web site at www.alexandriava.gov/pension.

When you are ready to start receiving your retirement benefit, you should contact the Pension Administration Division. The Pension Administration Division will supply you with an estimate of your retirement benefit and the amount you could expect to receive if you elect to have your retirement benefit paid in one of the optional forms permitted under the Plan.

You may be asked to provide personal data, such as proof of your age and the age of your beneficiary at the time you apply for benefits.

Once you complete your application, a retirement specialist is available to meet with you and review your retirement options.

You may change your election while your application for a retirement benefit is pending, but not once your retirement benefits begin.

When Are Retirement Benefits Paid?

Retirement benefits are payable at the end of the month they cover. For example, a retirement benefit for the month of July is payable on July 31. The initial payment of a retirement benefit is usually received 15-25 days after the normal payment date, due to the time required to set up payment of the benefit with the Plan's bank. Thus, for a retirement effective date of July 1, the first payment would be expected sometime around August 25.

What Benefits Are Payable If I Die?

The benefits payable upon your death depend on whether you die before or after your retirement benefits have commenced and whether or not you are receiving disability benefits.

What Happens If I Die Before My Retirement Benefits Have Commenced?

If you are not disabled and you die before your retirement benefits have commenced, the amount of the benefit payable on your death depends on whether you are married (and have been married for at least one year). If you are not married when you die, or you have been married for less than one year (and you did not die as a result of an accidental injury), then your beneficiary would receive:

- the contributions you made to the plan with respect to your retirement benefits (but not your disability benefits) and the interest credited on these employee contributions;

- the balance of your Retirement Income Plan account (if you still have an account). (You would only have an account under the Retirement Income Plan if you did not make a past service election, or you had previously made voluntary after-tax contributions to the Plan or a rollover from an individual retirement account or another retirement plan prior to January 1, 2004);

- if you were eligible for and made the past service election, your minimum retirement benefit.

A special death benefit applies if (1) you have been married for at least one year at the time of your death (or you have been married for less than one year and you died as a result of an accidental injury), and (2) you were either actively employed as a firefighter or police officer at the time of your death or you had reached your early, normal or disability retirement date but had not yet commenced retirement benefits. If these requirements are met, your spouse will automatically receive any benefits payable upon your death (i.e., you cannot designate another beneficiary). Your spouse can elect to receive:

- the death benefit payable to a participant who is not married; or

- a monthly benefit payable for the rest of your spouse's life equal to the amount your spouse would have received if you had retired the day before your death and elected to have your benefits paid in the form of a joint and 50% survivor annuity.

  - The amount of the monthly benefit payable to your surviving spouse is based on your average monthly compensation and years of credited service when you die.

  - The survivor annuity will commence immediately to your spouse and will not be actuarially reduced for early commencement.

There is one instance in which the special spousal death benefits are not payable, even if you are still actively employed as a firefighter or police officer. If you have made a DROP election, you are treated as if you retired and commenced retirement benefits on your DROP effective date.

Regardless of whether you are married, the balance of your Retirement Income Plan account (if you still have an account) will be paid to your designated beneficiary (which can be anyone you choose – i.e., it does not have to be your spouse).

WHAT DEATH BENEFITS ARE PAYABLE IF I MAKE A DROP ELECTION?

The benefits payable if you die during the DROP period are discussed on page 17.

WHAT HAPPENS IF I DIE AFTER I AM DISABLED?

If you are disabled and you die prior to age 55 and you did not elect the contingent annuitant option, your disability benefits will end and you will be treated as if you had died while you were still employed for purposes of determining whether your beneficiary is entitled to any benefits under the retirement portion of the Plan following your death.

Note that if you elected the contingent annuitant option under the disability provisions of the Plan and you die prior to age 55, disability benefits will continue to your contingent annuitant following your death. The amount payable following your death reflects the full death benefit payable under the Plan.

If you die after attaining age 55 while disabled, and you are still receiving disability benefits (i.e., your retirement benefits did not fully offset your disability benefits), your disability benefits would end, unless you elected the contingent annuitant option. The extent to which any benefits are payable after your death with respect to your retirement benefits would depend on the manner in which you elected to have your retirement benefits paid. See the discussion under WHAT HAPPENS IF I DIE AFTER MY RETIREMENT BENEFITS HAVE COMMENCED?

WHAT HAPPENS IF I DIE AFTER MY RETIREMENT BENEFITS HAVE COMMENCED?

If you die after you begin to receive your retirement benefits, the extent to which any benefits are payable after your death would depend on the manner in which you elected to have your retirement benefits paid. If you elected an optional form of payment that provides benefits after your death (i.e., the joint and survivor or guaranteed payment option) your beneficiary would receive any benefits payable after your death under the optional form of payment you elected when you retired.

ARE RETIREMENT AND SURVIVOR BENEFITS ADJUSTED FOR CHANGES IN THE COST OF LIVING?

Yes. Each May 1, retirement benefits that are paid to you or your beneficiary in the form of a monthly annuity will be adjusted (upward or downward) to reflect changes in the cost of living (but not by more than 3% in any one year).

The cost-of-living adjustment is based upon the Consumer Price Index for All Urban Wage Earners (CPI-U) for the Washington, D.C. Metropolitan area for the most recent 12-month period. However, the manner in which the cost of living adjustment is calculated differs slightly depending upon whether the benefit is being paid to your beneficiary under the joint and survivor option (with a less than 100% survivor annuity).

Cost-of-Living Adjustment applicable to benefits paid to you or to your survivor under the guaranteed period option or joint and 100% survivor annuity

Each year the benefit payable to you or your beneficiary will be adjusted for changes in the CPI-U since your retirement benefits commenced. However, the change for any given year will not exceed 3%.

In addition, in no event will the benefit be increased to an amount that is more than twice the benefit initially payable to you when you retired.

> ***Example:***
>
> Renee, who is a sworn police officer employed by the City, retired on January 15, 2005 with 25 years of credited service. At the time she retired she elected to have her retirement benefit paid in the form of a joint and 100% survivor annuity (with her spouse as her beneficiary). Her initial retirement benefit (after being adjusted for the survivor annuity) was $3,000 per month.
>
> During 2005, the CPI-U rose from 183.0 to 187.6, an increase of 2½%.
>
> On May 1, 2006, Renee's monthly disability benefit would be increased by 2½% – from $3,000 to $3,075.
>
> Each year, Renee's benefit will be adjusted to further reflect changes in the CPI-U. However, in no event would the benefit paid to Renee (or her spouse after her death) exceed $6,000 (twice her initial retirement benefit of $3,000).

Cost-of-Living Adjustment applicable to beneficiary under a joint and 50% or 66-2/3% survivor annuity

The cost-of-living adjustment for benefits payable to you if you elect a joint and 50% or 66-2/3% survivor annuity is the same as the cost-of-living adjustment described above. However, the adjustment applicable to your beneficiary following your death varies slightly in order to properly reflect the effect of the reduced annuity benefit payable to your beneficiary.

After your death the "reduced" benefit payable to your beneficiary is adjusted for changes in the cost of living. However, the annual adjustment (as well as the 3% annual limit and 200% aggregate limit of the COLA) is applied as if this reduced benefit had been in effect since the date you retired. The net effect is that the amount of the adjustment for any given year will not exceed 3% of the reduced survivor annuity and in no event will the survivor annuity be increased to an amount that is more than twice the benefit that would have been paid to your beneficiary if you had died the day after your retirement benefits commenced.

