

**AUSTIN POLICE RETIREMENT SYSTEM
DEFERRED RETIREMENT OPTION PLAN**

FORWARD DROP POLICY AND PROCEDURE

A. PURPOSE

The purpose of this policy and procedure is to provide a coordinated and fully documented process for applicants to enter the Deferred Retirement Option Plan ("FORWARD DROP") of the Austin Police Retirement System ("System"). In addition, this policy and procedure is intended to provide those associated with the process (Members of the System, the System's Board of Trustees ["Board"], and the System's administrative staff) with a detailed outline of the steps, time frames, and rules regarding FORWARD DROP and the processing of applications for participation in FORWARD DROP.

B. GENERAL RULES

1. **Eligibility.** In order to be eligible to elect FORWARD DROP, a Member (regardless of age) must have completed at least 23 years of creditable service in the System, excluding pre-membership military service credit and permissive service credit, as of the date of his or her election to participate in the FORWARD DROP.
2. **Election Is Irrevocable.** A Member's election to participate in FORWARD DROP is irrevocable. If a Member who participates in FORWARD DROP terminates his or her employment with the City of Austin as a police officer (or as an employee of the System), does not retire or withdraw his or her accumulated contributions from the System, and is subsequently re-employed in a position covered by the System, the Member rejoins the System as a participant in FORWARD DROP.
3. **FORWARD DROP Participation Date.** As used in this policy and procedure, a Member's FORWARD DROP Participation Date is a date selected by the Member, which date must be (a) the last day of a month after the Member files an application to participate in FORWARD DROP and (b) a date after the Member became eligible to participate in FORWARD DROP (see paragraph B.1, above, "Eligibility"). The Member's FORWARD DROP Participation Date may not be changed.
4. **Maximum Length of Participation.** The maximum period of time during which a Member may participate in FORWARD DROP is sixty (60) months, beginning on the FORWARD DROP Participation Date (as defined above). During the period that a Member participates in FORWARD DROP,

contributions shall be made to the Member's FORWARD DROP account as set forth below. If a Member electing to participate in FORWARD DROP decides to continue employment covered by the Act governing the System after he or she has participated in FORWARD DROP for sixty (60) months, no further contributions shall be deposited to the Member's FORWARD DROP account after the expiration of that sixty month period. In that event, the Member shall continue making all contributions required under the Act governing the System, which contributions shall be made to the Member's individual account with the System instead of to the Member's FORWARD DROP account.

5. **Modification or Elimination of Program.** Because of the complexity in estimating the actuarial costs of FORWARD DROP, the Act governing the System provides that the Board may modify or eliminate any DROP program by the adoption of Board rules if the modification is approved by the Board's Actuary and would not cause the amortization of the System's unfunded actuarial liability to exceed the maximum amortization period adopted by the Governmental Accounting Standards Board.
6. **Effective Date of Retirement.** As used in this policy and procedure, the Effective Date of a Member's retirement is the date (on or after the Member's separation from service as a police officer or as an employee of the System) when a person has applied for and is eligible to begin receiving a service retirement benefit.
7. **FORWARD DROP Maximum Benefit Computation Date.** A Member's FORWARD DROP Maximum Benefit Computation Date is sixty (60) months after the Member's FORWARD DROP Participation Date

C. PROCEDURE

1. A Member who desires information concerning FORWARD DROP, but is not yet prepared to participate in FORWARD DROP may:
 - (a) request a non-binding verbal estimate of the amount of his or her FORWARD DROP benefit; and/or
 - (b) schedule an appointment with the System's administrative office to discuss FORWARD DROP, during which a non-binding estimate of the amount of his or her FORWARD DROP lump-sum benefit and monthly service retirement benefit can be made, provided that the appointment has been scheduled sufficiently in advance.

