

DROP POLICY ADDENDUM

Effective January 12, 2017

1. Background

- a. The Board of Trustees (“Board”) is responsible for administering the Dallas Police and Fire Pension System (“DPFP”) in accordance with the terms of the Combined Pension Plan Document, as amended and restated through September 8, 2016 (“Plan”). The Plan expressly gives the Board full discretion and authority to construe and interpret the Plan’s terms and to do all acts necessary to carry out the Plan’s purpose.
- b. The Plan provides for a Deferred Retirement Option Plan (“DROP”), under which an amount equal to the monthly retirement pension that an eligible member would have received if the member had left active service is credited to a DROP account maintained within DPFP. In addition to credits made while the member is in active service, retired members who are DROP participants have been allowed to defer monthly retirement pension benefits into their DROP accounts, and many have done so.
- c. The Plan requires the Board to adopt uniform policies from time to time for the deferral of amounts into and the disbursement of amounts from DROP, which policies shall provide DROP participants with the ability to make withdrawals from DROP “to the extent consistent with the qualification of the Plan under Section 401 of the [Internal Revenue] Code and efficient administration.”

- d. At its December 8, 2016 meeting, the Board was presented with cash flow scenarios prepared by DFPF staff that indicated there was a strong possibility that DFPF would not be able to satisfy in the near term all monthly annuity payments, anticipated DROP withdrawal requests, and ongoing cash needs, including a prudent level of cash reserves for operating expenses, indebtedness, and investment-related capital commitments and expenditures (the “Cash Requirements”), through existing or contemplated liquid assets. For purposes of this Addendum, liquid assets are those which can be converted into cash in 30 days or less, with no material loss in value.

- e. After considering the information presented at the December 8, 2016 meeting, the Board (i) determined that the total amount of existing DROP withdrawal requests exceeded the available liquid assets necessary to ensure efficient administration and thus suspended all DROP withdrawals other than those necessary to ensure satisfaction of required minimum distributions (“required minimum distributions”) under Section 401(a)(9) of the Internal Revenue Code of 1986 as amended (“the Code”), (ii) directed that the existing DROP Policy should be revised consistent with Texas and federal law and the terms of the Plan to ensure DFPF’s efficient administration, including DFPF’s ability to satisfy in the near term all Cash Requirements, and (iii) adopted Board Principles for Changes to DROP Policy to guide DFPF’s staff in preparing proposed changes to the existing DROP Policy (the “Principles”).

- f. At its December 29, 2016 meeting, the Board revised the suspension of distributions from DROP to allow for the payment of regular monthly installment DROP withdrawal requests that were on file with DFPF as of November 30, 2016, including requests to lower the amount of existing monthly installments on file as of December 15, 2016, through the date of the expiration of the temporary restraining order in effect as to DROP withdrawals.

- g. The Board again, as of the date of this Addendum, has been presented with cash flow scenarios prepared by DPFP staff that continue to indicate there is a strong possibility that DPFP will not be able to satisfy in the near term all Cash Requirements through existing and contemplated liquid assets.
- h. The Board recognizes its duty to consider the interests of all DPFP's members and beneficiaries, including both retired members with DROP accounts and active members without eligibility for or access to DROP accounts, as well as its fundamental duty to adhere to the terms of the Plan and applicable law.
- i. The Board has carefully considered the Plan's terms and applicable law and has endeavored to apply these principles fairly and impartially.
- j. The Board has determined that, under the present circumstances, prohibiting all future distributions from DROP is not consistent with DPFP's obligations under the Plan, including efficient administration. The Board has further determined that, under the present circumstances, distributions from DROP must nonetheless be regulated to ensure DPFP's efficient administration and that reasonable regulations on DROP distributions are consistent with the Plan's terms and the Board's duties to Plan members.
- k. This Addendum sets forth changes to the DROP Policy that the Board has determined are necessary to ensure efficient administration of DPFP and provide a fair and equitable manner (1) by which retirees shall be given an opportunity to withdraw amounts from DROP and (2) to allocate among retirees amounts available for distribution.

- l. In implementing this Addendum, the Board intends to preserve liquidity sufficient for DFPF to pay monthly retirement pension benefits as long as possible, recognizing that its actuary has projected that the Plan will become insolvent without changes to its existing funding and benefit structure.