> ***Example:***

Bill retired at age 55 with 30 years of credited service. At the time he retired, he elected to have his benefit paid in the form of a joint and 50% survivor annuity with his spouse as his beneficiary. Bill's initial retirement benefit was $5,200 per month (after adjustment for the 50% survivor annuity). When Bill died several years later, his COLA adjusted monthly retirement benefit was $6,000, so that his surviving spouse was initially entitled to receive a monthly benefit of $3,000.

During the year following Bill's death, the CPI-U rose 2½%.

On May 1 of the next year, the monthly benefit payable to Bill's spouse would be increased from $3,000 to $3,075. Each year, the survivor benefit will be adjusted further for changes in the CPI-U. However, in no event can the survivor benefit from the Plan exceed $5,200 (twice the amount of the benefit his surviving spouse would have received if Bill had died the day after he retired and his spouse had begun receiving a survivor annuity of $2,600 – 50% of Bill's initial retirement benefit of $5,200).

HOW IS MY DISTRIBUTION TAXED?

Because your employee contributions for retirement benefits are made on a pre-tax basis, the entire amount of your monthly retirement benefit will be taxable to you (and your beneficiary) for income tax purposes. Federal income taxes will be withheld from your distribution (unless you elect not to have federal income taxes withheld).

Different tax rules apply if you receive a lump sum distribution of your retirement benefit. You can receive a lump sum distribution for several reasons:

- The value of your retirement benefit is $5,000 or less;
- You elected to withdraw your employee retirement contributions (plus interest) and, if applicable, your minimum retirement benefit); or
- You elected a lump sum distribution of your DROP account.

If you receive a lump sum distribution, you can avoid current taxation of your distribution by rolling it over or directly transferring it to another tax deferred retirement plan.

A lump sum distribution to you (or your spouse following your death) can be rolled over to an IRA, or into another employer's tax-deferred retirement plan that will accept a rollover from the Plan (whether a qualified retirement plan, 403(b) plan or governmental 457(b) plan), within 60 days of receipt. You may also elect to have the distribution directly transferred to the IRA or other retirement plan.

Generally, 20% of the taxable portion of any lump sum distribution under the Plan that is not directly transferred to an IRA or another employer's tax-deferred retirement plan must be withheld as an estimated payment toward the taxes due. Note that you cannot elect to forgo the required 20% withholding on an otherwise eligible distribution. In addition, the required 20% withholding applies even if you plan to roll over your distribution to an IRA or to another employer's tax-deferred retirement plan within 60 days. You can avoid the required 20% withholding by requesting a direct transfer of your distribution to an IRA or to another employer's tax-deferred retirement plan.

If you receive a lump sum distribution before age 55 and you do not transfer or roll over the lump sum distribution that you receive, you may be required to pay an additional 10% Federal tax on the taxable portion of your distribution.

The tax laws that apply to distributions from retirement plans are complex. Before you elect to have your distribution paid to you or decide to transfer it to another employer's tax-deferred retirement plan or to an IRA, you should talk to your tax advisor.

DISABILITY BENEFITS

IF I BECOME DISABLED, AM I ELIGIBLE FOR BENEFITS?

Generally, yes. The Plan provides benefits if, while you are actively employed as a City firefighter or police officer, you incur a service or non-service connected total and permanent disability or a service or non-service connected partial disability prior to age 55. *However, you are not eligible for benefits if:*

- *your injury or illness occurs after age 55, or*
- *your injury or illness results from (or consists of) addiction to narcotics or results from your participation in a felonious act*.

The Plan provides two types of disability benefits: a basic disability benefit that is payable during your period of disability (but not beyond age 55), and a supplemental disability benefit that is payable after your reach age 55.

HOW MUCH OF A DISABILITY BENEFIT WILL I RECEIVE IF I BECOME DISABLED BEFORE AGE 55?

The amount of the disability benefit you will receive depends on the nature of your disability and whether or not it is service connected.

TOTAL AND PERMANENT DISABILITY

HOW MUCH WILL I RECEIVE IF I SUSTAIN A SERVICE CONNECTED TOTAL AND PERMANENT DISABILITY?

If you suffer a service connected total and permanent disability while you are actively employed as a City firefighter or police officer, you are eligible for a disability benefit equal to 70% of your average monthly compensation.

> ***Example:***
>
> Beth, who is a sworn police officer employed by the City, suffers a service connected total and permanent disability on December 31. Beth's highest total monthly compensation during any 48 consecutive month period was $249,960, so that her average monthly compensation is $4,166 per month ($249,960/48= $4,166). Beth is entitled to a monthly disability benefit of $2,916. (70% x $4,166 (average monthly compensation) = $2,916)
>
> Beth will receive $2,916 a month, or $35,000 per year, for as long as she remains totally and permanently disabled (but not beyond age 55).

How Much Will I Receive If I Sustain A Non-Service Connected Total And Permanent Disability?

If you suffer a non-service connected total and permanent disability, you are eligible for a disability benefit equal to 66-2/3% of your average monthly compensation.

> ***Example:***
>
> John, who is a sworn firefighter employed by the City, suffers a non-service connected total and permanent disability on December 31. John's highest total monthly compensation during any 48 consecutive month period was $249,960, so that his average monthly compensation is $4,166 per month ($249,960/48 = $4,166). John is entitled to a monthly disability benefit of $2,777. (66-2/3% x $4,166 (final average earnings) = $2,777)
>
> John will receive $2,777 a month, or $33,324 per year, for as long as he remains totally and permanently disabled (but not beyond age 55).

If I Am Totally And Permanently Disabled, When Will My Benefits End?

If you suffer a service or non-service connected total and permanent disability you will receive disability benefits under the Plan until:

- The Administrator determines, on the basis of a medical examination, that you are no longer permanently and totally disabled;
- you refuse to undergo a medical examination requested by the Administrator;
- your Social Security benefits cease;
- you resume a regular occupation or employment;
- you refuse alternative employment;
- you reach age 55; or
- you die

(whichever happens first.)

If you cease to be totally and permanently disabled, you may still be eligible to receive a benefit for a partial disability.

What Kinds Of Alternative Employment Would I Be Required To Accept?

If you receive a disability benefit under the Plan, you are required to accept employment in any position the City determines you are qualified to perform. However, the location of the new position must be suitable, based on your place of residence. The City assumes the cost of retraining and/or rehabilitation for you so that you can rejoin the workforce.

Prior to being required to accept alternative employment, a detailed job description will be presented to an independent physician, who will review the description and your medical records to determine whether you are medically able to perform the duties of the job.

You will then be provided with a copy of the job description and location, as well as the Physician's report indicating that the alternative employment is suitable for you.

If you believe you have "just cause" for declining the position, you may refuse the offer of alternative employment by filing a written statement with the Administrator within 10 days after the City notifies you of the job location and description. Your written statement must include the reasons why you do not believe the alternative employment offered to you is appropriate.

If the Administrator disagrees with your position, and you are receiving workers' compensation benefits, the decision as to whether the alternative employment is suitable for you will be made by the Virginia Workers' Compensation Commission. If you are not receiving workers' compensation benefits, the City Attorney will act as an impartial arbitrator and render a written final decision as to whether the alternative employment is suitable.

PARTIAL DISABILITY

HOW MUCH WILL I RECEIVE IF I SUSTAIN A SERVICE CONNECTED PARTIAL DISABILITY?

If you suffer a service connected partial disability while you are actively employed as a City firefighter or police officer, you are eligible for a disability benefit equal to 66-2/3% of your average monthly compensation, less the amount of your workers' compensation benefits.

