

**DALLAS POLICE AND FIRE PENSION SYSTEM  
And  
DALLAS POLICE & FIRE SUPPLEMENTAL  
PENSION PLAN**

**DEFERRED RETIREMENT OPTION PLAN  
POLICY**

**As Amended Through April 13, 2006**

**DALLAS POLICE AND FIRE PENSION SYSTEM**  
**and**  
**DALLAS POLICE & FIRE SUPPLEMENTAL PENSION PLAN**  
  
**DEFERRED RETIREMENT OPTION PLAN**  
**POLICY**

**Adopted December 10, 1992**  
**Amended through April 13, 2006**

**A. PURPOSE**

1. This policy provides rules governing the Deferred Retirement Option Plan ("DROP") of the Combined Pension Plan of the Dallas Police and Fire Pension System ("System") and of the Supplemental Pension Plan where applicable. It is intended to provide flexibility to DROP participants and their beneficiaries in commencing, continuing, stopping or recommencing the deferral of some or all of their retirement pensions into their DROP account, and in making total or partial withdrawals from their DROP accounts to the extent consistent with the qualification of the Plan under Section 401 of the Code and efficient administration.
2. Any reference in this policy to a provision of the Combined Pension Plan shall also be considered a reference to the comparable provision of the Supplemental Pension Plan if the applicant is a member of the Supplemental Pension Plan.
3. The Administrator will develop written procedures to implement this policy.

**B. DEFINITIONS**

1. **Active DROP** The program whereby a Member while still in Active Service may elect to have an amount equal to the pension the Member could otherwise be eligible to receive credited to a Deferred Retirement Option Plan account on the Member's behalf. A Member, as of his or her intended date of participation in Active DROP, must be eligible to retire and receive an immediate pension.
2. **Retiree DROP** The program whereby a Member on leaving Active Service and making application for a service retirement or a Pensioner at any time before the required beginning date for required minimum distributions under Section 401(a)(9) of the Internal Revenue Code, whether or not the Member or Pensioner participated in DROP while in Active Service, may defer receipt of the pension benefit payments into the Deferred Retirement Option Plan. In order to be eligible to enter DROP, a person who is not an active Member as of his or her intended date to join Retiree DROP must either be



**B. DEFINITIONS (continued)**

currently retired under one of the provisions of Section 6.01 or 6.02 or be eligible to, and actually irrevocably elect to, retire under one of those provisions no later than the intended date of DROP participation.

**C. ACTIVE DROP**

1. The application of any Member applying for Active DROP participation will be placed on the agenda for a Board meeting for consideration and approval.
2. If the Board ratifies the DROP application, the Application will become effective as of the date requested in the DROP Application, but not earlier than the first day of the next month following the date on which the Member filed the Application.
3. At the time of entry into Active DROP, the Member must irrevocably select the plan benefit he or she will receive at the time his or her pension benefit will later commence with the Member's pension benefit calculated as of the effective date of entering DROP. While on Active Service these amounts will be credited to the DROP participant's account. Notwithstanding the foregoing, a Member who is participating in Active DROP may elect on leaving Active Service to receive an actuarially reduced benefit under the 100% joint and survivor benefit option.
4. In the event a Group B Member, who was previously a Member in the System's Old Pension Plan or Plan A, elects to receive a Group A pension at the time of DROP entry, the amount equal to the difference between the Group B contributions paid by the Member and Group A contributions that would have been payable for that same period of time will be credited to his or her DROP account. There will be no distribution of such amounts to the Member upon his or her election to participate in Active DROP.
5. Once a Member has elected to participate in Active DROP, that election and the person's status as a result of that election are irrevocable. However, a DROP participant who is not on Active Service may later choose to stop having funds deferred into his or her DROP account or to change the amount deferred to DROP.

