

**PENSION BOARD POLICIES
FIREFIGHTERS & POLICE OFFICERS
PENSION FUND OF THE CITY OF TAMPA**

Policy Number: 424
Policy: Deferred Retirement Option Program (DROP)
Eff. Date: 06/09/98 05/23/00 12/12/00 04/22/03 06/24/04 07/22/10 07/28/11 06/28/12 10/28/15 01/30/19 04/27/22 10/25/23 12/13/23 06/27/25
Ref: Section 26 of Pension Contract, Board Minutes

POLICY:

- A. **PURPOSE:** The purpose of this policy is to provide a coordinated and fully documented process for applicants to enter the “Deferred Retirement Option Program” (DROP). In addition, this policy is intended to provide those associated with the process with a detailed outline of the steps, timeframes, and rules regarding DROP and the processing of applications for participation in DROP.
- B. **ELIGIBILITY:** In order to be eligible for DROP, the member must meet the following eligibility criteria:
1. The member must have attained at least twenty (20) years of creditable pension service but no more than thirty-three (33) years of creditable pension service on the effective date of entry into DROP.
 2. The member must meet all eligibility requirements for receipt of longevity pension benefits, pursuant to Section 7(A) or 7(D)¹, other than separation from service as a firefighter or police officer.
 3. The member must properly complete the following forms:
 - a. Deferred Retirement Option Program (DROP) Application/Irrevocable Written Election (hereto forth called the DROP Application);
 - b. Irrevocable Notice of Employment Termination/Separation (hereto forth called the Irrevocable Notice of Separation);
 - c. Election of Form of Distribution of Accumulated DROP Benefits (hereto forth called the Election of Distribution form) – OR – Distribution of Accumulated DROP Benefits Notification (hereto forth called the DROP Distribution Notification form);
 - d. Designation of Beneficiary or Beneficiaries for Accumulated DROP Benefits (hereto forth called the DROP Beneficiary form);
 - e. Retirement Election – Optional Forms of Payment (hereto forth called the Optional Forms of Payment form); AND

¹ Section refers to the Pension Contract. Paragraph refers to this Policy.

- f. Designation of Beneficiary or Beneficiaries for Pension Benefits (hereto forth called the Estate Beneficiary Form) – OR – Estate Notification (hereto forth called the Estate Notification Form).
- 4. A DROP participant shall not be eligible to be elected as a member of the Board of Trustees. A trustee who enters DROP shall continue to serve as a trustee until the end of his/her current term.

C. PROCEDURES FOR APPLICATION AND ENTERING DROP:

- 1. In order to timely process the DROP application, members must properly complete and provide to the pension office all paperwork in paragraph B.3 at least fourteen (14) calendar days prior to the member's intended effective date of participation in or entry into DROP. Additionally, the member's pension file must contain the following items:
 - a. if married, a copy of the member's marriage certificate;
 - b. if divorced, a copy of the member's divorce decree(s), Marital Settlement Agreement(s), and Income Deduction Order(s) (IDO) or other court documents, if applicable;
 - c. a copy of spouse's driver's license and/or birth certificate for spouse's date of birth verification and a copy of the spouse's social security card and/or Form W-9; AND
 - d. if Option 3 (Joint Annuitant optional forms of payment) has been selected and the joint annuitant is not the member's spouse, a copy of the joint annuitant's driver's license, passport, state ID card, and/or birth certificate (if a minor child) for joint annuitant's date of birth verification and a copy of the joint annuitant's social security card and/or Form W-9.

Members are encouraged to bring these items with them when they file their application for entry into DROP, in case their pension file does not already contain such items. This information is necessary for both internal and external audit and accounting requirements.

- 2. The effective date of a member's participation or entry into DROP will be the first day of the next pay period elected by the member, subject to receipt and approval by the Plan Administrator or designee of the forms listed in paragraph B.3. In order to preserve the COLA and 13th Check eligibility of a member and to not penalize him/her for DROP entry rules, a member whose twenty (20) years of creditable pension service occurs prior to October 1 but whose earliest possible effective date in DROP is after September 30 shall be deemed to have begun participation or entered into DROP on September 30, for the purposes of this sentence only.