> ***Example:***
>
> Nancy, who is a sworn firefighter employed by the City, suffers a service connected partial disability on December 31. Nancy's highest total monthly compensation during any 48 consecutive month period was $249,960, so that her average monthly compensation is $4,166 per month ($249,960/48 = $4,166). Nancy is entitled to a monthly disability benefit of $2,777, less the amount of her workers' compensation benefits. (66-2/3% x $4,166 (average monthly compensation) = $2,777)
>
> Nancy will receive $2,777 a month, less the amount of her workers' compensation benefits, for as long as she remains partially disabled (but not beyond age 55).

HOW MUCH WILL I RECEIVE IF I SUSTAIN A NON-SERVICE CONNECTED PARTIAL DISABILITY?

If you suffer a non-service connected partial disability while you are actively employed as a City firefighter or police officer, you are eligible for a disability benefit equal to 50% of your average monthly compensation.

Example:

Darryl, who is a sworn police officer employed by the City, suffers a non-service connected partial disability on December 31. Darryl's highest total monthly compensation during any 48 consecutive month period was $249,960, so that his average monthly compensation is $4,166 per month ($249,960/48 = $4,166). Darryl is entitled to a monthly disability benefit of $2,083. (50% x $4,166 (average monthly compensation) = $2,083)

Darryl will receive $2,083 a month, for as long as he remains partially disabled (but not beyond age 55).

IF I AM PARTIALLY DISABLED, WHEN WILL MY BENEFITS END?

If you suffer a service or non-service connected partial disability you will receive disability benefits under the Plan until:

- The Administrator determines, on the basis of a medical examination, that you are no longer partially disabled;
- you refuse to undergo a medical examination requested by the Administrator;
- you refuse alternative employment (see the discussion under "Alternative Employment" on pages 29-30);
- you reach age 55; or
- you die

(whichever happens first).

CAN THE CITY REQUIRE THAT I UNDERGO A MEDICAL EXAMINATION?

Yes. If you apply for disability benefits, the Administrator can require that you undergo a medical examination to determine whether you are disabled.

Also, during the period you are disabled (partial or total), the Administrator can require that you undergo a medical examination to determine whether you are still disabled. However, the Administrator cannot require you to undergo more than two medical examinations a year. (If you are required to see more than one physician in connection with a determination regarding your disability, it is treated as a single "medical examination.")

All medical examinations will be performed by an independent diagnostic clinic or by one or more physicians selected by the Administrator. The City is responsible for the cost of any medical examinations that it requires you to undergo.

If I Am Receiving Benefits, How Much Will I Receive Once I Reach Age 55?

Once you reach age 55, your disability benefit will be adjusted to reflect the fact that you will be receiving retirement benefits under the Plan. If you still have an account under the Retirement Income Plan attributable to City contributions or amounts transferred from the "old" Pension Plan, the adjustment to your disability benefit at age 55 will include the retirement benefits attributable to your account. The determination of the monthly benefit produced by your account is based on the actuarial assumptions used under the Pension Plan when you reach age 55.

Also, your benefits under the Plan will be recomputed so that your combined disability benefits and the retirement benefits under the Plan (and the Retirement Income Plan – if you still have an account under the Retirement Income Plan) will be roughly equivalent (from an actuarial standpoint) to the amount of disability benefits that you would have received under the Plan (based on the nature of your disability) as if:

- you had continued to work for the City (until you reached age 55) as a firefighter or police officer;

- you continued to occupy the same rank and grade you had attained immediately prior to your disability;

- for the 48 month period prior to your 55th birthday, you had compensation equal to the basic pay applicable to such rank and grade (ignoring any step increases); and

- you became disabled and had begun receiving disability benefits under the Plan immediately prior to your 55th birthday.

Although complicated, this provision is designed to “re-calculate” your disability benefit at age 55 based on the average monthly compensation being paid at that time to a firefighter or police officer who holds the same rank or grade you occupied when you became disabled. By recalculating your benefit in this manner, you will receive a combined disability and retirement benefit that is based on the average monthly compensation that you would have received at age 55 if you had not become disabled.

Note that while you are treated as if you continued to work for the City until you reach age 55 for purposes of re-computing your disability benefit at age 55, you will not be credited with any years of service or years of credited service after your disability retirement date for purposes of calculating your retirement benefits. Also, except for the re-computation of the average monthly compensation, your disability benefits will be based on the terms of the Plan that were in effect on your disability retirement date.

Example:

Bill was a firefighter who sustained a service connected total and permanent disability when he was age 45 and had 25 years of credited service. At the time he was disabled, his average monthly compensation was $4,166, so that he received a monthly disability benefit under the Plan of $2,916 (70% of $4,166). Over the next ten years, Bill's disability benefit was increased to reflect changes in the cost of living, and by the time he turned 55 he was receiving a monthly disability benefit of $3,500. Based on his average monthly compensation and years of credited service when he became disabled, Bill was entitled to a monthly retirement benefit at age 55 of $2,750 ($4,166 times 2.5% times 20, plus $4,166 times 3.2% times 5 = $2,750).

When Bill turned 55, a firefighter holding his last rank and grade would have had average monthly compensation of $5,666.

Under these facts, Bill would continue to receive a monthly benefit from the Plan of $1,249 ($14,990 per year) once he reached age 55, and his combined disability and retirement benefit from the Plan would be $3,966 (70% of $5,666) determined as follows:

Step1: Bill's benefit is "recomputed" using $5,666 (the average monthly compensation of a current firefighter holding Bill's last rank and grade) – so that Bill is entitled to a "recomputed" benefit of $3,966 (70% of $5,666).

Step 2: Bill's benefit under the Plan is offset (reduced) by the amount of his monthly retirement income of $2,750 at age 55, leaving Bill with a monthly benefit under the Plan of $1,216 ($3,966 - $2,750 = $1,216).

DO I HAVE ANY OPTIONS REGARDING THE PAYMENT OF MY DISABILITY BENEFITS?

Generally, disability benefits are paid during the period you are disabled, and if disability benefits continue after you reach age 55, for the rest of your life. Once you die, no further disability benefits are payable to anyone. (However, your beneficiary may be entitled to receive benefits after your death with respect to your retirement benefits. See the discussion on page 22 under "WHAT BENEFITS ARE PAYABLE IF I DIE?")

If you would like to have your disability benefits continue after your death, you can elect the contingent annuitant option described below. If you incur a service connected total and permanent or service connected partial disability, you can also request a cash settlement of your disability benefit*.*

If you are eligible for the cash settlement option or would like to elect the contingent annuitant option, you must file your request or make your election before the date on which the Administrator determines you are disabled. Once the Administrator has made *its disability determination, you can no longer request the cash settlement option or elect the contingent annuitant option.*

Cash Settlement Option

If you incur a service connected total and permanent or service connected partial disability, you can request a cash settlement of your disability benefits instead of receiving monthly disability benefits. *This request must be made prior to the date on which the Administrator determines you are disabled.* The cash settlement is based on the estimated disability benefit you would have received during your lifetime, or until age 55, whichever is earlier. This estimate takes into account the retirement offset that occurs at age 55. The cash settlement allows you to receive your estimated disability benefit in a lump sum. Once you receive the cash settlement, you will not be entitled to any further benefits under the Plan.

Please note that election of the cash settlement option is not automatic. The Administrator must approve your request for a cash settlement.

