



D A L L A S
POLICE & FIRE
PENSION SYSTEM



DEFERRED RETIREMENT OPTION PLAN POLICY

As Amended Through January 14, 2016

DALLAS POLICE AND FIRE PENSION SYSTEM
and
DALLAS POLICE & FIRE SUPPLEMENTAL PENSION PLAN

DEFERRED RETIREMENT OPTION PLAN
POLICY

Adopted December 10, 1992
Amended through January 14, 2016

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 (“DPFP”) and of the Supplemental Pension Plan where applicable. It is intended to provide flexibility to DROP participants and their beneficiaries in commencing, continuing, stopping, revoking 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 Internal Revenue Code (“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 Executive Director will develop written procedures to implement this policy.
4. This policy may be amended at any time by the Board of Trustees (“Board”), consistent with the terms of the Plan.

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 DROP notational 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. An election to enter Active DROP is irrevocable except for the one-time revocation window for certain Members that is described in paragraph C.10.



B. DEFINITIONS (continued)

2. **Retiree DROP** - The program whereby a Member upon 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 Code, whether or not the Member or Pensioner participated in DROP while in Active Service, may defer receipt of the pension benefit payments into DROP. 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 currently retired under one of the provisions of Section 6.01 or 6.02 of the Combined Pension Plan 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, including the application of any Member who has revoked a prior period of DROP participation pursuant to paragraph C.10, 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 upon 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 DPFP'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.

C. ACTIVE DROP (continued)

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 except as expressly provided at Section 6.14(j) of the Combined Pension Plan and as further described in paragraph C.10.
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 Pension 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. Effective for the first pay period that ends on or after December 31, 2014, all Active DROP participants shall have Member contributions at a rate of 4% withheld from their Computation Pay or Base Pay, as applicable.
10. DROP Revocation
 - (a) A Member who was an Active DROP participant on or before April 1, 2015, has a one-time opportunity to revoke his or her DROP election. The revocation must be made before the earlier of June 30, 2015, or the date the Member terminates Active Service, and is made by filing, with the Executive Director, a completed DROP Election Revocation form designed by DPFP.

C. ACTIVE DROP (continued)

- (b) Upon such termination the Member's DROP account is eliminated in its entirety. Also, the Member will not have Pension Service for the period of DROP participation except to the extent that the Member pays in accordance with paragraph C.11, the contributions that would have been paid for the relevant period had the Member not been a participant in DROP.
 - (c) No Member shall be entitled to revoke his or her DROP participation if any money has been transferred out of such Member's DROP account. After a member revokes his or her DROP election, such member shall have Member contributions required of non-DROP Members withheld from their pay starting with the next pay period after the revocation.
- 11. Pension Service will be credited for all or part of the period of revoked DROP participation if the Member who revoked the DROP participation makes the Member contributions, without interest, that would have been made if the Member had not been a DROP participant. Contributions will be accepted by DPFP at any time before the earlier of (i) the Member leaves Active Service or (ii) enters DROP. The contributions will be applied to purchase Pension Service for the most recent period of DROP participation for which Member contributions have not been received. Payment may be by personal check if the check is for the lesser of \$500 or the total amount of contributions required to provide all the Pension Service the Member is entitled to obtain for the period of DROP participation. Direct rollovers from other tax qualified plans, government Section 457 deferred compensation plans or Section 403(b) annuity arrangements will be accepted. To the extent permitted by the City, Member contributions may be withheld from the Member's pay and forwarded to DPFP.
 - 12. The Executive Director is authorized to issue a procedure regarding the manner in which contributions will be accepted and Pension Service credited.
 - 13. Distributions may not be made from a Member's Active DROP account while the Member is on Active Service.
 - 14. Notwithstanding paragraph C.13, a Member may direct DPFP 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.
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 through December of the later of the year the Pensioner attains age 70 ½ or left Active Service. A Pensioner receiving a disability pension under Section 6.04 or 6.05 of the Combined Pension Plan 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 9.03(d) of the Combined Pension Plan.
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 as of January 1 of the later of the year the Pensioner attains age 70 ½ or leaves Active Service.
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 9.02 of the Combined Pension Plan may not be credited to a Member's DROP account.

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 distribution 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 any time thereafter, a DROP participant may elect to receive payment from his or her DROP account in any of the following forms:
 - (a) a lump-sum distribution of some or all of the amount of the DROP account credited to the DROP participant, which generally may be timely rolled over;
 - (b) substantially equal payments made for a specific period of time; or
 - (c) regular installment amounts added to the monthly benefit payment.
4. Commencing in the latest of the year beginning January 1, 2015, the year a DROP participant leaves Active Service or the year the DROP participant attains age 70 ½, and notwithstanding paragraph E.3 above, the DROP participant shall receive annual distributions from his or her DROP account that are no less than the greater of:
 - (a) the required minimum distribution (“RMD”) under Section 401 (a) (9) of the Code; or,
 - (b) an amount that will result in the total distribution of the DROP account before the tenth anniversary of the date such distribution commenced. Specifically in the year such distribution commenced, the DROP participant shall receive no less than one-tenth of the participant’s DROP account balance as of the beginning of that calendar year. The participant shall take one-ninth of the balance as of the beginning of the second year, one-eighth of the balance as of the beginning of the third year, one-seventh of the balance as of the beginning of the fourth year, etc., until the tenth year, when the Participant shall take a distribution of the remaining amount in the Participant’s DROP account before the tenth anniversary date of the first distribution in the initial year.
5. Each January, DPFP will advise DROP participants who will be required to receive a required annual distribution that year of the required distribution amount based on paragraph 4(b) above. In December of each year, DPFP will reconcile Participant DROP accounts to identify those DROP participants who have not met the required annual distribution amount and will then issue to each DROP participant, as necessary, payment of the remaining amount necessary to meet the requirement. Such payments will be made as close to the end of the year as administratively feasible.