2. A Member of the System who elects to participate in FORWARD DROP must schedule an appointment to meet with the System's administrative office ("Appointment").
3. In order to timely process an application, **the appointment should be scheduled not later than thirty (30) calendar days prior to a Member's intended effective date of participation in FORWARD DROP.**
4. **Attendance at the Appointment is a condition of participation in FORWARD DROP.**
5. The Appointment must be scheduled during the normal business hours of the System which are currently set at 8:00 a.m. to 5:00 p.m. Monday through Friday.
6. If requested, and if time permits, the System's administrative office will mail information pertaining to FORWARD DROP participation to the Member prior to the Appointment.
7. A Member's FORWARD DROP lump-sum benefit and monthly service retirement benefit will be calculated (as set forth below) based upon the Member's credited service as of the FORWARD DROP Participation Date. **Prior to the Appointment, a Member therefore should have completed the purchase of any service credits which the Member desires to purchase and to which the Member is entitled, such as pre-membership military service, probationary service, cadet service, forfeiture service, uniformed leave of absence service or permissive service credit.**
8. A Member must bring the following items to the Appointment:
 - (a) a copy of Member and beneficiary birth certificates
 - (b) a copy of Member and beneficiary social security cards;
 - (c) if married, a copy of Member's marriage certificate;
 - (d) a copy of Member's divorce decree and any QDRO if divorced since becoming a member; and
 - (e) photo identification.
9. During the Appointment, the System's administrative staff will:
 - (a) inform the Member of the contents of this policy and procedure, the application for participation in FORWARD DROP ("Application"), the

distribution election form ("Distribution Form"), and the beneficiary designation form ("Beneficiary Form");

- (b) respond to any questions the Member may have concerning the contents of this policy and procedure or regarding the relevant provisions of the Act governing the Fund (Article 6243n-1, Vernon's Texas Civil Statutes);
 - (c) respond to any questions the Member or the Member's beneficiary may have regarding the Member's FORWARD DROP benefits;
 - (d) accept the Application should the Member elect to participate in FORWARD DROP;
 - (e) accept the Distribution and Beneficiary Forms, should the Member (during the course of the Appointment) desire to designate the form in which his or her FORWARD DROP lump-sum benefit is to be distributed, and to whom it is to be distributed in the event of the Member's death; and
 - (f) have the Member complete and sign a resignation from the Austin Police Department (or in the event that a member is an employee of the System, a resignation from employment with the System) effective on a date that is not later than the FORWARD DROP Maximum Benefit Computation Date.
10. A Member who elects to participate in FORWARD DROP must select the Member's FORWARD DROP Participation Date (as that term is defined above), sign the Application and initial every page of that document, and must verify in writing that he or she:
- (a) understands the terms and conditions of FORWARD DROP, as expressed in this policy, and irrevocably agrees to those terms and conditions;
 - (b) in making the election to participate in FORWARD DROP, has relied entirely on this policy and procedure and the relevant provisions of the Act governing the System;
 - (c) has had the opportunity to consult a tax advisor or financial advisor of the Member's own choosing;
 - (d) understands that the FORWARD DROP calculations are preliminary and the dollar amounts of the FORWARD DROP lump-sum benefit and monthly service retirement annuity are subject to change based on final information following actual termination of employment; and

- (e) agrees to resign from the Austin Police Department (or in the event that a member is an employee of the System, from employment with the System) no later than the date set forth in the written resignation described above.
11. If the Member intends to leave the FORWARD DROP lump-sum benefit with the System after the last day of the month immediately following the Member's Effective Date of Retirement, he or she must designate a beneficiary for the FORWARD DROP lump-sum benefit. The FORWARD DROP lump-sum benefit may not be left with the System for a period longer than sixty (60) days after the Member's Effective Date of Retirement. **A FORWARD DROP account will not be credited with any interest or earnings after the expiration of the Member's FORWARD DROP Accumulation Period (as that term is defined in paragraph D.3). In the event that the Member desires to have funds in the FORWARD DROP account earn interest after the Member's Effective Date of Retirement, the Member may transfer them to a PROP account with the System.**
 12. A Member may designate a contingent beneficiary who will receive the FORWARD DROP lump-sum benefit in the event the first beneficiary dies prior to or within 72 hours after the death of the Member.
 13. The Fund's administrative office will review the Application and the Distribution and Beneficiary Forms (if any) in order to determine whether they were properly and fully completed.
 14. Upon full completion, the Application will be placed on the agenda for a Board meeting for approval. If granted, said approval shall be effective on the first day of the month following the date on which the Member filed the Application. Within a reasonable period of time after Board approval of the Application, the System's administrative office will:
 - (a) notify the Member of the Board's approval of the Application;
 - (b) notify the Member of the System's determination of the monthly retirement annuity and its estimate of the amount of the projected FORWARD DROP lump-sum benefit; and
 - (c) arrange for a separate accounting of the Member's FORWARD DROP account.
 15. The System's administrative office will provide annual balance statements only to FORWARD DROP participants. The System's administrative office will also respond to other balance inquiries, but only if such inquiries are in writing, and

