

FIREMEN'S RETIREMENT SYSTEM OF ST. LOUIS
DEFERRED RETIREMENT OPTION PLAN

Revised
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 ("DROP") of The Firemen's Retirement System of St. Louis ("System"). In addition, this policy and procedure is intended to provide those associated with the process with a detailed outline of the steps, time frames, and rules regarding DROP and the processing of applications for participation in DROP.

B. PROCEDURE

1. A Member who desires information concerning DROP but who is not yet prepared to participate in DROP may:
 - (a) request a non-binding verbal estimate of the amount of his or her DROP benefit; and/or;
 - (b) schedule an appointment with the System's administrative office to discuss DROP, during which a non-binding estimate of the amount of his or her DROP benefit can be made.
2. A Member of the System who desires to participate in DROP must schedule an appointment to meet with the System's administrative office. Attendance at the Appointment is a condition of participation in DROP.
3. Upon request the System's administrative office will mail information pertaining to DROP participation to the Member prior to the Appointment.
4. During the Appointment, the System's administrative staff will:
 - (a) provide the Member the contents of this policy and procedure, the application for participation in DROP form and the Beneficiary Election Form;
 - (b) respond to any questions the Member may have concerning the contents of this policy and procedure;
 - (c) respond to any questions the Member or the Member's spouse may have regarding the required spousal consent should the Member desire to designate a beneficiary other than his or her spouse for DROP benefits;
 - (d) notify the Member of the estimated calculation of the amounts of DROP benefits to be credited to the Member based on the Member's creditable years of service and average compensation as of 2-1-2013;
 - (e) arrange for the separate accounting of the Member's DROP benefits.

5. The System's administrative office will annually provide each DROP participant with a balance statement of their DROP benefits. The System's administrative office will also respond to other balance inquiries.
6. Should a DROP participant desire to change his or her previously designated beneficiary, the DROP participant must execute a new Beneficiary Election Form. The System's administrative office will provide the DROP participant with a Beneficiary Election Form upon request. The effect of the Beneficiary Election Form is to revoke all prior designations of beneficiary for the DROP participant's DROP benefits. As a consequence of signing a new Beneficiary Election Form, the DROP participant must obtain the consent of his or her spouse if the beneficiary is other than the spouse, and such consent must be witnessed by a notary public. The signed Beneficiary Election Form must be returned to the System's administrative office. The System's administrative office will not accept a Beneficiary Election Form that designates a beneficiary other than the DROP participant's spouse at the time the Beneficiary Election Form is signed unless such spousal consent is obtained and witnessed by a notary public.
7. The DROP participant must bring the following to any appointment with the System's administrative office when declaring their beneficiary for DROP:
 - (a) a copy of any divorce decree and /or Authorization if divorced subsequent to the filing of his or her application for DROP participation or most recent signed Beneficiary Election Form;
 - (b) a copy of the marriage certificate if married or remarried subsequent to the filing of his or her Application for DROP participation or most recent signed Beneficiary Election Form with the System's administrative office.
8. Upon approval for retirement, the System's administrative office will provide a DROP participant with DROP distribution forms.

C. POLICY

1. In order to be eligible to participate in DROP, a Member must have at least 20 years of combined creditable service in The Firemen's Retirement System of St. Louis and The Firefighters' Retirement Plan. Once an Active Member elects to participate in DROP, his or her DROP account shall be credited monthly with the amount said Member would have received monthly as a service retirement allowance, based on creditable years of service and average compensation as of 2-1-2013 for a maximum of five (5) years.
2. A Member can elect to participate in DROP one time only.
3. The effective date of a Member's participation in DROP is the first day of the month during the month which the Member starts participation. (For example, if a Member's date to participate in DROP is March 20th, the effective date of his or her allocation will be March 1.)

4. A Member electing to participate in the DROP program shall continue in active employment and shall not receive any direct retirement allowance payments during the time of his or her DROP participation. Service earned during the period of participation in the DROP program shall not be creditable service under the System or The Firefighters' Retirement Plan and shall not be counted in determination of any service retirement allowance. As a consequence the following will apply:

- (a) During the period of participation in the DROP program, the amount that a Member would have received as a service retirement allowance based on creditable years of service and average compensation as of 2-1-2013 shall be credited to the Member's DROP account which shall be established in his or her name by the Board.
- (b) Cost of living allowance as determined by pre-DROP years of service will be granted each year in October as defined by the System's plan document.
- (c) For fiscal years ending on or before September 30, 2008, a Member's DROP account will be credited with the actual earnings (or loss) of the System at the end of each fiscal year based upon the Member's average DROP account balance. The System fiscal year is October 1 through September 30.

