

# **DEFERRED RETIREMENT OPTION PROGRAM RULES AND PROCEDURES**

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## **PURPOSE**

These rules and procedures provide a coordinated and documented process by which applicants may enter the Deferred Retirement Option Program (“DROP”) of the Fort Worth Employees’ Retirement Fund (the “Fund”). The Fund’s Board of Trustees (the “Board”) may change these rules and procedures, and any other rules, policies, procedures, or forms adopted pursuant to the DROP provisions of the Retirement Rules of Administration (the “Rules”) at any time, both retroactively and prospectively, with or without notice to participants in the Fund (“Members”) or participants in DROP (“DROP Members”). The Board, and the Fund’s administrative staff (the “Staff”), to the extent the Board has delegated responsibilities to the Staff, have absolute discretion in interpreting the Rules, these rules and procedures, and any other rules, policies, procedures, and forms regarding DROP. Finally, although these rules and procedures, and the various other rules and forms, supplement the DROP provisions of the Rules, the provisions of the Rules always govern, especially if there are any discrepancies.

## **PROCEDURES**

1. A Member who wants information regarding DROP may request from the Staff general information regarding DROP, including a non-binding estimate of the monthly amount that would be credited to a Member’s DROP Account.
2. The Appointment
  - a. A Member who wants to elect DROP must schedule an appointment (the “Appointment”) to meet with the Staff. Attendance at the Appointment is required.
  - b. The Appointment must be scheduled on or prior to the date the Member submits the Member’s Election Form (as defined in Subparagraph e) to the Staff. The Appointment must be scheduled during the normal business hours of the Staff, currently 8:30 a.m. to 5:30 p.m., Monday through Friday. The Appointment preferably should be scheduled no later than 30 calendar days, and must be scheduled no later than the 10<sup>th</sup> of the month, prior to the date the Board is to consider the Election Form.
  - c. If time permits prior to the Appointment, the Staff will mail the Member information regarding DROP.
  - d. A Member must bring the following to the Appointment:
    - (1) a copy of the Member’s government-issued ID, social security card, birth certificate; and
    - (2) if the Member is married, a copy of the marriage certificate or declaration of informal marriage.

- e. During the Appointment, the Staff will:
- (1) inform the Member of the contents of these rules and procedures, the DROP provisions of the Rules, and the application for participation in DROP (the "Election Form");
  - (2) respond to questions the Member may have concerning the contents of these rules and procedures, the DROP provisions of the Rules, and the Election Form; and
  - (3) receive the Election Form if the Member elects to participate in DROP and is eligible to complete the Election Form.
    - (i) To be eligible to complete the Election Form, the Member must be eligible to retire under the Rules within 60 days, i.e., the Member must already have reached the Member's Special Retirement Date or Normal Retirement Date (as both dates are defined by the Rules), or must anticipate reaching one of such dates within 60 days of completion of the Election Form.
    - (ii) The Election Form must be signed and initialed by the Member and, where appropriate, the Member's spouse (the signature of the Member's spouse must be notarized).
    - (iii) The Member must verify in the Election Form that he or she:
      - (A) understands the terms and conditions of DROP, as expressed in the Rules, in these rules and procedures, and in the Election Form;
      - (B) has not relied on any oral representations of the Staff in electing to participate in DROP; and
      - (C) has had the opportunity to consult a legal and tax advisor regarding the effects of DROP.
    - (iv) The Member need not submit an Election Form at the Appointment, but may submit it at a later time, after further consideration.
3. Once the Member has submitted an Election Form to the Staff, the Staff will review the Election Form to determine whether it has been completed properly and fully.
  4. Upon full and proper completion of the Election Form, as determined by the Staff, the Election Form will be placed for approval on the agenda of the next regular meeting of the Board.
  5. If the Board approves the Election Form, the Election Form and the Member's participation in DROP will be effective on the first day of the first month after the date of

approval by the Board, or, if later, the first day of the first month after the Member reaches the Member's Normal Retirement Date or Special Retirement Date.

6. The date an Election Form becomes effective, at which time a Member becomes a DROP Member, is called the "DROP Effective Date."
7. If the Board approves the Election Form, within a reasonable time after that approval, the Staff will notify the new DROP Member of the Board's approval of the Election Form and of the amount of DROP benefits to be credited monthly to a notional account for the Member's DROP benefits ("DROP Account").
8. If the Board rejects the Election Form, within a reasonable time after that rejection, the Staff will notify the Member of the rejection and will include in that notice the reasons for the rejection.
9. Beginning with the month of the DROP Effective Date and continuing each month thereafter until (and including) the month in which the DROP Member leaves active service, a DROP Account will accrue an amount equal to the monthly retirement pension the DROP Member would have received if the Member had left active service and been granted a retirement pension by the Board effective as of the DROP Effective Date, except that in calculating the monthly retirement amount a Member's accumulated sick leave and major medical leave will not be added to the Member's Credited Service and the accruals will not include any cost of living adjustments which the Member would have been eligible to receive if the Member had in fact retired. Notwithstanding the preceding sentence, in no event will a Member receive credits to the Member's DROP Account for more than five years.
10. A Member's DROP Account will not be credited with earnings or interest and no withdrawals will be permitted from a Member's DROP Account prior to actual retirement (or death).
11. Each year, the Staff will provide DROP Members with a statement of the balance in their DROP Accounts as of the end of the preceding calendar year.
12. A DROP Member who has terminated or will terminate employment with the City must schedule an appointment (the "Exit Consultation") to meet with the Staff prior to the receipt of any retirement pension or DROP benefit. The Exit Consultation should be scheduled not more than 60 days before termination.
13. If time permits prior to the Exit Consultation, the Staff will mail the DROP Member all forms necessary for receipt of a retirement pension and DROP benefits (including information regarding lump sum and installment distributions of the DROP Account).
14. During the Exit Consultation, the DROP Member must be prepared to execute forms regarding federal income tax withholding and direct deposit of retirement pension and DROP benefits.
15. After the Exit Consultation and the proper completion of the applicable forms and procedures, the Staff will place the DROP Member's application for a retirement pension