only if made by a FORWARD DROP participant pertaining to his or her FORWARD DROP benefits, the designated beneficiary of such FORWARD DROP participant, the spouse of such FORWARD DROP participant, or the legal representative for each, respectively.

16. Should a FORWARD DROP participant desire to change his or her designated beneficiary, the FORWARD DROP participant must execute and file with the System's administrative office a revised Beneficiary Form.
17. A FORWARD DROP participant who has or will terminate his or her employment with the City of Austin as a police officer (or employment by the System) must schedule an appointment ("Exit Consultation") to meet with the System's administrative office prior to his or her receipt of any monthly retirement annuity or FORWARD DROP lump-sum benefit from the System.
18. If time permits, the System's administrative office will mail or e-mail the FORWARD DROP participant all forms necessary for receipt of a retirement annuity and FORWARD DROP lump-sum benefit.
19. During the Exit Consultation, the FORWARD DROP participant must be prepared to execute the following:
 - (a) Federal Income Tax Withholding forms;
 - (b) Bank form for direct deposit of retirement annuity; and
 - (c) Distribution form for FORWARD DROP benefit.

In the event that the FORWARD DROP participant desires to leave funds on deposit in the System's Post Retirement Option Plan ("PROP"), then during or shortly after the Exit Consultation the participant must execute the documents required to participate in the PROP.

20. The System's administrative office will review each of the forms described in Paragraph C.19 in order to determine whether it was properly and fully completed.
21. The FORWARD DROP participant must bring the following to the Exit Consultation:
 - (a) a copy of any divorce decree or QDRO if divorced **subsequent to** the filing of his or her Application with the System's administrative office; and

- (b) a copy of a marriage certificate if married or remarried **subsequent to** the filing of his or her Application with the System's administrative office.
- 22. Subsequent to the Exit Consultation, the System's administrative office will place the FORWARD DROP participant's application for a lump-sum benefit and a monthly retirement annuity on the Board agenda for the next following regularly scheduled Board meeting for approval, provided that it has been received at least ten (10) business days prior to that meeting.
- 23. Within a reasonable period of time after the Board's approval of the FORWARD DROP participant's lump-sum benefit and monthly retirement annuity, the System's administrative office shall:
 - (a) Notify the FORWARD DROP participant of the Board's approval of his or her application for benefits;
 - (b) Notify the appropriate department of the City of Austin of the Board's approval of the FORWARD DROP participant's application for benefits; and
 - (c) Make all necessary arrangements for the payment of the FORWARD DROP participant's monthly retirement annuity and FORWARD DROP lump-sum benefit.
- 24. The System's administrative office will provide FORWARD DROP Participants with Distribution Forms upon request. FORWARD DROP participants may select, change, or modify their election on the Distribution Form at any time by executing a Distribution Form and delivering the original to the System's administrative office.

D. CONTRIBUTIONS TO FORWARD DROP ACCOUNT; COMPUTATION OF FORWARD DROP LUMP-SUM BENEFIT

- 1. As soon as possible after a Member's FORWARD DROP Participation Date, a separate FORWARD DROP account shall be created in the Member's name in the System.
- 2. A Member who participates in FORWARD DROP shall continue to make all contributions required under Section 8.01 of the Act governing the System until date of retirement. The Member's contributions under Section 8.01 that are made after the FORWARD DROP Participation Date shall be credited to the Member's FORWARD DROP account instead of to the Member's individual account with the System; provided, however, that if the Member remains in employment covered by the Act governing the System after the Member's FORWARD DROP

Maximum Benefit Computation Date (see paragraph B.7, above), the Member's contributions under Section 8.01 after the FORWARD DROP Maximum Benefit Computation Date shall not be deposited in the FORWARD DROP account, but rather shall be deposited in the Member's individual account with the System. The Member will not receive any additional service credit for these deposits and will not receive a refund of these deposits upon termination of employment.