- m. The Board does not intend for this Addendum to require the disposition of illiquid assets that the Board otherwise deems imprudent.

- n. The Board intends to repeal this Addendum at the earliest date upon which the Board determines that the Addendum is not necessary to ensure DFPF's efficient administration.

2. Reserve Amount

- a. For purposes of this Addendum, the "Reserve Amount" will mean the amount the Board determines is necessary to satisfy the following obligations that are essential to DFPF's efficient administration:
 - i. No less than 12 months of monthly annuity benefit payments, less monthly contributions for the same period;
 - ii. No less than 12 months of anticipated operating expenses;
 - iii. No less than 12 months of minimum annual distributions pursuant to Section 7 of this Addendum;
 - iv. All anticipated required minimum distributions for the coming year;
 - v. All outstanding indebtedness; and

- vi. All outstanding capital commitments for existing private market investments as well as no less than 12 months of other anticipated investment-related expenditures.
- b. The Reserve Amount is not a fixed sum and will vary as the needs associated with the obligations comprising the Reserve Amount change over time, including the amounts necessary to ensure that DPFPP can satisfy the Cash Requirements in an efficient and prudent manner.
- c. At each regular monthly Board meeting, beginning in March 2017, the Executive Director will provide a proposed Reserve Amount to be considered by the Board. After considering the Executive Director's proposal, the Board will certify an amount to serve as the Reserve Amount in determining whether DROP distributions are available and the amount available for allocation among eligible distributees for a given month, as described more fully in Sections 3-5.

3. Availability of DROP Withdrawals

- a. Except for required minimum distributions and unforeseeable emergency withdrawals as provided in Section 6, no DROP withdrawals will be available before March 31, 2017.
- b. Beginning March 31, 2017, except as otherwise provided in Section 6 (unforeseeable emergency withdrawals) and Section 7 (minimum annual distributions), withdrawals from DROP accounts will be permitted only as described under Sections 4 and 5 and only if for a given month (i) the total liquid assets held by DPFPP exceed (ii) the Reserve Amount as of the date that the Board certifies the Reserve

Amount and the amount of minimum annual distributions as described in Section 7 anticipated to be paid for such month (the “Excess Liquidity Amount”). The Board will certify the Excess Liquidity Amount, if any, at its regular monthly meeting, beginning March 2017.

- c. Notwithstanding the above, if the Excess Liquidity Amount decreases by more than 5% between the date that the Board certifies the Excess Liquidity Amount and five days prior to the payment date for DROP lump sum distributions under Section 5 related to such certification, the Executive Director may suspend the DROP lump sum distributions under Section 5 for such month.
- d. Nothing in this Addendum shall be construed to prevent DPFPP from making payments in the ordinary course of operation, including those required under the Plan or pursuant to contractual obligations.

4. DROP Withdrawal Requests

- a. As of the effective date of this Addendum, all DROP withdrawal requests on file with DPFPP, including requests for both lump sum payments and monthly installments, shall be null and void.
- b. As soon as administratively practicable following the date that this Addendum can be implemented without violating any existing court order, DPFPP will notify through mail (or electronic communication if with appropriate consent) all retirees, alternate payees, and survivors (the “distributees”) with existing DROP account balances of the terms and conditions of the Addendum (the “Notice”). The Notice will inform the distributees about the nullification of prior withdrawal requests and their option to elect to participate in future DROP

distributions as provided under Section 4, 5, and 7 of this Addendum. The Notice will include the withdrawal election form, required tax information relating to rollover and lump sum distributions, and any other information or documentation that the staff deems appropriate to provide distributees in connection with this Addendum.

- c. The election to participate in the DROP withdrawal entitles a distributee to receive a withdrawal from his or her DROP account in an amount equal to his or her pro-rata portion of the DROP distribution as described in Section 5 below. A distributee may not request a lump sum, partial, monthly installment, or other form of distribution through a DROP withdrawal election under this Section.