Contingent Annuitant Option

Instead of receiving monthly disability benefits that end when you die (even though you are still disabled at the time of your death), you can elect to have your beneficiary receive a reduced benefit following your death. Your beneficiary may be anyone you designate, including your spouse. However, your beneficiary may not be more than 30 years younger than you.

You can elect to have your beneficiary receive a benefit equal to two-thirds or one-half of the amount of your reduced lifetime benefit. The benefit paid following your death will be paid for the remainder of your beneficiary's life. If you die prior to age 55, the amount of the disability benefits payable to your contingent annuitant following your death will be the only benefit payable under the Plan following your death (i.e., be in lieu of any other benefit payable on account of your death with respect to your benefit under the Pension Plan and (if applicable) your "City funded" Retirement Income Plan account). After your beneficiary's death, no further disability benefits will be payable to anyone. If your beneficiary dies before you begin to receive a disability benefit, your "contingent annuitant" election will be cancelled and you will receive the "regular" disability benefit payable under the Plan.

If you elect this option, your disability benefit will be reduced during your lifetime in order to reflect the fact that payments will continue after your death. The amount of this reduction depends on a number of factors, including the difference between your age and your beneficiary's age and on the percentage of your benefit that is payable to your beneficiary after you die.

The contingent annuitant option must be elected prior to the date on which the Administrator determines you are disabled.

If you elect the contingent annuitant option, and later change your mind, you can only revoke your election by written notice to the Administrator prior to the date on which the Administrator determines you are disabled.

You may not elect the contingent annuitant option if the monthly disability benefit that would be payable to your beneficiary is less than $60.

WILL I RECEIVE SERVICE CREDIT WHILE I AM DISABLED?

You will continue to receive credit for "years of service" and "years of credited service" until the earlier of the date you cease to be classified as a firefighter or police officer who is actively employed by the City or the date on which the Administrator determines you are disabled. At that time, you will be considered to have terminated employment as a City firefighter or police officer and your service credit will end.

WHAT HAPPENS IF I DIE WHILE I AM DISABLED?

If you are receiving disability benefits under the Plan, and you die, your disability benefits will end unless you elected to receive your benefit under the contingent annuitant option explained above or you elected (and the Administrator agreed to) a cash settlement of your disability claim.

If you did not elect the contingent annuitant option, the extent to which your beneficiary is entitled to any amount with respect to your retirement benefits will depend on whether you die before or after age 55.

If you die before reaching age 55, your beneficiary will be entitled to receive your employee retirement contributions (plus interest), and to the extent applicable, your Retirement Income Plan account and minimum retirement benefit.

If you die after reaching age 55, the extent to which any benefits are payable after your death would depend on the manner in which you elected to have your retirement benefits paid. See the discussion on page 22 under "WHAT BENEFITS ARE PAYABLE IF I DIE?"

IS MY BENEFIT ADJUSTED FOR CHANGES IN THE COST OF LIVING?

Yes. Each May 1, your disability benefit will be adjusted (upward or downward) to reflect changes in the cost of living (but not by more than 3% in any one year).

The cost of living adjustment is based upon the Consumer Price Index for All Urban Wage Earners (CPI-U) for the Washington, D.C. Metropolitan area for the most recent 12-month period. However, the manner in which the cost of living adjustment is calculated differs before and after you reach age 55, and whether you elected the contingent annuitant option.

Pre-Age 55 Cost-of-Living Adjustment

Each year your disability benefit will be adjusted for changes in the CPI-U since your disability benefits commenced. However, the change for any given year will not exceed 3%.

In addition, in no event will your benefit be increased to an amount that is more than twice the benefit payable to you when you became disabled.

Example:

Renee, who is a sworn police officer employed by the City, suffers a service connected total and permanent disability on January 15, 2005 (when she is 25 years of age). At the time she is disabled, her average monthly compensation is $2,500 and she is entitled to receive a disability benefit of $1,750 (70% of $2,500).

During 2005, the CPI-U rose from 183.0 to 187.6, an increase of 2½%.

On May 1, 2006, Renee's monthly disability benefit would be increased by 2½% – from $1,750 to $1,794.

Each year, Renee's benefit will be adjusted to further reflect changes in the CPI-U. However, in no event can Renee's benefit exceed $3,500 (twice her initial disability benefit of $1,750).

Post-Retirement Cost-of-Living Adjustment

The cost of living adjustment for benefits payable after age 55 is calculated after the "reduction" for your retirement benefit. The amount of the adjustment for any given year will not exceed 3% and in no event will your benefit be increased to an amount that is more than twice the benefit payable to you when you became disabled, less the amount of your retirement benefit under the Plan.

Example:

Bill was a firefighter who sustained a service connected total and permanent disability when he was age 45 and had 25 years of credited service. At the time he was disabled, his average monthly compensation was $4,166, so that he received an annual disability benefit under the Plan of $2,916. When Bill turned 55 on March 3, 2005, he became entitled to receive a monthly retirement benefit of $2,750 for the rest of his life. Bill's benefit was recalculated when he reached age 55 and it was determined that he was entitled to receive a “combined” monthly disability and retirement benefit of $3,966. Inasmuch as Bill's monthly retirement benefit under the Plan is $2,750, his monthly disability benefit under the Plan at age 55 is reduced to $1,216. (*See* the example on page 33).

During 2005, the CPI-U rose from 183.0 to 187.6, an increase of 2½%.

On May 1, 2006, Bill’s monthly benefit would be increased from $1,216 to $1,246. Note that the adjustment is made based on Bill’s disability benefit at age 55.

Here is how the calculation works:

- The 2½% cost of living adjustment for 2005 is applied to the reduced disability benefit of $1,216 at age 55, so that the cost of living adjustment is 2½% of $1,216 or $30. This adjustment is then added to Bill’s benefit under the Plan ($1,216) and his new monthly benefit is $1,246 ($1,216 + $30 = $1,246).

- Each year, Bill’s benefit will be adjusted further for changes in the CPI-U. However, in no event can his combined post age 55 disability and retirement benefit from the Plan exceed $5,832 (twice his initial benefit of $2,916). Thus, if Bill’s COLA adjusted retirement benefit were $3,500, his disability benefit could not exceed $2,332 ($5,832 - $3,500 = $2,332).

Contingent Annuitant Option

If you elected the contingent annuitant option, the cost-of-living adjustment applicable to your contingent annuitant following your death is calculated in a manner designed to properly reflect the effect of the reduced benefit payable to your contingent annuitant.

Example:

Rebecca became disabled and elected to have her disability benefits paid under the contingent annuitant option with a 50% survivor benefit. Rebecca's initial disability benefit was $4,200 per month (after adjustment for the 50% survivor benefit). When Rebecca died several years later (at age 50), her COLA adjusted monthly retirement benefit was $5,000, so that her contingent annuitant was initially entitled to receive a monthly benefit of $2,500.

During the year following Rebecca's death, the CPI-U rose 2½%.

On May 1 of the next year, the monthly benefit payable to Rebecca's contingent annuitant would be increased from $2,500 to $2,562. Each year, the survivor benefit will be adjusted further for changes in the CPI-U. However, in no event can the survivor benefit from the Plan exceed $4,200 (twice the amount of the $2,100 disability benefit the contingent annuitant would have received if Rebecca had died the day after her disability benefits commenced – 50% of Rebecca's initial retirement benefit of $4,200).

If Rebecca had died after she reached her normal retirement date (age 55), the combined disability and retirement benefits payable following her death could not exceed twice the amount of the $2,100 disability benefit the contingent annuitant would have received if Rebecca had died the day after her disability benefits commenced.