Members that have not completely withdrawn the amount credited to his or her DROP account prior to May 14, 2009 and Members that enter the DROP program on or after May 14, 2009 may make a one-time election on a Self Directed Form provided by the System's administrative office for the Member's DROP account to be credited annually based on the Member's average DROP account balance during the fiscal year with one of the following Self Directed Options:

- i. a rate equal to 4.5% per annum;
- ii. a rate equal to 90% of the actual earnings of the System at the end of each fiscal year, not less than zero percent or more than 7.625%;
or
- iii. a rate equal to 73% of the actual earnings of the System at the end of each fiscal year, not less than zero percent or more than 8.25%.

The DROP account of any Member with a DROP account on May 14, 2009 that does not deliver an executed Self Directed Form to the System's administrative office on or before July 31, 2009, and the DROP account of any Member that enters the DROP program effective on or after May 14, 2009 that does not deliver an executed Self Directed Form to the System's administrative office within thirty (30) days after his or her effective date of participation in the DROP program will be credited with the actual earnings (or loss) of the System at the end of each fiscal year based on the Member's average DROP account balance.

For any Member whose DROP account is credited with the actual earnings (or loss) of the System that totally withdraws his or her DROP account balance during a System fiscal year, including any Member that totally withdraws his or her DROP account prior to May 14, 2009, the amount credited to his or her DROP account prior to the final distribution shall be based upon five percent (5%) per annum for the final partial fiscal year.

For any Member whose DROP account is credited with amounts determined under either C.4.(c)ii or C.4.(c)iii above, that totally withdraws his or her DROP account during a System fiscal year, no additional amount shall be credited to his or her DROP account prior to the final distribution. Following the determination of the System's earnings at the end of the fiscal year, an additional amount, equal to the appropriate amount based upon his or her election on the Self Directed Form, shall be credited to said Member's DROP account and shall be distributed to said Member. The total amount of any such additional distribution may be distributed to the Member in a lump sum or, to the extent such amount is in excess of the Member's Required Minimum Distribution, may be rolled over as elected by the Member.

- (d) No Member ending participation in the DROP program or returning to non-DROP participation status shall make any withdrawal from his or her DROP account until after termination of employment.
5. Upon retirement after return to non-DROP participation status, the Member's retirement allowance shall be computed as the sum of Member's pre-DROP service retirement allowance as of 2-1-2013.
 6. Upon retirement the Member must:
 - (a) Make application at the System's administrative office for retirement;
 - (b) Make application for distribution of his or her DROP account;
 7. Any Member with a DROP account that applies for and receives benefits for an accidental disability retirement allowance shall forfeit his or her DROP account and his or her benefits shall be calculated as if he or she had continued employment and had not participated in the DROP program. Any allocation to the DROP account of the accidentally disabled Member shall be forfeited and shall remain funds of the System.
 8. If a Member dies prior to termination of employment while participating in the DROP, the funds in his or her DROP account shall be payable to the Member's designated beneficiary under either of the following options:
 - (a) the beneficiary shall be paid a lump sum payment, after taxes are withheld, of the deceased Member's DROP account or, if permitted under the Internal Revenue Code, may rollover the deceased Member's DROP account; or

- (b) the beneficiary shall waive any right, claim or interest in the deceased Member's DROP account and any benefits payable to the beneficiary under the provisions of the System's Plan shall be calculated as if the Member had continued as an employee and had not elected to participate in the DROP. Any amount allocated to a DROP account which has been waived as provided in this subdivision shall remain funds of the System.
- 9. If a Member dies who has terminated employment and who has not received the entire distribution of his or her DROP account, the beneficiary shall be paid a lump sum payment after taxes are withheld or, if permitted under the Internal Revenue Code, may rollover the balance of the deceased Member's DROP account.
- 10. The special provisions of Federal law that permitted the System's mandatory retirement age of 60 were repealed as of December 31, 1993. At this time, participation in the DROP is open to any Member without regard to age. The Board of Trustees reserves the right to revise the DROP participation rules if Federal law is subsequently enacted.

D. DISTRIBUTIONS FROM DROP

- 1. As an alternative to taking a distribution of his or her full DROP account, a Member who has terminated employment may leave any or all of his or her DROP account in the System until the Member's Required Beginning Date. DROP accounts remaining in the System will continue to increase (or decrease) based upon the Member's election on his or her Self Directed Form. A DROP account of any Member who has not filed a Self Directed Form shall continue to increase (or decrease) based upon the performance of the total System assets, except for the fiscal year during which the Member withdraws the balance of his or her DROP account, which shall be credited with an amount equal to 5% per annum.
- 2. No DROP benefit will be paid (or otherwise distributed) to a DROP participant until the second month after the effective date of the Member's retirement.
- 3. No DROP benefit will be paid to a designated beneficiary until such time as the System receives sufficient documentation of the DROP participant's death. A death certificate would be deemed "sufficient documentation".
- 4. All requests for distributions from your DROP account must be made with the System's office no later than the 20th of each month.
- 5. All distributions from your DROP account will be paid on the 1st day of each month and will be included on your monthly pension check.
- 6. DROP accounts will be taxable in the year distributed unless rolled over and shall be subject to withholding rules to the extent permissible under federal tax laws. The System will deduct 20% for federal taxes and 10% for State taxes unless the Member specifies in writing to a different arrangement for payment of taxes.