- d. The DROP withdrawal election form for the initial payment of DROP distributions under Section 5 must be received by DPFP by February 28, 2017. Any distributees who do not timely submit a DROP withdrawal election form by February 28, 2017, will be notified a second time of this Addendum by March 31, 2017. This second notification will only be for notification purposes for future DROP distributions, not for inclusion in the distribution contemplated to be made on or around March 31, 2017. Beginning March 1, 2017, for all subsequent monthly DROP distributions, DROP withdrawal election forms must be received by DPFP on or before the last day of the calendar month before the calendar month in which the DROP distribution is first requested.

- e. All DROP withdrawal elections made under this Section will remain in place for all subsequent DROP distributions under this Addendum until revoked by the distributee in writing.

5. Amount of DROP Distributions

- a. After the Board certifies the Excess Liquidity Amount, the pro-rata monthly amount available for distribution to each distributee with a timely submitted DROP withdrawal request on file with DFPF will be determined by multiplying the certified Excess Liquidity Amount for such month by a fraction, the numerator of which is the amount of such distributee's DROP account, and the denominator of which is the total aggregate amount of all distributees' DROP accounts that will participate in the distribution. The DROP account balances to be used in the above calculation will be determined as of the last day of the calendar month prior to the calendar month in which a DROP distribution under this Section (if any) is scheduled to occur.
- b. A distributee may elect to receive any DROP distribution made under this Section through ACH transfer, a rollover to another eligible retirement vehicle in accordance with the rollover procedures of DFPF, or a combination thereof. No distributions under this Section will be made by check, except with the approval of the Executive Director.
- c. In the event the distribution amount calculated under Section 5.a. would cause the DROP balance of a distributee to be \$200.00 or less, the entire DROP balance of the distributee will be distributed via ACH transfer.
- d. Distributions made under this Section will be made on the last business day of the applicable month or as soon as administratively practicable thereafter.

6. Distributions on Account of Unforeseeable Emergency

- a. A distributee may request a distribution from his or her DROP account on account of an unforeseeable emergency at any time. To qualify for an unforeseeable emergency distribution from his or her DROP account, a distributee must demonstrate that:
 - i. a severe financial hardship exists at the time of the request (i.e., not one that may occur sometime in the future);
 - ii. the hardship cannot be relieved through any other financial means (i.e., compensation from insurance or other sources, monthly annuity benefits, or liquidation of personal assets) unless using those other sources would also cause a severe financial hardship; and
 - iii. the amount requested is reasonably related to and no greater than necessary to relieve the financial emergency.

- b. Only the following circumstances will be recognized as a severe financial hardship that is eligible for an unforeseeable emergency distribution:
 - i. the need to repair damage to a distributee's primary residence not covered by insurance as the result of a natural disaster (i.e., flood, hurricane, earthquake, etc.);
 - ii. the need to make significant changes to a distributee's principal residence not covered by insurance because of medical necessity;
 - iii. the imminent foreclosure or eviction from a distributee's primary residence;
 - iv. the need to pay for medical expenses of the distributee, a distributee's spouse or a dependent child or relative as described under Code section 152(c) and (d), including non-

- refundable deductibles, as well as for the cost of prescription drug medication;
- v. expenses related to an automobile accident involving a distributee not covered by insurance; or
 - vi. the need to pay for the funeral expenses of a spouse or a dependent child or relative as described under Code section 152(c) and (d).
- c. To request an unforeseeable emergency distribution, a distributee must complete a withdrawal application developed by DFPF staff for such purpose and provide adequate documentation evidencing the severe financial hardship. In addition, a distributee must provide a notarized statement (i) describing how the circumstances arose and how much DROP distribution is needed, and (ii) attesting that the distributee does not have sufficient assets available or any other financial means to otherwise satisfy the financial hardship. The Executive Director may request additional evidence for proof that alternate financial means do not exist, including, without limitation, bank statements, investment account information, and pay stubs from a spouse or relative's employer.
- d. After DFPF receives the required withdrawal application, notarized statement, and all other required documentation, the Executive Director will review the materials and inform the distributee within ten (10) days whether any additional information or documentation is required or requested. Once all required and/or requested documentation has been submitted, the Executive Director within thirty (30) days will either (i) approve a request for an unforeseeable emergency distribution, or (ii) refer the request to the Board for consideration at its next regular meeting and notify distributee of such action. Determinations of the Board on applications for distributions on account of unforeseeable emergency will be final and binding.