3. As used in this policy and procedure, a Member's FORWARD DROP Accumulation Period is the period of time beginning on the FORWARD DROP Participation Date and ending on the first to occur of:
 - (a) the Member's Effective Date of Retirement, or
 - (b) the Member's FORWARD DROP Maximum Benefit Computation Date.
4. Each month during the FORWARD DROP Accumulation Period, an amount equal to the life annuity (modified cash refund) that the Member would have received under Section 6.01 of the Act governing the System for that month (if the Member had left active service and been granted a service retirement annuity on the FORWARD DROP Participation Date) shall be deposited to the Member's FORWARD DROP account. In lieu of the life annuity (modified cash refund) described in Section 6.01, the Member may irrevocably elect on the Application one of the annuity options described by Section 6.03 of the Act in effect at the beginning of the FORWARD DROP Accumulation Period that are actuarially equivalent, in which event the deposits will be based on the option selected, and the Member's monthly annuity will be based on the option selected.
5. Interest shall be credited to a Member's FORWARD DROP account during the FORWARD DROP Accumulation Period on each December 31 during the FORWARD DROP Accumulation Period in an amount equal to five percent of the amount credited to the FORWARD DROP account as of January 1 of the same year. If the Effective Date of Retirement is other than December 31, interest shall be credited for the partial year at the end of the month of retirement in an amount equal to five-twelfths of one percent of the amount in the Member's FORWARD DROP account as of January 1 of that year multiplied by the number of complete months of service in that year. A complete month does not include a month in which service amounted to fewer than 15 days.
6. The amount credited monthly to the Member's FORWARD DROP account (annuity payments and contributions) and the Member's service retirement annuity:

- (a) shall be increased as a result of any increases in the formula used in computing service retirement benefits under the Act governing the System that occur during the Member's FORWARD DROP Accumulation Period;
- (b) shall be increased by any annual cost-of-living increases or special ad hoc increases in annuity amounts granted during the FORWARD DROP Accumulation Period in accordance with Sections 6.01(c) and (d) of the Act governing the System;
- (c) shall never exceed the limitation on payment of benefits provisions of Section 11.01 of the Act governing the System.

No deposits will be made to a Member's FORWARD DROP account after the earlier of the Member's Effective Date of Retirement and the Member's FORWARD DROP Maximum Benefit Computation Date.

- 7. Beginning on a FORWARD DROP participant's Effective Date of Retirement, the Member will receive his or her service retirement annuity, calculated as if the Member had terminated covered employment on the FORWARD DROP Participation Date, but including any adjustments authorized in Paragraph D.6, above. The Member also will receive the authorized lump-sum benefit from the Member's FORWARD DROP account.
- 8. A Member who participates in FORWARD DROP becomes ineligible for any disability benefit under Article VII ("Disability Retirement") of the Act governing the System. Instead, the Member shall receive the normal service life annuity (modified cash refund) that the Member would have received under 6.01 of the Act governing the System (or the optional annuity the Member selected on the Application) on the FORWARD DROP Participation Date, including any adjustments authorized in Paragraph D.6, above, together with the authorized lump-sum benefit from the Member's FORWARD DROP account. No death benefit is payable under Section 6.06(2) of the Act governing the System upon the death of a Member who participates in the FORWARD DROP; instead, all benefits payable upon the death of such Member are to be paid as set forth in this policy and procedure.

E. DISTRIBUTIONS FROM A MEMBER'S FORWARD DROP ACCOUNT

- 1. No FORWARD DROP benefit will be paid (or otherwise distributed) to a FORWARD DROP participant until the effective date of the Board's grant of a retirement annuity to the FORWARD DROP participant.
- 2. No FORWARD DROP benefit will be paid to a designated beneficiary of a FORWARD DROP participant until the effective date of Board approval of such

payment. The Board will not approve the payment of FORWARD DROP benefits to a designated beneficiary until such time as it receives sufficient documentation of the FORWARD DROP participant's death.