**C. ACTIVE DROP (continued)**

6. The Member's eligibility for the benefit supplement described in Section 6.13 of the Combined Pension Plan will be determined based on the Member's years of Pension Service as of the effective date of the Member's participation in Active DROP.
7. A Group B Member who is promoted to a rank that is higher than the highest Civil Service Rank for the City of Dallas after the effective date of his or her participation in DROP will not participate in the Supplemental Pension Plan.
8. As of the effective date of his or her participation in DROP, the Member will no longer be entitled to obtain additional Pension Service by repaying previously withdrawn contributions or paying for any Pension Service that could have been purchased prior to DROP entry under Section 4.04, 5.01, 5.07, or 5.09 of the Combined Plan. However, a Member who is entitled, under Section 5.08 of the Combined Pension Plan, to purchase credit for Pension Service for any period he or she was on a military leave of absence may still purchase that service credit after entering Active DROP so long as the required contributions are made no later than the time provided by the Uniformed Services Employment and Reemployment Rights Act ("USERRA").
9. Distributions may not be made from a Member's Active DROP account while the Member is on Active Service.
10. Notwithstanding paragraph C.9, a Member may direct the System to transfer all or a portion of the Member's Active DROP account to the City of Dallas 401(k) Retirement Savings Plan (the "401(k) Plan"). Such a transfer may be made only if the Member is an active participant in the 401(k) Plan and no transfer may be made if the Member had an earlier transfer made at any time within the prior twelve (12) months.

**D. RETIREE DROP**

1. On leaving Active Service and applying for a service retirement, a Member may elect to defer all or part of his or her monthly pension benefit into Retiree DROP.

**D. RETIREE DROP (continued)**

2. A Pensioner, whether or not the Pensioner was a DROP participant while on Active Service, may elect to defer all or part of his or her monthly pension benefit into Retiree DROP at any time before the Pensioner's required beginning date for required minimum distributions under Section 401(a)(9) of the Internal Revenue Code. A Pensioner receiving a disability pension under Section 6.04 or 6.05 is not eligible to defer his or her pension into Retiree DROP.
3. During any period a Pensioner elects to defer all of the Pensioner's monthly benefit amount into Retiree DROP, the Pensioner may elect to have amounts deducted from the deferral pursuant to Section 8.03(d).
4. A Pensioner who participates in Retiree DROP will commence, or recommence, to receive a monthly pension upon revoking the election to defer all or part of his or her pension to DROP or on reaching the required beginning date for required minimum distributions under Section 401(a)(9) of the Internal Revenue Code.
5. The election by a Member or a Pensioner to defer all or part of his or her pension benefits into Retiree DROP does not require Board approval.
6. By federal law, payments from the Excess Benefit Plan created under Section 8.02 of the Combined Pension Plan may not be placed in a DROP account.
7. Making or revoking an election to defer a pension into Retiree DROP can have adverse tax consequences, especially if the DROP participant terminated active service before the year he or she attained the age of fifty-five (55). Therefore, the election should not be made until the DROP participant or DROP applicant has discussed the matter with a financial planner or tax advisor who is knowledgeable about the tax treatment of distributions from tax qualified plans.

**E. DISTRIBUTIONS AND TRANSFERS FROM DROP**

1. The Board of Trustees may at any time extend the time necessary to process DROP distributions.
2. No DROP benefit will be paid or otherwise distributed to a DROP participant before that DROP participant has left Active Service.

**E. DISTRIBUTIONS AND TRANSFERS FROM DROP (continued)**

3. To the extent permissible under federal tax laws, on leaving Active Service and at anytime thereafter, a DROP participant may elect to receive payment from his or her DROP account in any of the following forms:
  - (a) an annuity payable on a monthly basis over the life of the DROP participant;
  - (b) a joint and survivor annuity payable on a monthly basis over the life of a DROP participant and the DROP participant's designated beneficiary;
  - (c) a lump-sum distribution of some or all of the balance of the DROP benefits credited to the DROP participant, which generally may be timely rolled over;
  - (d) substantially equal payments made for a specific period of time;
  - (e) regular installment amounts added to the monthly benefit payment; or
  - (f) payments at least annually sufficient to meet required minimum distribution requirements of Section 401 (a) (9) of the Internal Revenue Code commencing not later than the required beginning date for such payments as provided in the Code.
  
4. Whether receiving monthly benefit payments or deferring into a Retiree DROP account, a DROP participant may elect to take lump sum distributions in accordance with the provisions below.
  - (a) Lump sum distributions may be made as soon as administratively feasible after receipt of a DROP participant's written, notarized request on an original form provided by the administrative office.
  - (b) Lump sum distributions are subject to the following limits:
    - (i) The minimum lump sum distribution is \$1,000 per distribution.
    - (ii) The maximum distribution is limited to the Member's account balance.