- e. Once an unforeseeable emergency distribution has been approved by either the Executive Director or the Board, payment of the distribution will be made to the distributee as soon as administratively practicable. Payment of a distribution under this Section is permitted even if no distributions are available under Section 4 and 5 of this Addendum. A distributee may not request an additional unforeseeable emergency distribution for ninety (90) days after payment of an unforeseeable emergency distribution.

7. Minimum Annual Distributions

- a. In addition to the withdrawal election under Section 4, a distributee may elect to receive a minimum annual distribution from his or her DROP account. For years subsequent to 2017, the election for a minimum annual distribution must be made by November 30th of the prior year, and failure to submit an election by the November 30th deadline would disqualify a distributee from receiving any minimum annual distribution for the subsequent year. For 2017, failure to submit an election by February 28, 2017 will disqualify a distributee from electing the semi-annual installment option described in Section 7.c., but distributees will be eligible to receive the equal monthly installments as described in Section 7.c., commencing the calendar month following the calendar month in which the distributee makes an election. The election for any year is irrevocable after the election deadline, and an election made as to one year will remain in place for future years unless affirmatively changed by the distributee prior to the election deadline for such future year. Any new retiree will make such an election upon retirement and will receive their first minimum annual distribution in the same month they receive their first monthly benefit payment. Beneficiaries or alternate payees of a DROP account will retain the election of the member from whom they received the

DROP account for the year in which the DROP account is received and will be able to make an election for any subsequent year.

- b. For 2017, the minimum annual distribution will equal \$30,000, and for subsequent calendar years, the minimum annual distribution will equal \$36,000.

- c. A distributee may elect to receive the minimum annual distribution in either equal monthly installments of \$3,000 or in semi-annual installments. For 2017, the first installment will be \$12,000, and the second installment will be \$18,000. After 2017, each semi-annual installment will be \$18,000. A distributee may not elect to take an amount less than the minimum annual distribution. The monthly installments will be paid on the last business day of the applicable month or as soon as administratively practicable thereafter. The semi-annual installments will be made on the last business day of the month of June and December or as soon as administratively practicable thereafter. The semi-annual installments may be distributed through an ACH transfer or through a rollover distribution to another eligible retirement vehicle; the monthly installments are not eligible for rollover and will be paid through ACH transfer. Payment of a distribution under this Section is permitted even if no distributions are available under Section 4 and 5 of this Addendum.

8. Miscellaneous

- a. Deferrals of monthly benefits into DROP will no longer be permitted for distributees.

- b. In authorizing the sale of any illiquid assets, the Board and staff will work with professional investment consultants to dispose of such assets in a prudent and efficient manner, seeking to achieve sales in as short a time as possible to satisfy DROP distribution requests, while maximizing, to the greatest extent possible, proceeds on such sales.
- c. Notwithstanding any limitation in this Addendum, any required minimum distributions required to be made shall be made to any member as promptly as possible after adoption of this Addendum as such payments relate to 2017 and as near to the beginning of the year as possible for any subsequent year. However, all other required distributions set forth in the DROP Policy are suspended by this Addendum.
- d. Distributions made under this Addendum will not be subject to the limit on the number of rollovers set forth in Section E.13 of the DROP Policy.
- e. Exceptions to this Addendum will be permitted in the discretion of the Executive Director to permit distributees who retired prior to age 50 and who have been receiving substantially equal payments since their retirement to avoid any recapture tax under Section 72(t) of the Code.
- f. If at any time the Board determines that the City of Dallas has made contributions or has provided (in the Board's sole judgment) sufficient assurance that it will make timely contributions which will make the Plan solvent, distributions under Section 5 of this Addendum will be suspended for sixty (60) days. Staff will be directed to contact all distributees with outstanding DROP withdrawal elections, advise them of the changed circumstances, and provide an opportunity for such

distributees to revoke their elections. After such 60-day suspension period, distributions under Section 5 shall resume under this Addendum for all outstanding DROP withdrawal elections.

- g. Distribution amounts under this Addendum that reflect the last distribution from a distributee's DROP account may be appropriately adjusted to reflect the final crediting of interest.

- h. The provisions of this Addendum supersede the provisions of the DROP Policy to the extent of any conflict.

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