3. No FORWARD DROP distribution shall be made to any participant who has not attained age fifty-nine and one-half (59-1/2) at the time of the distribution unless either:
 - (a) the participant had attained age fifty (50) prior to or during the calendar year of terminating covered employment (or in the event the participant was an employee of the System, the participant had attained age 55 prior to or during the calendar year of terminating covered employment); OR
 - (b) The distribution is made in the form of a rollover to an Individual Retirement Account (IRA), an Individual Retirement Annuity, or a qualified trust.
4. Payment of a FORWARD DROP participant's FORWARD DROP lump-sum benefit will be made in a single payment distribution made on the date selected by the FORWARD DROP participant but not later than 60 days after the last day of the month immediately following the Effective Date of Retirement or April 1 of the year after the participant attains 70-1/2 years of age (whichever first occurs).
5. The distribution of the taxable portion of the participant's FORWARD DROP lump sum is subject to a mandatory twenty percent (20%) withholding for federal income tax unless the lump sum is transferred directly by the System to an Individual Retirement Account (IRA), an Individual Retirement Annuity, a qualified trust, or the System's Post Retirement Option Plan ("PROP").
6. Subject to the limitations set forth in paragraph E.4, above, a FORWARD DROP participant can select the date on which the participant will receive his or her lump-sum distribution by filing a completed Distribution Form with the System's administrative office.
7. Should the FORWARD DROP participant fail to file a Distribution Form as to the participant's FORWARD DROP lump sum with the System's administrative office within 60 days after the last day of the month immediately following the participant's Effective Date of Retirement or before the participant attains 70-1/2 years of age (whichever first occurs), such participant shall be deemed to have elected to receive his or her FORWARD DROP lump-sum distribution not later than the 60th day after the last day of the month immediately following the participant's Effective Date of Retirement or April 1 of the year after the participant attained age 70-1/2, whichever first occurs.

8. A FORWARD DROP participant will be allowed to revoke or amend his or her Distribution Form (prior to payment of that benefit) at any time before the expiration of 60 days after the last day of the month following the Effective Date of Retirement or the date the participant attains the age of 70-1/2 years by filing a new Distribution Form with the System's administrative office.
9. Any filing of a Distribution Form, whether an original filing or a revocation of an earlier filing, will not take effect until thirty (30) days after it has been received and accepted by the System's administrative office. Therefore, no distribution can be made until thirty (30) days after a Distribution Form has been received and accepted by the System's administrative office.
10. All payments to a FORWARD DROP participant are subject to the limitations prescribed by Article XI of the Act governing the System (the limits imposed by Section 415 of the Internal Revenue Code).

F. DESIGNATION OF BENEFICIARIES

1. A FORWARD DROP participant will have the opportunity to designate a beneficiary of his or her FORWARD DROP lump-sum benefit when filing the Application. In all other circumstances, the FORWARD DROP participant must designate a beneficiary on the Beneficiary Form. The FORWARD DROP participant may designate a contingent beneficiary on the Application Form and/or the Beneficiary Form; in that event, the contingent beneficiary will receive FORWARD DROP benefits in the event the first selected beneficiary dies prior to or within 72 hours after the death of the participant.
2. The System's administrative office will provide a Beneficiary Form upon request of the FORWARD DROP participant.
3. If a FORWARD DROP participant dies while in active service and if the participant has not filed at the System's administrative office a Distribution Form that provides how all of the FORWARD DROP account balance is to be distributed, the FORWARD DROP account balance will be paid to the designated beneficiary in a single lump-sum payment made not more than one year after the date of the participant's death.
4. If the FORWARD DROP participant dies while in active service and has not designated a beneficiary to receive distributions from the participant's DROP account, or if neither the beneficiary nor the contingent beneficiary survives the participant by at least 72 hours, the participant's FORWARD DROP account shall be distributed in a single-sum payment as soon as administratively possible after the participant's death to any surviving spouse who survives the participant by at least 72 hours, or to the participant's estate if there is no surviving spouse.