



AUSTIN POLICE RETIREMENT SYSTEM

POLICY FOR THE

FIVE YEAR FORWARD DEFERRED RETIREMENT OPTION PLAN (Five Year Forward DROP)

A. PURPOSE AND DESCRIPTION

The Five Year Forward DROP (hereafter referred to as “**DROP**”) is an option for an eligible member to defer their annuity benefit payment into a DROP account while still working and before actual retirement. The purpose of this policy is to provide the rules for eligibility and participation under the Board of Trustees (the “**Board**”) of the Austin Police Retirement System’s (the “**System**”) authority as established in state statute at Texas Vernon’s Civil Statutes, Article 6243n-1, Sec. 6.07(j).

B. ELIGIBILITY

1. A Member is eligible for a DROP retirement if he or she is a commissioned law enforcement officer with the City of Austin Police Department, or an employee of the System, and is making payroll contributions to the System.
2. A Member is eligible for a DROP retirement if he or she has 23 years of creditable service on or before February 17, 2016, excluding military service or permissive service credit.
3. Proportionate retirement service credit (“**PRP**”), pursuant to Chapter 803, Texas Government Code, may be counted as creditable service toward DROP eligibility when combined with any number of years to reach 23 total years of creditable service; however, PRP will not be included in the calculation of the amount of the service retirement annuity.
4. The number of years of creditable service required for the DROP may be changed if the change:
 - a) is approved by the Board’s actuary;
 - b) is approved by the Board as a Board rule;
 - c) applies to all Members on the effective date of the change and all persons who become Members after the effective date of the change; and,
 - d) does not increase the requirements for a person who already is eligible to participate in DROP on the effective date of the change.

C. GENERAL RULES

1. **Election May Not Be Changed.** A Member's election to participate in DROP may not be changed. If a Member who participates in 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 DROP, subject to the limitations set forth in Section C(3) and Section D(2).
2. **DROP Participation Date.** As used in this policy, a Member's "**DROP Participation Date**" is a date selected by the Member, but which must be: (a) the last day of a month after the Member files an application to participate in DROP; and (b) a date after the Member became eligible to participate in DROP. The Member's DROP Participation Date may not be changed.
3. **Length of Participation.**
 - a) A minimum of 90 days participation is required. In cases of hardship, this requirement may be waived by the Executive Director with the approval of the Chair and Vice Chair.
 - b) The maximum period of time during which a Member may participate in DROP is sixty (60) months, beginning on the DROP Participation Date. This sixty (60) month period will not be tolled or extended due to the Member becoming Active-Noncontributory for any portion of such period.
 - c) If a Member electing to participate in DROP decides to continue employment covered by the Act governing the System after he or she has participated in DROP for sixty (60) months, the Member will not be eligible to receive a distribution from the Member's DROP account or commence a service retirement benefit until the Member has separated from service as a police officer or as an employee of the System.
4. **Modification or Elimination of Program.** Because of the complexity in estimating the actuarial costs of 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 period of the System's unfunded actuarial liability to exceed the maximum amortization period adopted by the Governmental Accounting Standards Board.
5. **Effective Date of Retirement.** As used in this policy, the "**Effective Date of 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.
6. **Benefit Calculations.** A Member's "**DROP Maximum Benefit Computation Date**" is sixty (60) months after the Member's DROP Participation Date. DROP benefit

calculations will be based on total creditable years of service, if allowed, as of the Member's DROP Participation Date. Therefore, a Member must have completed purchase of any additional creditable service by the DROP Participation Date. Certain purchases have different impacts in relation to DROP participation.

- a) As stated in Section B.2., Eligibility, purchased pre-membership military service and permissive service credit cannot count toward DROP eligibility. Military service, however, will be included in the calculation of a service retirement annuity. Permissive service credit purchase is not applicable to participation in DROP, as this purchase requires immediate retirement.
- b) As stated in Section B.3., Eligibility, purchased proportionate retirement service credit may be counted toward eligibility with any number of years to reach 23 total years of creditable service for enrollment in the DROP; however, it will not be included in the calculation of the amount of a service retirement annuity.
- c) Other types of purchased service credit, including probationary service, cadet service, forfeiture service, or uniformed leave of absence service will be included in total creditable service for DROP eligibility and will also be included in the calculation of a service retirement annuity.