How Are My Benefits Taxed?

The extent to which your benefits are subject to federal income or employment taxes is complicated and depends on the nature of your disability payments.

Service Connected Payments

Benefits paid on account of a service connected total and permanent disability or a service connected partial disability are considered to be in the nature of workers' compensation payments and are excluded from your gross income for federal income tax purposes. In other words, you do not have to pay income taxes on service connected disability payments under the Plan.

In addition, payments on account of a service connected total and permanent disability are not considered "wages" for purposes of FICA or FUTA (Social Security and federal unemployment taxes).

Payments on account of a service connected partial disability *are* considered "wages" for purposes of FICA or FUTA (Social Security and federal unemployment taxes). However, they will cease to be treated as "wages" for FICA and FUTA purposes 6 months after you last worked for the City. In other words, Social Security and federal unemployment taxes will be withheld from your payments until 6 calendar months have expired since the date you last worked for the City.

Non-Service Connected Payments

Benefits paid on account of a non-service connected total and permanent disability are included in your gross income for federal income tax purposes (i.e., the full payment is taxable to you). However, these payments *are not* considered "wages" for purposes of FICA or FUTA (Social Security and federal unemployment taxes).

Benefits paid on account of a non-service connected partial disability *are not* included in your gross income for federal income tax purposes, to the extent that contributions made by employees are sufficient to fully fund these benefits. In other words, you do not have to pay income taxes on non-service connected total disability payments under the Plan as long as the employees' contributions are sufficient to fund these benefits. If the employee contributions are not sufficient to fully fund these benefits, the portion funded by City contributions will be taxable and the portion funded by employee contributions will not be taxable.

Regardless of whether employee contributions are sufficient, benefits paid on account of a non-service connected partial disability *are* considered "wages" for purposes of FICA or FUTA (Social Security and federal unemployment taxes). However, they will cease to be treated as "wages" for FICA and FUTA purposes 6 months after you last worked for the City. In other words, Social Security and federal unemployment taxes will be withheld from your payments until 6 calendar months have expired since the date you last worked for the City.

PLAN CONTRIBUTIONS

HOW ARE BENEFITS FUNDED?

Benefits under the Plan are funded by monies from the following sources:

- Contributions from firefighters and police officers who are covered by the Plan;
- City contributions; and
- Earnings from investments made with the City and employee contributions.

Amounts contributed by employees and the City are held in a trust fund that is used to pay benefits.

DO I HAVE TO MAKE CONTRIBUTIONS TO THE PENSION PLAN?

Yes. You are required to make contributions to the Pension Plan as a condition of your employment as a City firefighter or police officer. In fact, you are required to make two different contributions: one to help fund retirement benefits and one to help fund disability benefits.

The contribution you are required to make to help fund retirement benefits is 7½% of your base salary, as reflected in the paycheck you receive from the City. This contribution is “picked up” by the City, meaning that your contribution will be made on a before tax basis for federal income tax purposes. Since your contributions are made before taxes, they will not be included in your taxable income on your W-2.

You are required to contribute ½% of your compensation to help fund disability benefits under the Plan. Your disability contributions are made on an “after-tax” basis and are used to fund non-service connected partial disability benefits.

Your required retirement and disability contribution will be automatically deducted from your earnings each payroll period.

ARE MY CONTRIBUTIONS CREDITED WITH INTEREST?

Yes. The contributions you make to help fund your retirement benefits are credited with interest at the rate of 4% per annum. Your disability contributions help fund disability benefits and are not credited with interest.

CAN I WITHDRAW MY CONTRIBUTIONS?

If you terminate employment as a City firefighter or police officer prior to your normal retirement date, you can elect to withdraw the contributions you made towards your retirement benefits and the credited interest. If you were eligible for and made the past service election, you can also elect to withdraw your minimum retirement benefit. However, if you withdraw your contributions (and, if applicable, your minimum retirement benefit) you will lose service credit represented by the withdrawn amount and will no longer be entitled to a monthly retirement benefit (or any other Plan benefits).

If you withdraw your contributions (and, if applicable, your minimum retirement benefit) and later return to work as a firefighter or police officer, the service represented by the amount you withdrew will only be restored if you repay your contributions (and, if applicable, your minimum retirement benefit) plus interest at the rate of 7½% per annum within 90 days of the date you resume service as a firefighter or police officer. In other words, you will be treated as a new employee unless you repay the entire distribution you received, plus 7½% interest within 90 days after the date you resume service. After this 90-day period expires, you will not be permitted to repay your prior distribution and have your prior service restored.

Your disability contributions help fund disability benefits and these contributions will never be returned to you.

DO MY CONTRIBUTIONS END WHEN I REACH NORMAL RETIREMENT DATE OR COMPLETE 30 YEARS OF CREDITED SERVICE?

No. Unless you are participating in the DROP, you must continue to make contributions to the Plan while you are working for the City as a firefighter or police officer.

HOW MUCH DOES THE CITY CONTRIBUTE?

The City funds the balance of your retirement and disability benefits. The City's contribution is based on an amount determined by an actuary to be sufficient to pay future benefits under the Plan. However, in no event is the City required to contribute more than 3% of the compensation of Participants to fund disability benefits that are payable before age 55.

CAN I MAKE ADDITIONAL CONTRIBUTIONS TO THE PLAN?

No.

CAN I "ROLLOVER" A DISTRIBUTION FROM ANOTHER RETIREMENT PLAN?

No.

HOW ARE CONTRIBUTIONS TO THE PLAN INVESTED?

Contributions to the Plan are held in a Trust or in one or more annuity contracts issued by an insurance company. The Board oversees the investment of the assets in the

Trust and annuity contracts. These assets are invested consistent with the needs and purposes of the Plan.

Special Provisions Applicable to Retirement Income Accounts

If you were a participant in the Retirement Income Plan prior to February 21, 2004, you may still have an account under the Retirement Income Plan.

You would only have an account under the Retirement Income Plan if you did not make (or were not eligible to make) a past service election, or you had previously made voluntary after-tax contributions to the Plan or a rollover from an individual retirement account or another retirement plan prior to January 1, 2004.

Participants who made the past service election and who did not have a rollover or any voluntary after-tax contributions in their account as of December 31, 2003, no longer have a Retirement Income Plan account. This is because the balance of the account was reduced to zero in connection with the past service election.

If you still have a Retirement Income Plan account, you will not be permitted to make any further contributions to your account (either through additional voluntary after-tax contributions or through a rollover from another eligible retirement plan). However, you will still be able to direct the investment of your account and you will receive a distribution of your account when you terminate employment with the City.

Investing Your Retirement Income Account

Can I Still Direct The Investment Of My Retirement Income Plan Account?

Yes. Even though the Plan has been converted from a defined contribution plan to a defined benefit plan, you still decide how your Retirement Income Plan account will be invested. By carefully choosing investment options, you can create a personal investment program designed to meet your financial objectives.

Who Decides What Investment Choices Are Available?

The Board is responsible for the investment options offered under the Plan with respect to your Retirement Income Plan account. The Board monitors the investment options that are offered under the Plan to make sure they offer you the possibility of securing a reasonable investment return (with a reasonable amount of investment risk). From time to time, the Board may decide to add or change one or more of the investment options.