**E. DISTRIBUTIONS AND TRANSFERS FROM DROP (continued)**

5. A DROP participant may file a completed Distribution Form with the System's administrative Office, and may select, change or modify the election on the Distribution Form at any time before distributions would otherwise commence by executing and delivering a new signed Distribution Form to the System's administrative office. Any filing of a Distribution Form whether an original filing, a revocation of an earlier filing, or an amendment to an earlier filing, will take effect as soon as administratively feasible after it has been received and accepted.
6. A DROP participant, other than a DROP participant who is receiving a life annuity or a joint and survivor annuity, will be allowed to revoke or amend his or her Distribution Form at any time after distributions have commenced, and before the DROP participant attains the age of seventy and one-half (70 1/2), by filing a new Distribution Form with the System's administrative office. After the age of seventy and one-half (70 1/2), a DROP participant may only accelerate and not delay the time of payment of DROP benefits.
7. DROP benefits distributed as monthly installments will be paid on the regularly scheduled month end payroll added to the DROP participant's regular monthly benefit payment effective as soon as is reasonably possible after receipt of a validly completed Distribution Form.
8. The System's Board and staff cannot provide legal or financial advice regarding the desirability of any particular distribution or transfer.
9. A DROP participant's account is subject to the community property laws of the state of Texas, and is therefore subject to division by a court pursuant to a Qualified Domestic Relations Order. The System will accept Qualified Domestic Relations Orders that require a division of a DROP participant's DROP account.

**F. DISTRIBUTIONS IN THE FORM OF ANNUITY PAYMENTS**

1. A DROP participant who has elected to receive DROP distribution in the form of a single life annuity or a joint and survivor annuity cannot change his or her election once payments commence.

**F. DISTRIBUTIONS IN THE FORM OF ANNUITY PAYMENTS (continued)**

2. Where a single life annuity or a joint and survivor annuity is elected, the System's actuary will determine the monthly benefit to be paid to the DROP participant, as well as to the Member's designated beneficiary if applicable, which will be the actuarial equivalent of the DROP account determined in accordance with federal tax laws.
3. The payment of DROP benefits in the form of a single life annuity will cease upon the death of the DROP participant. There is no right of survivorship to this benefit; therefore, there is no beneficiary designation.
4. The payment of DROP benefits in the form of a joint and survivor annuity will cease upon the death of the last to die of the DROP participant and the designated beneficiary.
5. A DROP participant cannot change or add a designated beneficiary once the DROP participant begins to receive benefits under either a single life annuity or a joint and survivor annuity.

**G. DEATH BENEFITS AND DESIGNATION OF BENEFICIARIES**

1. A DROP participant will have the opportunity to designate a primary beneficiary (or primary beneficiaries) and a contingent beneficiary (or contingent beneficiaries) of his or her DROP benefits either when filing the Application for DROP participation, or thereafter, on a Beneficiary Form provided by the System for this purpose.
2. Beneficiaries of a Member's DROP account are not limited to the qualified survivors as defined in the Combined Pension Plan. Upon request the System will divide a deceased DROP participant's account among the designated beneficiaries at the time of the DROP participant's death in order that the minimum required distributions may be determined separately over the life expectancy of each participant.
3. The System will pay a deceased participant's DROP account to any properly designated beneficiary. A beneficiary that is not an individual may not be a designated beneficiary for purposes of satisfying the minimum distribution requirements of the regulations under Section 401(a)(9) of the Code. Nevertheless, the beneficiaries of a trust may be treated as the DROP

**G. DEATH BENEFITS AND DESIGNATION OF BENEFICIARIES**  
**(continued)**

account's beneficiaries and the System may make DROP account payments to the trust if all the trust's beneficiaries can be identified and the DROP participant and trustee provide the System with the information required by the regulations. The System cannot provide advice as to whether the beneficiaries will be helped or harmed by naming a trust to receive DROP distributions. Therefore, it is very important that competent estate planning counsel be consulted before action is taken.

4. Upon the death of a DROP participant, the DROP participant's account becomes the property of the surviving spouse, unless he or she has specifically waived his or her right to such funds, or other beneficiary or beneficiaries, and will be transferred to the name of the surviving spouse or beneficiary or beneficiaries. Benefits will be paid to the designated beneficiaries in accordance with the last Distribution Election Form on file in the administrative office upon that office's receipt of sufficient evidence of the DROP participant's death.
5. Funds held in a beneficiary's DROP account will be credited with earnings, in accordance with the provisions of the Combined Pension Plan as in effect from time to time, until completely distributed.
6. Distributions will be made to satisfy the required minimum distribution regulations under Section 401(a)(9) of the Internal Revenue Code.

APPROVED on November 10, 2005 by the Board of Trustees of the Dallas Police and Fire Pension System.

**E F G H**

Gerald Brown  
Chairman

Attested:

**A B C D**

Richard L. Tettamant  
Secretary