E. DISTRIBUTIONS AND TRANSFERS FROM DROP (continued)

6. A DROP account shall continue to accrue interest until the account is fully paid out.
7. 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 DPFP's 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.
8. A DROP participant may file a completed Distribution Form available at or by request from the administrative office or online at the DPFP website (www.dpfp.org) with DPFP'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 DPFP'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.
9. A DROP participant 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 DPFP'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 distributions.
10. DROP distributions paid 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.

E. DISTRIBUTIONS AND TRANSFERS FROM DROP (continued)

11. DPFP's Board and staff cannot provide legal or financial advice regarding the desirability of any particular distribution or transfer.
12. 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. DPFP will accept Qualified Domestic Relations Orders that require a division of a DROP participant's account.
13. A DROP participant will be eligible to rollover distributions tax-free from their account to another retirement account twice in any calendar year.

F. 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 account either when filing the application for DROP participation, or thereafter, on a Beneficiary Form provided by DPFP 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, DPFP will divide a deceased DROP participant's account among the designated beneficiaries at the time of the DROP participant's death.
3. DPFP 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 beneficiaries of the DROP account and DPFP may make DROP account payments to the trust if all the trust's beneficiaries can be identified and the DROP participant and trustee provide DPFP with the information required by the regulations under Section 401(a)(9) of the Code. DPFP 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.

F. DEATH BENEFITS AND DESIGNATION OF BENEFICIARIES (continued)

4. Upon the death of a DROP participant, the DROP participant's account becomes the property of the surviving spouse unless either (i) the surviving spouse has specifically waived his or her right to such funds or (ii) the surviving spouse's marriage to the DROP participant occurred after January 14, 2016 and the participant had already joined DROP and named a beneficiary other than the surviving spouse, and will be transferred to the name of the surviving spouse or such other named beneficiary or beneficiaries. Benefits will be paid to the designated beneficiaries in accordance with the last Distribution Form on file in the DPFP 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 interest earnings, in accordance with the provisions of the Combined Pension Plan as in effect from time to time, until completely distributed.
 - (a) Commencing in the latest of the year beginning January 1, 2015, the year after the year of death of the DROP participant or the year the beneficiary attains age 70 ½, and notwithstanding paragraph E.3 above, a beneficiary who is the surviving spouse of a DROP participant shall receive annual distributions from his or her DROP account that are no less than the greater of:
 - i. the required minimum benefit (RMD) under Section 401 (a) (9) of the Code; or,
 - ii. an amount that will result in the total distribution of the DROP account before the tenth anniversary of the date such distribution commenced. Specifically in the year such distribution commenced, the DROP spouse beneficiary shall receive no less than one-tenth of the Participant's DROP account balance as of the beginning of that calendar year. The spouse beneficiary shall take one-ninth of the beginning year balance the second year, one-eighth of the beginning year balance the third year, one-seventh of the beginning year balance the fourth year, etc., until the tenth year, when the spouse beneficiary shall take a distribution of the remaining amount in the spouse beneficiary's DROP account before the tenth anniversary date of the initial year's payment.

F. DEATH BENEFITS AND DESIGNATION OF BENEFICIARIES (continued)

- (b) A beneficiary who is a surviving spouse of a DROP participant who had already commenced the start of the accelerated distribution in accordance with paragraph E.4(b) above would continue to receive distributions over the remainder of the accelerated schedule established for the DROP participant.
 - (c) DPFP will pay a deceased participant's DROP account, where such participant died after May 14, 2015 to a non-spouse beneficiary in a full distribution of the DROP account within six months after the deceased DROP participant's death.
 - (d) A non-spouse beneficiary of a DROP participant deceased as of May 14, 2015 shall take distribution of the DROP account in accordance with the provisions of paragraphs F.5(a) i and ii above commencing in the year beginning January 1, 2015.
 - (e) DPFP will pay to an Alternate Payee the portion of a DROP participant's DROP account awarded to the Alternate Payee after May 15, 2015, in a full distribution of the DROP account within six months after the transfer of funds to the Alternate Payee's DROP account.
 - (f) An Alternate Payee owner of a DROP account as of May 14, 2015 shall take distribution of the DROP account in accordance with the provisions of paragraphs F.5(a) i and ii above commencing in the year beginning January 1, 2015.
6. Distributions will be made to satisfy the RMD regulations under Section 401(a)(9) of the Code.

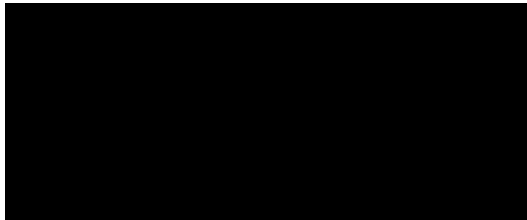
G. EFFECTIVE DATE

APPROVED on January 14, 2016 by the Board of Trustees of the Dallas Police and Fire Pension System.



Samuel L. Friar
Chairman

Attested:



Kelly Gottschalk
Secretary