You are responsible for choosing how your account is invested (based on the available investment options). You may invest in one fund – or a combination of funds. If you select more than one investment fund, your election must be made in multiples of 1%. For example, if you choose three different investment funds, you could invest 33% in the first fund, 33% in the second fund, and 34% in the third fund.

Neither the City, the Board, the Administrator, the trustee nor the insurance company will tell you how to invest your account or review your investment choices.

Because you are responsible for your investment choices, neither the City, the Board, the Administrator, the trustee nor the insurance company can be held accountable if you do a poor job investing your account.

ABOUT THE INVESTMENT OPTIONS

The Plan offers various investment alternatives that have materially different risk and return characteristics. These investment funds are similar to mutual funds, in that your investment is pooled with that of many other people and invested in a specific manner.

Some funds may offer a steady and more predictable investment return in exchange for a potentially smaller return. Other funds may involve a greater risk to your principal in exchange for the opportunity to earn a greater return on your money.

By carefully choosing investment options, you can create a personal investment program designed to meet your financial objectives.

BEFORE YOU INVEST

You should carefully review the information that has been provided to you about the investment options available under the Plan. This information also includes important points about each investment option under the Plan, including:

- the investment objective for each option;
- how the objective is pursued (that is, how funds will be invested to meet the objective);
- risk factors;
- the organization, history, and management philosophy of the investment option; and
- the historical performance of the investment option.

The information you received also describes how and when you may elect or change your investment options.

If you have not received this information or you have any questions concerning the Plan's investment procedures, you should contact the Pension Administration Division.

You can also get information about each of the investment funds from provider of the various investment options.

Please keep in mind that you are responsible for the investment decisions that you make. Neither the City, the Board nor the Administrator, nor anyone else is responsible for or reviews your investment elections.

If you do not direct the investment of your account, your account will be invested in a money market type of account.

WILL I STILL RECEIVE AN ACCOUNT STATEMENT?

Yes. As long as you continue to have a Retirement Income Plan account under the Plan, you will receive a statement of your account balance four times a year (as of the last business day of the preceding calendar quarter). This statement will reflect all adjustments to your account since the date of your previous statement, including investment gains and losses. You should carefully review each statement. If you believe your statement contains an error, you must promptly notify the Administrator (through the Pension Administration Division). If you believe that there is a mistake in your investment elections, you should also immediately contact the Plan recordkeeper (which is currently PRUDENTIAL RETIREMENT) and the Administrator. Prompt notification of any errors will give the Administrator and the recordkeeper an opportunity to examine the matter and take appropriate action. If the Administrator and the recordkeeper are not promptly notified of an error, corrective action may not be possible.

In order to make sure you receive your statements in a timely fashion, you need to notify the Human Resources Department of any change in your address.

DISTRIBUTION OF YOUR ACCOUNT

PAYMENT OF RETIREMENT INCOME PLAN ACCOUNT FOLLOWING TERMINATION OF EMPLOYMENT WITH THE CITY

You are entitled to receive your Retirement Income Plan account under these situations:

- **If you die** – If you die, your beneficiary will be entitled to receive your entire account.

  You can designate anyone you want as your beneficiary. If you do not complete a beneficiary designation, your account will be paid to your surviving spouse (if you are married), your children, or your estate (in that order);

- **When you retire or terminate employment with the City** – You will be entitled to receive a distribution of your entire account when you retire or otherwise terminate employment with the City for any reason (including retirement and disability). If you cease to be employed as a City firefighter or police officer, but remain a City employee, you will not receive a distribution until you are no longer employed by the City in any capacity.

NAMING A BENEFICIARY

You may name anyone you wish to receive your Retirement Income Plan account in the event of your death.

You can change your beneficiary designation at any time by giving written notice to the Administrator. Forms for changing beneficiary names are available from the Pension Administration Division.

The change will be effective as of the day you sign a new beneficiary designation form.

If you do not complete a beneficiary designation (or the beneficiary you designate predeceases you), your account will be paid to your surviving spouse (if you are married), your children, or your estate (in that order).

REQUIRED DISTRIBUTIONS

The Internal Revenue Code contains rules that require distributions in certain circumstances and regulate the period over which periodic distributions can be made from the Plan (or under an annuity contract). These rules will override any contrary provisions of the Plan. For example, if you retire from the City prior to age 70½, you must begin to receive distributions of your account by April 1 following the year in which you turn 70½.

HOW ARE BENEFITS PAID?

The manner in which your benefits are paid depends on the amount in your account.

Accounts of $5,000 or less

If your account balance is $5,000 or less, your benefit will be automatically distributed to you in a single lump sum. You may elect to have your lump sum distribution paid to you by check or have it directly transferred to another tax deferred retirement plan or to an individual retirement account.

Accounts In Excess of $5,000

If your account balance is more than $5,000, you may select the manner in which your benefit will be paid to you from the following options:

* Payment in a single lump sum cash payment;

* Payment by direct transfer to another tax deferred retirement plan or to an individual retirement account;

* Increasing the amount of your monthly retirement benefit under the Pension Plan. The amount of the extra monthly benefit that your account will purchase will be based on the actuarial assumptions used under the Pension Plan when you make your election.

This is only a brief description of the ways that your benefit may be distributed to you. When you become eligible for a distribution from the Plan, the Administrator will provide you with a more detailed description of the distribution alternatives that are available to you.

HOW IS MY DISTRIBUTION TAXED?

You are taxed on your account when it is distributed to you. If your account is distributed in a single lump sum, you (or your spouse following your death) can elect to roll over the distribution to an IRA, or into another employer's tax-deferred retirement plan that will accept a rollover from the Plan (whether a qualified retirement plan, 403(b) plan or governmental 457(b) plan), within 60 days of receipt. However, certain IRS required distributions *are not* eligible for rollover to an IRA or to another employer's tax-deferred retirement plan.

If your distribution is eligible for rollover into an IRA or another employer's tax-deferred retirement plan, you may also elect to have the distribution directly transferred to the IRA or other retirement plan.

If you do not (or cannot) rollover your distribution, the portion of your account attributable to any City contributions will be fully taxable to you. The earnings on your voluntary employee contributions will also be taxable, but the amount attributable to your voluntary employee contributions will not be taxable (since you have already paid taxes on these contributions). If you have made voluntary employee contributions and receive a distribution from your account, the determination of the taxable and non-taxable portions of your distribution will depend on whether your distribution is paid in a lump sum or used to increase your monthly retirement benefit.

If you receive a lump sum distribution before age 55 and you do not transfer or roll over the lump sum distribution that you receive, you may be required to pay an additional 10% Federal tax on the taxable portion of your distribution.

WITHHOLDING

LUMP SUM DISTRIBUTIONS

If you receive a lump sum distribution of your Retirement Income Plan account, 20% of the taxable portion of a distribution must be withheld as an estimated payment toward the taxes due. Note that you cannot elect to forgo the required 20% withholding. In addition, the required 20% withholding applies even if you plan to roll over your distribution to an IRA or to another employer's tax-deferred retirement plan within 60 days. You can avoid the required 20% withholding by requesting a direct transfer of your distribution to an IRA or to another employer's tax-deferred retirement plan.

Shortly before you receive your distribution from the Plan, you will receive more information about this direct transfer option, including the forms you will need to complete if you elect a direct transfer.

INCREASE IN MONTHLY RETIREMENT BENEFITS

If your account is used to increase your monthly retirement benefits, income taxes will also be withheld from your distribution (unless you elect not to have federal income taxes withheld).