3. On the effective date of a member's participation in or entry into DROP, the member shall no longer be required to make contributions to the Pension Fund pursuant to Section 2.
4. Once a member begins participation in DROP, such participation shall be irrevocable and the member may participate in DROP only once. **Completion of the DROP Application/Irrevocable Written Election form shall constitute participation in DROP regardless of the DROP entry date.** A member may participate in the DROP no more than eight (8) years from entry into DROP but not after attaining thirty-three (33) years of creditable pension service as a firefighter or police officer with the City of Tampa, whichever comes first. Any retired member rejoining the plan after separation from service shall have their benefit payments suspended during the period of reemployment and may not participate in DROP a second time.
5. After receipt and approval of the DROP Application and Irrevocable Notice of Separation, the staff of the pension office will:
 - a. arrange for a cessation of the member's pension contributions with the appropriate departments of the City of Tampa;
 - b. notify the member of approval including the exact calculation of the amount of the monthly installments to be accrued as DROP benefits; AND
 - c. arrange for the separate accounting of the member's accumulated DROP benefits.
6. No application shall be acted upon until all required documentation is received in the pension office.

D. CALCULATION AND ACCRUAL OF PENSION BENEFITS WHILE IN DROP:

1. In calculating a DROP participant's monthly pension installments pursuant to Section 7, the participant's average earnings and creditable service shall be calculated and fixed as of the day before the member's participation in or entry into the DROP. The amount of the monthly installments calculated pursuant to Section 7(A) or Section 7(D) shall be ratified by the Board of Trustees at a properly noticed Board meeting.
2. DROP participants shall not be entitled to any additional improvements in pension benefits calculated pursuant to Section 7(A) or Section 7(D), including, but not limited to, improvements attributable to age, rank, increase in pay, or years of service, unless such improvement in pension benefits was collectively bargained and agreed to between the City and certified bargaining agents for firefighters and police officers and enacted by the Florida legislature that specifically applies to DROP participants working as a sworn firefighter or police officer in the City of Tampa as of a date certain.

3. A DROP participant shall not be entitled to receive a disability pension pursuant to Section 7(B) or Section 7(C) regardless of the date, cause, or nature of the disability. Provided however, a member who has applied for disability retirement pursuant to Section 7(B) and who has submitted a disability application, which has been deemed complete by the Plan Administrator, may make application for participation or entry into DROP without forfeiting his/her right to obtain a disability retirement pursuant to Section 7(B). If such member is subsequently granted disability retirement benefits pursuant to Section 7(B), the member and the City must pay the appropriate pension contributions with interest from the date of entry into DROP until the effective date of disability retirement. Additionally, the member shall forfeit any accumulated DROP benefits and the member shall be paid from the Pension Fund the monthly installments the member is entitled to receive pursuant to Section 7(B), cost of living adjustments pursuant to Section 23, and the 13th check benefit pursuant to Section 27.
4. All periodic and non-periodic accruals of DROP benefits, including cost of living adjustments and 13th Check benefits, if any, will be made as of the last business day of the month.
5. The member's DROP accumulation shall be calculated as follows:
 - a. The amount of monthly pension installments to which the member would have been entitled to receive pursuant to Section 7(A) or Section 7(D) from the DROP benefit calculation date (the date the member enters into DROP) to the end of the member's DROP calculation period (the date the member separates from service);
 - b. The amount of any cost of living adjustments pursuant to Section 23 credited after the date the member enters into DROP and before the date the member separates from service;
 - c. The amount of the 13th check, if any, pursuant to Section 27 credited after the date the member enters into DROP and before the date the member separates from service; AND
 - d. Interest accumulated annually, whether positive or negative, during the DROP calculation period, less the cost of administering the DROP, at either:
 - i) A rate reflecting the Fund's net investment performance, as determined by the Board of Trustees, OR
 - ii) A rate reflecting a low-risk variable rate selected annually by the Board of Trustees in its sole discretion.
6. The accumulated DROP benefits including any interest thereon, shall not be subject to assignment, garnishment, execution, attachment, or to any legal process whatsoever, except income deduction orders as provided in section 61.1301, Florida Statutes, and federal income tax levies.