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

1. A Member who participates in DROP shall continue to make all contributions required under Section 8.01 of the Act governing the System until the Effective Date of Retirement. The Member's contributions under Section 8.01 that are made after the DROP Participation Date and through the DROP Maximum Benefit Computation Date shall be credited to the Member's DROP account instead of to the Member's individual account with the System. A Member who becomes Active-Noncontributory while participating in DROP will have no contributions deposited to his or her DROP account during the period he or she does not contribute to the System.
2. If the Member remains in employment covered by the Act governing the System after the Member's DROP Maximum Benefit Computation Date, the Member shall continue making all contributions required under Section 8.01 of the Act governing the System, but the contributions shall be immediately forfeited to the System and deposited into Fund No. 2 instead of to the Member's DROP account or 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. A Member's "**DROP Accumulation Period**" is the period of time beginning on the DROP Participation Date and ending on the first to occur of:
 - a) the Member's Effective Date of Retirement, or

- b) the Member's DROP Maximum Benefit Computation Date.
4. Each month during the 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 DROP Participation Date) shall be deposited to the Member's 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 DROP Accumulation Period that are actuarially equivalent, in which event the deposits to the Member's DROP account 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 DROP account during the DROP Accumulation Period on each December 31 during the DROP Accumulation Period in an amount equal to five percent of the amount credited to the 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 based on the amount in the Member's DROP account as of January 1 of that year prorated for the number of complete months of service in that year equal to an annualized rate of interest adopted by the Board. A complete month does not include a month in which service amounted to fewer than 15 days. Effective August 1, 2015, the DROP interest rate shall be set annually in the same manner as the Post Retirement Option Plan (PROP), except for members in the DROP or eligible to enter the DROP with 23 years of actual service (including purchased academy time) as of July 31, 2015, who shall continue with the then existing program's designated five percent interest.
 6. A Member who participates in 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) if the Member had retired on the DROP Participation Date, together with the authorized lump-sum benefit from the Member's DROP account. No death benefit is payable under Section 6.06(a)(2) of the Act governing the System upon the death of a Member who participates in the DROP; instead, all benefits payable upon the death of such Member are to be paid as set forth in this policy.

E. DISTRIBUTIONS FROM A DROP ACCOUNT

1. No distribution may be made from a Member's DROP account until the Member has separated from service as a police officer or as an employee of the System.
2. No 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 fifty-five (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.
3. Payment of a DROP participant's DROP lump-sum benefit will be made in a single payment distribution made on the date selected by the DROP participant but not later than (i) 60 days after the last day of the month immediately following the participant's Effective Date of Retirement or (ii) April 1st of the calendar year following the calendar year in which the participant attains age 72 (or for a member who attained age 70 ½ on or before December 31, 2019, age 70 ½), whichever occurs first.
4. Should the DROP participant fail to file a Distribution Form as to the participant's DROP lump sum with the System's administrative office within (i) 60 days after the last day of the month immediately following the participant's Effective Date of Retirement or (ii) before the date that the participant attains age 72 (or for a member who attained age 70 ½ on or before December 31, 2019, age 70 ½), whichever occurs first, such participant shall be deemed to have elected to receive his or her DROP lump-sum distribution not later than (i) the 60th day after the last day of the month immediately following the participant's Effective Date of Retirement or (ii) April 1st of the calendar year following the calendar year in which the participant attains age 72 (or for a member who attained age 70 ½ on or before December 31, 2019, age 70 ½), whichever occurs first.
5. A DROP participant will be allowed to revoke or amend his or her Distribution Form (prior to payment of the DROP lump sum benefit) at any time before (i) the expiration of 60 days after the last day of the month following the participant's Effective Date of Retirement or (ii) the date that the participant attains the age of 72 (or for a member who attained age 70 ½ on or before December 31, 2019, age 70 ½), whichever occurs first, by filing a new Distribution Form with the System's administrative office.
6. If the Member dies after the Effective Date of Retirement but before the lump-sum benefit from his or her DROP account is distributed, the DROP account balance will be paid to the designated beneficiary determined pursuant to Section F below in a single lump sum payment no later than 60 days after the last day of the month following the participant's Effective Date of Retirement.
7. A DROP account will not be credited with any interest after the expiration of the Member's DROP Accumulation Period. In the event that the Member desires to have funds in the DROP account earn interest after the Member's Effective Date of Retirement, the Member may transfer funds to a PROP account with the System.

8. Any filing of a Distribution Form, whether an original filing or a revocation of an earlier filing, will take effect as soon as administratively feasible after it has been received and accepted by the System.
9. All payments to a 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 PAYMENTS TO BENEFICIARIES

1. A DROP participant will have the opportunity to designate a beneficiary of his or her DROP lump-sum benefit when filing the Application.
2. If a 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 DROP account balance is to be distributed, the 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.
3. If the 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, the participant's DROP account shall be distributed in a single-sum payment to the surviving spouse who was married to the member at the time of death, or to the participant's estate if there is no surviving spouse.



Tyler Link, Chair
Board of Trustees