The tax laws that apply to distributions from retirement plans are complex. Before you elect to have your distribution paid to you or decide to transfer it to another employer's tax-deferred retirement plan or to an IRA, you should talk to your tax advisor.

PLAN ADMINISTRATION

WHO ADMINISTERS THE PLAN?

The Plan is administered on behalf of the City by the Plan Administrator. The Plan Administrator has the discretionary authority to administer the Plan. This includes the power to interpret the Plan and to resolve questions considering Plan eligibility, benefit calculations and payment determinations. The Board oversees the investment of the contributions made by employees and the City to the Pension Plan and selects the available investment for Retirement Income Plan accounts.

APPLYING FOR PLAN BENEFITS

HOW DO I FILE A CLAIM FOR BENEFITS?

You should contact the Pension Administration Division, which will provide you with the necessary forms to apply for benefits and send your information about the Plan's claim procedures.

WHAT IF MY CLAIM IS DENIED?

If the Administrator denies your claim for benefits you will receive a written notice that explains the reason for denial.

The notice denying benefits will contain:

- the reasons the benefit is denied, with specific references to the Plan provisions on which the denial is based;
- the provisions of the Plan that the denial of your claim is based upon;
- a description of any additional material or information necessary to perfect your claim, and an explanation of why such material is necessary; and
- an explanation of the Plan's claims review procedures, including the time limits applicable to such procedures.

MAY I ASK THE ADMINISTRATOR TO RECONSIDER MY CLAIM IF IT IS DENIED?

Yes, you may ask the Administrator to reconsider your claim if it is denied.

You may file a written request for review of your claim by sending a written application to the Pension Administration Division within 60 days of the date you receive written notice that your claim has been denied.

You will be provided with copies of all pertinent Plan documents and may, within the 60 day review period, submit comments, documents, records and other relevant information in writing to the Administrator.

The Administrator will generally make a final and binding decision on your claim within 60 days after your request for a review. However, if there are special circumstances requiring additional information, the Administrator may delay the time for making a final decision for up to an additional 60 days.

After the Administrator reaches a decision on your claim, it will issue a decision that contains the reasons why your claim has been approved (or denied) – with specific references to the provisions of the Plan.

The Administrator has the discretion to construe and interpret the terms of the Plan and to decide all questions concerning eligibility and benefits and its decisions on such matters are generally binding on all parties.

If you disagree with the Administrator’s decision, you have a legal right to bring a lawsuit challenging the Administrator’s determination. However, because the Administrator has discretion regarding eligibility and benefit determinations, the Administrator's decision will be upheld on judicial review unless it is shown the interpretation or determination was an abuse of discretion or was arbitrary and capricious.

OTHER IMPORTANT INFORMATION

This section includes other important information about the Plan.

CAN THE PLAN BE CHANGED?

Yes, the City reserves the right to amend the Plan at any time. However, before any material changes are made to the Plan (other than those required by law), the City will provide Participants with an explanation of the proposed changes at least 60 days before the change is considered by the City Council, so that Participants have the opportunity to comment on the proposed change. If at least 5 Participants request a meeting to discuss the amendment, representatives from the City will meet with Participants to receive comments and answer questions.

CAN THE PLAN BE TERMINATED?

Yes, the City has the right to terminate the Plan at any time*.*

ASSIGNMENT OF BENEFITS

Ordinarily, your Plan account may not be assigned, sold, transferred, garnished, or pledged as collateral. This means that a creditor may not attach your value in the Plan as a means of collecting a debt owed by you.

However, your account may be attached to satisfy a Federal tax levy or a Domestic Relations Order (DRO) issued by a state court. A DRO requires that your benefits be paid to someone other than you or your named beneficiary in connection with child support, alimony payment, or marital property rights.

Inasmuch as the Plan is not subject to the provisions of the Employee Retirement Income Security Act (commonly know as ERISA), there may be other exceptions under state law to the general rule against assignment of your benefits under the Plan.

UPDATE YOUR ADDRESS

It is important that you keep Prudential informed of any change in your home address after you retire or terminate employment, so that you will receive your distribution of your account and any information about the Plan that is sent to you. If Prudential does not have your current address, your distribution check and other items sent to your old address may be returned and Prudential will not be able to contact you. You may call Prudential at 877.778.2100 to change your address.

PLAN NAME

The official name of this plan is the City of Alexandria Pension Plan for Firefighters and Police Officers.

Plan And Identification Numbers

Information about the Plan is filed with the Internal Revenue Service. You will need the following information for any inquiries to the IRS.

Employer Identification Number 54-6001103
Plan Number 002

Plan Administrator

The Plan Administrator keeps the Plans records, determines questions of eligibility relating to participation and benefits, interprets the Plan, communicates with participants and their beneficiaries, and is otherwise generally responsible for Plan operations. The Plan Administrator is:

Steven Bland
301 King Street – City Hall Room 1600
Alexandria, Virginia 22314
703.746.3886

Agent For Service Of Legal Process

If it becomes necessary for you to take legal action because of a dispute relating to the Plan, legal process should be served on the City Attorney, City of Alexandria, 301 King Street, Alexandria, Virginia 22314

Trustee

The Plan's assets are held in trust under a Trust Agreement between the City and Prudential Retirement and SunTrust Bank.

Plan Year

The plan year is the twelve-month period that begins January 1 and ends December 31.

Who To Contact For More Information

For more information about the Plan, you may contact Steven Bland at 703.746.3886 or by e-mail at steven.bland@alexandriava.gov.

IMPORTANT TERMS USED IN THIS BOOKLET

This booklet uses a number of terms to describe the provisions of the Plan. You need to understand these terms in order to understand your entitlement to benefits under the Plan and how your benefit is calculated.

ADMINISTRATOR OR PLAN ADMINISTRATOR	The "Administrator" is the individual(s) or department designated by the City Manager to administer the Plan on behalf of the City.
AVERAGE MONTHLY COMPENSATION	Most benefits under the Plan are computed using your "average monthly compensation." Your average monthly compensation refers to the average of your monthly compensation from the City over the 48 consecutive calendar months that produce the highest average. Only compensation paid with respect to your service as a firefighter or police officer is taken into account.
BENEFICIARY	When you retire, you can elect to have your benefit paid in a number of different ways. Some of these ways provide for a benefit after your death. The person you designate to receive your death benefit is referred to as your beneficiary.
BENEFIT	The term "benefit" refers to a benefit that is paid under the Plan. A benefit may be paid to you following your (1) retirement – a retirement benefit, (2) disability – a disability benefit, or (3) death – a death benefit.

BOARD

The "Board" is the Retirement Plan Board that was established under the Plan to oversee the management and investment of the assets of the Plan. The Board is appointed by the City Council and consists of 4 representatives nominated by the City Manager, 2 representatives nominated by participants who are firefighters, and 2 representatives who are nominated by participants who are police officers.

CITY

The City of Alexandria, Virginia

COMPENSATION

Your "compensation" consists of your regular or base salary or wages with respect to your employment as a firefighter or police officer (based on your grade and step). "Compensation" excludes any and all overtime, differentials, benefits, premiums, bonuses, FLSA adjustments or form of extra compensation. The term "compensation," as used in this booklet, does not include payments for unused vacation. However, the term compensation does include amounts you elect to defer under the City's 457 Plan and pre-tax contributions under the cafeteria plan (including pre-tax contributions that are used to pay required employee contributions under the City's health plans).

Compensation paid to you in any capacity other than as a sworn firefighter or police officer will not be taken into account in calculating your benefits under the Pension Plan.