7. The Board of Trustees shall each year prior to December 31 (12/31) provide to the DROP participant or, if deceased, designated beneficiary(ies) or authorized individuals pursuant to Board policy, an accounting of the net accumulated DROP benefits (including interest and administrative expenses) for the year ending on September 30th (9/30).
8. The DROP program is a form of benefit accrual under the defined benefit plan. Pursuant to Section 24 and Board Policy, the benefit payable under the DROP shall be limited as provided under Section 415(b) of the Internal Revenue Code.

E. PROCEDURES WHILE IN DROP:

1. A DROP participant cannot change his/her Optional Forms of Payment election once DROP accruals commence.
2. Should a DROP participant desire to change his/her designated beneficiary(ies) or should a designated beneficiary die, the DROP participant must execute a new DROP Beneficiary form. The effect of the DROP Beneficiary form is to revoke all prior designations of beneficiary(ies) for accumulated DROP benefits.
3. Pursuant to Florida law, a dissolution of marriage immediately invalidates all prior survivorship designations. This includes all beneficiary forms and any joint annuitant designation under Options 3a, 3b, 3c, and 3d, whereby the beneficiary or joint annuitant is the now-former spouse. Members must notify the Fund and make a new election or reaffirm the previous election.
4. The surviving spouse or minor children of a DROP participant who loses his/her life or later dies from injuries or causes occurring while in the discharge of his/her duties shall not be entitled to benefits pursuant to Section 8.
5. After the death of the DROP participant, pension benefits shall be paid as required by Section 9, provided however that a surviving spouse who was not married to the member during some period of the member's employment as a firefighter or police officer prior to the date of the member's entry into DROP shall not be entitled to Section 9 benefits.
6. A DROP participant shall not be entitled to any loan of any accumulated DROP benefits.

F. INTEREST: A member who participates in the DROP shall accumulate interest pursuant to Section 26(D), as follows:

- a. Interest and costs for DROP shall be determined by the Board of Trustees, without employer discretion.
- b. Upon election to enter DROP, the member shall be notified of the manner in which interest shall accumulate during the DROP calculation period, using one

of two methods as selected by the member: (1) a rate reflecting the Fund's net investment performance, as determined by the Board of Trustees, OR (2) a rate reflecting a low-risk variable rate vehicle selected annually by the Board of Trustees in its sole discretion.

c. Interest shall accumulate annually, whether positive or negative, during the DROP calculation period, less the cost of administering the DROP.

d. In any event, the DROP interest accumulation shall satisfy the definitely determinable requirements under Section 401(a)(25) of the Internal Revenue Code and Treasury Regulations section 1.401-1(b)(1)(i).

1. For those DROP participants electing the Fund return, the annual interest accumulation to reflect the Fund's net investment performance shall be calculated as of September 30th of each year by dividing the Fund's annual net investment income, whether positive or negative (loss), for the fiscal year ending September 30th (numerator) by the net assets available for investment at the beginning of the fiscal year (denominator).
 - a. Numerator calculation: The Fund's annual net investment income, whether positive or negative (loss), for the fiscal year ending September 30th (numerator) shall be the gross return of all investments, including both realized and unrealized gains, plus interest, dividends, or other distributions, less all investment management fees, commissions, investment and performance consultant fees, and custodial fees and costs, as reflected in the change in the market value of Fund assets for such fiscal year reported in the Fund's Annual Financial Report. Specifically excluded from net assets available for investment (numerator) are the Fund's petty cash account and the remaining un-depreciated cost of the pension office and related equipment.
 - b. Denominator calculation: Positive cash flow must be added to and negative cash flow must be subtracted from the net assets available for investment at the beginning of the fiscal year to determine the average investment net assets available for investment. Therefore, the current year's average net cash flow from the noninvestment activities (contributions, benefits paid to participants and administrative expenses) is added to or subtracted from the denominator.
2. For DROP participants electing the low-risk variable rate option, the annual interest accumulation to reflect the low-risk variable rate shall be the annualized rate actually earned for the fiscal year on the low-risk, variable rate option vehicle selected by the Board of Trustees based upon the advice of the investment manager.
3. The interest rate elected by the member will be applied to each DROP participant's average annual account balance for the year ending September 30th. The investment return will be calculated and compounded annually. In the instance of DROP participation for less than a full fiscal year because of an interim program entry date, the interest rate elected by the member will be applied to the participant's average

annual account balance calculated on a daily pro rata basis, using a 365-day year (or 366 days for a leap year).