on the Board's agenda in accordance with the same procedures applicable to non-DROP Members who are applying for retirement pensions.

16. If the Board approves the DROP Member's application for a retirement pension, within a reasonable time after that approval, the Staff will notify the DROP Member of the Board's approval, and will make arrangements for payment of the pension.
17. If the Board rejects the DROP Member's application for a retirement pension, within a reasonable time after that rejection, the Staff will notify the DROP Member of the rejection and will include in that notice the reasons for the rejection.
18. The election to participate in DROP becomes irrevocable on and after the date it is approved by the Board. Prior to Board approval, the election can be revoked only in writing signed by the Member.
19. A DROP Member must continue to make contributions to the Fund while employed by the City. Similarly, the City's contributions to the Fund shall also continue while the DROP Member is employed by the City.
20. A DROP Member is not eligible to elect an Alternative Pension Benefit (actuarially equivalent pension) upon retirement. A DROP Member must receive a Normal Retirement Pension or Special Retirement Pension (if eligible) subject to appropriate adjustments due to the Member's participation in DROP.
21. There is no minimum DROP period; it is on a month-by-month basis. The maximum number of months a Member may participate in DROP is 60-months.
22. When a DROP Member terminates employment with the City and retires, the Member's retirement pension will be calculated as if the retirement pension had become effective on the DROP Effective Date, except that the retirement pension will not include any cost of living adjustment unless the Member completed at least two years of service with the City after his or her DROP Election became effective. Accordingly, as of the DROP Effective Date:
  - a. A DROP Member will cease to earn additional Credited Service as of the Member's DROP Effective Date.
    - (1) A DROP Member's Credited Service will be calculated as of the DROP Effective Date, regardless of any additional service after the DROP Effective Date.
    - (2) Notwithstanding Subparagraph (1) above, any sick leave and/or major medical leave which a DROP Member has accumulated but has not used at the time of retirement will be added to the Member's Credited Service as provided in the Rules.
  - b. A DROP Member's Compensation Base will be frozen as of the Member's DROP Effective Date.

- (1) A DROP Member's Compensation Base will be calculated as of the DROP Effective Date, regardless of any increases in earnings after the DROP Effective Date, and regardless of any cost of living adjustments which the Member would have been eligible to receive if the Member had in fact retired.
  - (2) However, when the DROP Member in fact retires and begins receiving the Member's monthly retirement pension, the Member will be eligible for any future cost of living adjustments to that pension provided that the Member's pension had commenced by September 30 of the prior year.
  - (3) And, if the Member had completed at least 24 months in the DROP, prior to actual retirement, the Member shall receive a cost of living adjustment on the following January 1, regardless of whether the Member's pension had commenced by September 30.
23. No DROP benefit will be paid (or otherwise distributed) to a DROP Member until on or after the effective date of the Board's grant of a retirement pension to the DROP Member. All distributions of DROP benefits must be approved by the Board.
24. To the extent permissible under federal tax laws, payment of the DROP Account may be made in a single-sum distribution at the time the Member begins receiving the Member's retirement pension under the Rules.
25. In lieu of a single-sum distribution of a Member's DROP Account, a Member may elect to have the DROP Account paid in accordance with provisions of the Internal Revenue Code. Appropriate taxes will also be withheld from any installment and distributions.
26. A DROP Member is not eligible to receive disability retirement benefits under the Retirement Rules. If a DROP Member does become disabled, the Member may retire from the City and receive the amount that has been credited to the Member's DROP Account in a single-sum distribution or in accordance with provisions of the Internal Revenue Code. Such a Member may commence a Normal Retirement Pension or Special Retirement Pension, as applicable, with the amount determined as of the effective time of the DROP Election.
27. If a DROP Member dies leaving any balance in the Member's DROP Account, the balance in the DROP Account will be distributed to the DROP Member's spouse, or, if there is no spouse, to the DROP Member's designated beneficiary or estate in a single lump sum. The remaining portion of the Member's pension benefit will be paid pursuant to the death benefit provisions of the Retirement Rules, with the amount determined as if the Member had died at the time the DROP Election became effective.
28. The DROP Account is subject to qualified domestic relations orders or "QDROs" in accordance with the QDRO procedures of the Fund.