DISABILITY OR DISABLED

The Plan provides disability benefits in the case of a service connected total and permanent disability, a non-service connected total and permanent disability, a service connected partial disability, and a non-service connected partial disability. References to a disability include all of these types of disabilities. The disability must occur while you are actively employed as a City firefighter or police officer.

DISABILITY INCOME PLAN

The City of Alexandria Firefighters and Police Officers Disability income Plan that was in effect prior to February 21, 2004

DISABILITY RETIREMENT DATE

The date the Administrator determines you are no longer able to perform your job due to a disability.

Disability benefits will not commence until the first day of the month that occurs on or following your disability retirement date.

DROP OR DEFERRED RETIREMENT OPTION PROGRAM

The deferred retirement option program is available to participants who have completed at least 30 years of credited service.

EARLY RETIREMENT DATE

The date on which you attain age 50 and complete 5 years of credited service (while still working for the City as a firefighter or police officer) or the date on which you complete 25 years of credited service.

EMPLOYEE

Any person who is classified by the City as an "employee." However, in order to be covered under the Pension Plan, you must be a sworn City firefighter or police officer.

MINIMUM RETIREMENT BENEFIT

If you made the past service election, the value of your "City funded" Retirement Income Plan account on December 31, 2003 (without any further investment adjustments) is treated as a minimum benefit for certain purposes of the Plan. This amount is not part of your Retirement Income Plan account; nor does it mean that you still have a Retirement Income Plan account under the Plan.

NON-SERVICE CONNECTED PARTIAL DISABILITY

A "non-service connected partial disability" is a disability that prevents you from performing your assigned duties as a City firefighter or police officer and which is not reasonably correctable. You will be considered to have sustained a "non-service connected partial disability" *only if you meet <u>all</u> of the following criteria:*

- you suffer an illness or injury while you are actively employed as a City firefighter or police officer which, in the opinion of the Administrator (based on a medical examination) prevents you from performing your assigned duties as a firefighter or police officer;

- you have been a participant in the Plan for at least 5 years at the time your disability commenced;

- the Administrator has certified that you have a non-service-connected partial disability; *and*

- the Administrator determines that your disability is not reasonably correctable or subject to rehabilitation (at the City's expense).

NON-SERVICE CONNECTED TOTAL AND PERMANENT DISABILITY

A "non-service connected total and permanent disability" is a total and permanent disability that does not result from your service as a City firefighter or police officer. You will be considered to have sustained a "non-service connected total and permanent disability" *only if you meet <u>all</u> of the following criteria:*

- you suffer an illness or injury while you are actively employed as a City firefighter or police officer which, in the opinion of the Administrator (based on a medical examination) prevents you from not only performing your assigned duties as a firefighter or police officer, but any job for which you are otherwise qualified (or for which you could become qualified by rehabilitation or retraining);

- you have been so disabled for a period of 6 consecutive months; *and*

- you are receiving Social Security disability benefits.

NORMAL RETIREMENT DATE

Your "normal retirement date" depends on when you started working for the City as a firefighter or police officer.

If you were employed by the City as a sworn firefighter or police officer prior to January 1, 2004, your normal retirement date is the first day of the month following your 55th birthday.

If you became a sworn firefighter or police officer on or after January 1, 2004, your normal retirement date is the first day of the month following the date on which you turn age 55 and complete 5 years of credited service.

You can retire anytime after your normal retirement date, but benefits will not commence until the first day of the month that occurs on or following your date of retirement.

PARTICIPANT

The term "participant" refers to a sworn City firefighter or police officer who is covered by the Plan and who is making the contribution required for Plan participation. In some cases, the term is also used to refer to a former firefighter or police officer who is no longer accruing any benefits under the Plan, but who is receiving or entitled to receive a benefit under the Plan.

PAST SERVICE ELECTION

Participants who were actively employed on February 21, 2004 as a sworn City firefighter or police officer and who had commenced participation in the Retirement Income Plan prior to July 1, 2003 were provided a one-time opportunity to exchange their "City funded" Retirement Income Plan account for "pre-2004 credited service" under the Pension Plan. The period for making the past service election expired on January 16, 2004.

RETIREMENT INCOME PLAN

The City of Alexandria Retirement Income Plan for Firefighters and Police Officers that was in effect prior to February 21, 2004.

RETIREMENT INCOME PLAN ACCOUNT

If you were covered by the Retirement Income Plan on February 21, 2004, you may still have an individual account under the defined contribution portion of the Plan.

If you were eligible for and made the past service election, you will only have a Retirement Income Plan account to the extent that your account balance on February 21, 2004 included a prior rollover and/or voluntary after-tax employee contributions. Your minimum retirement benefit is not part of your account.

If you did not make the past service election, your Retirement Income Plan account reflects the amount credited to your account as of February 21, 2004 and subsequent investment adjustments.

SERVICE CONNECTED PARTIAL DISABILITY

The term “Service Connected Partial Disability” refers to a disability resulting from your service as a firefighter or police officer that prevents you from performing your duties as a firefighter or police officer and which is not reasonably correctable. You will be considered to have sustained a “service connected partial disability” *only if you meet <u>all</u> of the following criteria:*

- you suffer an illness or injury while you are actively employed as a City firefighter or police officer which, in the opinion of the Administrator (based on a medical examination) prevents you from performing your job as a firefighter or police officer;
- your disability has resulted in the award of a workers’ compensation benefit by the Virginia Workers’ Compensation Commission;
- The Administrator has certified that you have a service-connected partial disability; *and*
- The Administrator determines that your disability is not reasonably correctable or subject to rehabilitation (at the City’s expense).

SERVICE CONNECTED TOTAL AND PERMANENT DISABILITY

A “service connected total and permanent disability” is a total and permanent disability resulting from your service as a firefighter or police officer. You will be considered to have sustained a “service connected total and permanent disability” *only if you meet* *<u>all</u>* *of the following criteria*:

- you suffer an illness or injury while you are actively employed as a City firefighter or police officer which, in the opinion of the Administrator (based on a medical examination) prevents you from not only performing your job as a firefighter or police officer, but any job for which you are otherwise qualified (or for which you could become qualified by rehabilitation or retraining);
- you have been so disabled for a period of 6 consecutive months;
- the Virginia Workers’ Compensation Commission has determined that you are totally and permanently disabled and has awarded you a workers’ compensation benefit; *and*
- you are receiving Social Security disability benefits.

SPOUSE

The person to whom you are married on the relevant date. (For purposes of the Pension Plan, the concept of marriage refers to a formal legal ceremony and does not include a common law marriage.)

YEAR OF SERVICE

The term "year of service" refers to the period used to determine whether you are "vested" in your accrued benefit under the Pension Plan. Your "years of service" are expressed in whole years – since only whole years are relevant for vesting purposes.

"Years of service" include all of your years as a City firefighter or police officer.

The determination of your "years of service" is explained in greater detail on page 4.

YEAR OF CREDITED SERVICE

The term "year of credited service" refers to the period used (1) to determine whether you are eligible for early or normal retirement (including whether you have the requisite 25 years of credited service needed for an unreduced early retirement benefit), and (2) to calculate your benefit under the Pension Plan. Your "years of credited service" are expressed in years and months (e.g., 5 years and 3 months).

"Years of credited service" only include service as a firefighter or police officer after January 1, 2004 (unless you made a past service election and exchanged your City-funded Retirement Income Plan account for pre–2004 credited service).

The determination of your "years of credited service" is explained in greater detail on page 4.