4. A DROP participant may elect the interest rate option upon DROP entry on or once per year thereafter during the DROP participation period of October 1-31 for the fiscal year just begun October 1. If a DROP participant fails to make a valid election upon entering the DROP, the Fund interest rate shall be applied. If a DROP participant fails to make a valid election in a subsequent Plan Year, the election for the then-current Plan Year shall be applied.
5. Should a member's DROP participation end (separation or lawful discharge from service, or death) at some time other than September 30, the interest rate elected by the member for the last year shall not be determined until the following September 30.
6. Once a DROP participant separates from service, no further interest shall be payable after September 30th (9/30) following separation. Provided however, the DROP participant's accumulated balance will earn short term interest during the DROP balance calculation period (10/1 to date of distribution), but for no more than ninety (90) days. The short term interest rate will be equal to the Fund's cash and cash equivalent rate in effect at September 30th.

G. **ADMINISTRATIVE COSTS:** To compensate the pension fund for the expenses of administering and operating the DROP, each member's accumulated DROP benefits shall be charged an annual administrative fee, which shall be reviewed and subject to increase or decrease annually. An administrative expense charge shall be deducted from the DROP participant's accumulated DROP benefits as of September 30 of each year until all accumulated DROP benefits are distributed. The administrative expense may be changed annually at the discretion of the Board of Trustees.

1. The annual administrative fee charged to a DROP participant's account shall be determined annually by the Board of Trustees as a specified percentage of the DROP account balance or as a flat dollar amount, whichever method shall be selected by the Board in its sole discretion, developed by dividing the total DROP expense, which is the cost to maintain/administer the DROP program throughout the fiscal year, by the total DROP balance of participant accounts at the end of the fiscal year. The cost to maintain/administer the DROP program throughout the fiscal year shall be the sum of any separate custodial fee charges on the DROP accounts charged by the custodial bank, any separate accounting fee charges on the DROP accounts charged by an accounting firm, the pro rata share of Fund staff costs (determined by base hourly rate) for DROP related work, and any other separate administrative fee charges on the DROP accounts charged by a service provider for the fiscal year.

H. **EXITING FROM DROP AND DISTRIBUTION OF ACCUMULATED DROP BENEFITS:**

1. A DROP participant must separate from service by midnight local time on the final day of DROP participation as listed on the signed, notarized Irrevocable Notice of

Separation Form. When a DROP participant separates from service, the DROP participant's entire DROP benefit for the month of separation will be accrued to the DROP account. Pension benefits will begin being paid to the pensioner the month following the member's separation from service.

2. In order to qualify for the annual distribution, which occurs in December no later than 12/31, a DROP participant must separate from service by September 30.
3. When a DROP participant separates from service during the month of June and is eligible to receive a 13th check benefit during the same month, that 13th check benefit will be accrued to the participant's DROP account.
4. At least two (2) weeks (14 calendar days) prior to the end of the member's DROP participation (or separation from service) the member must give the pension office written notice of such separation in order to timely receive monthly pension benefits; and must complete other appropriate paperwork including deductions for income tax withholding, health insurance, life insurance, direct deposit, etc.
5. Upon termination from employment with the City, the monthly pension installments pursuant to Section 7, the cost of living adjustments pursuant to Section 23, the 13th check benefit pursuant to Section 27, shall be paid to the member, and upon death of the member, monthly pension installments shall be paid pursuant to Section 9, cost of living adjustments pursuant to Section 23, and 13th check benefits pursuant to Section 27.
6. A DROP participant who is involuntarily discharged who seeks review of such discharge shall not be entitled to receipt of pension benefits or benefits accumulated while in the DROP until after it has been determined that the discharge was lawful.
7. At least thirty (30) days prior to the end of the member's DROP calculation period (the date the member separates from service), the member is encouraged to sign and file with the Pension Office an Election of Distribution form.
8. The form of distribution elected by a DROP participant or surviving beneficiary must comply with the applicable requirements of the Internal Revenue Code.
9. A DROP participant may change or modify his/her election on the Election of Distribution form at any time prior to September 30th (9/30) coincident with or following separation from service by executing an Election of Distribution form and delivering such to the pension office.
10. In the event the DROP participant fails to properly execute an Election of Distribution form by September 30th (9/30) coincident with or following separation from service, the balance of the DROP participant's accumulated DROP benefits shall remain in the plan, without any additional interest after the typical annual distribution date of 12/31, until a properly completed Election of Distribution form has been received by the pension office. Distribution will occur no later than 180 days after receipt of the

delayed properly executed form, but no sooner than 3/31. Note: This paragraph shall not be used in an attempt to avoid constructive receipt under the Internal Revenue Code.

11. No accumulated DROP benefits will be distributed to a DROP participant until the DROP participant has separated from service and after the DROP statement components (DROP returns, DROP administrative fee, etc.) for the fiscal year just ended has been approved by the Board of Trustees, but no earlier than the time set forth in paragraphs 2 and 12 of this section.
12. Since neither the Fund's annual net investment performance nor the low risk variable rate can be appropriately calculated until after September 30th (9/30), the distribution of a DROP participant's accumulated DROP benefits will occur within forty-five (45) days after the Trustees determine the Fund's annual net investment performance and low risk variable rate, which is generally at their November board meeting.
13. After termination of employment with the City, the accumulated DROP benefits at the option of the terminated DROP participant, or if deceased, such participant's designated beneficiary or beneficiaries, shall be distributed at the time set forth in paragraphs 2 and 12 of this section as follows:
 - a. Rollover of the balance to another eligible retirement plan (as permitted by law) such as an IRA, annuity from an insurance company, or such other rollover vehicle, OR
 - b. A full and single lump sum distribution of the balance to the DROP participant, OR
 - c. Partial rollover to another eligible plan and partial lump sum distribution to the DROP participant.
14. The distribution of the net accumulated DROP benefits may be subject to penalties, income tax withholdings, or other withholdings or liabilities required by law. The Board of Trustees and staff shall not advise members of the federal tax consequences of an election related to the DROP. DROP participants are strongly encouraged to seek their own personal tax and financial planning advice.

I. DISTRIBUTION OF ACCUMULATED DROP BENEFITS OF A DECEASED DROP PARTICIPANT:

1. If a DROP participant dies while in DROP or prior to the distribution of his/her accumulated DROP benefits, the named beneficiary(ies) on his/her DROP Beneficiary form, shall be entitled to receive at the time set forth in paragraphs H.2 and H.12 the benefits accumulated during the DROP calculation period. If the DROP participant did not have a valid DROP Beneficiary form on file, the balance of his/her accumulated DROP benefits will be paid pursuant to the Board's policy on estate payments and as set forth on paragraphs H.2 and H.12. Notwithstanding the provisions of paragraphs

H.2 and H.12, if a DROP participant dies before distribution, the appropriate individual(s) may elect to:

- a. receive the distribution with interest as calculated in section F of this policy and paid at the time set forth in paragraphs H.2 and H.12; OR
 - b. if all eligible recipients agree, receive distribution within thirty (30) days after approval by Board of Trustees of the application for early distribution, provided however, the DROP participant's accumulated balance to be paid will be:
 - i) the amount on the participant's previous annual valuation (9/30);
 - ii) monthly pension installments, cost of living adjustments and 13th check benefit, if any, credited since the participant's previous annual valuation (9/30) and date of death; and
 - iii) short term interest at the Fund's cash and cash equivalent rate for the previous month of September on the amounts in (a) and (b) above, provided however, the amount of the short term interest shall be paid for no more than forty-five (45) days after date of death.
2. In order to receive a deceased participant's DROP distribution, the designated beneficiary(ies) or other authorized individual must properly execute and file with the pension office an Election of Distribution form, or the balance of the DROP participant's net accumulated DROP benefits shall remain in the plan, without any additional interest after the typical annual distribution date of 12/31, until a properly completed Election of Distribution form has been received by the pension office. Distribution will occur no later than 180 days after receipt of the delayed properly executed form but no sooner than 3/31. Note: This paragraph shall not be used in an attempt to avoid constructive receipt under the Internal Revenue Code.
 3. The Board of Trustees will not ratify the distribution of any accumulated DROP benefits to a designated beneficiary or authorized individual until such time as the pension office receives sufficient documentation of the DROP participant's death.