7. Payment of a DROP participant's DROP benefit can be made in the following forms:

- a) A lump sum distribution or rollover of the balance of the DROP account credited to the DROP participant;
- b) Partial lump sum withdrawal;
- c) monthly payments; or
- d) any combination of b) and c).

After retirement, all distributions of a Member's DROP account to such Member must begin no later than the first day of December during the calendar year in which the Member reaches age 70, the Member's "Required Beginning Date." Beginning on the Member's Required Beginning Date, the Member shall receive at a minimum, the Member's "Required Minimum Distribution" each year. The Member's Required Minimum Distribution shall be determined by dividing the value of the Member's DROP Account, on the December 31st, preceding the December 1st distribution date by the Distribution Period, stated below based on the age of said Member during the calendar year in which the distribution is made and shall be included in the Member's December 1st pension check. To the extent, that the Member has already received at least his or her Required Minimum Distribution, on or prior to November 1st for said calendar year, the System shall not be required to make any additional distribution to the Member from his or her DROP account on said December 1st. To the extent that the Member has received distributions from his/her DROP account on or prior to November 1st during said calendar year less than such Member's Required Distribution for said year, the System shall distribute such shortfall to the Member on his/her December 1st pension check. The amount of any additional distribution in excess of the Member's Required Minimum Distribution, shall be distributed to the Member in a lump sum or rolled over as previously selected by the Member.

The Required Minimum distribution from a Member's DROP account to a Member that has not retired prior to the end of the calendar year during which the Member reaches age 70, shall be made not later than the December 1st following the Member's retirement. The amount of any additional distribution shall be distributed to the Member in a lump sum or rolled over as previously selected by the Member.

Age	Distribution Period	Age	Distribution Period
70	27.4	93	9.6
71	26.5	94	9.1
72	25.6	95	8.6
73	24.7	96	8.1
74	23.8	97	7.6
75	22.9	98	7.1
76	22.0	99	6.7
77	21.2	100	6.3
78	20.3	101	5.9
79	19.5	102	5.5

Age	Distribution Period	Age	Distribution Period
80	18.7	103	5.2
81	17.9	104	4.9
82	17.1	105	4.5
83	16.3	106	4.2
84	15.5	107	3.9
85	14.8	108	3.7
86	14.1	109	3.4
87	13.4	110	3.1
88	12.7	111	2.9
89	12.0	112	2.6
90	11.4	113	2.4
91	10.8	114	2.1
92	10.2	115 and over	1.9

To illustrate how the System will determine the Required Minimum Distribution, assume that a Member's birthdate is June 1, 1946. The Member retired on or prior to June 1, 2016. His DROP account balance on December 31, 2015, was \$200,000. The Member has not notified the System in writing of any different arrangement for tax withholding.

Based on the above, the Member's Required Minimum Distribution would be \$7,299.28, \$200,000 divided by the 27.4 Distribution Period at age 70. The amount of the Member's December 1, 2016 pension check shall be increased by \$5,109.49, the Required Minimum Distribution reduced by federal tax withholding of 20% and Missouri tax withholding of 10%.

If, instead, prior to or on November 1, 2016, the Member has already received distributions from his DROP account equal to \$20,000.00, then no additional Minimum Required Distribution shall be included on the Member's December 1st pension check.

If, instead, the Member received a distribution from his DROP account prior to withholding for taxes of \$5,000.00, then the December 1st Required Minimum Distribution that shall be added to the Member's December 1st pension check will be \$2,299.28, reduced for federal and state tax withholdings.

All distributions and/or rollovers of a Member's DROP account, if any, to a Member's beneficiary, after a Member's death, shall be made within one year following the Member's death, unless required to be made sooner, in accordance with the timing requirement imposed by the Internal Revenue Code.

All distributions from the System shall be at a minimum, the amount required to comply with Internal Revenue Code §401(a)(9). The Required Minimum Distribution shall be made by the System on December 1st of each year, unless said amount was already distributed to the Member prior to or on November 1st of said calendar year. While the System will comply with this DROP Policy and Procedure in making Minimum Required Distributions, it is ultimately the Member's responsibility, to make sure that the System

has made the required minimum distribution required by Internal Revenue Code Section 401(a)(9) to him or her. Although the System strives to be helpful as possible, if the required minimum distribution required by Section 401(a)(9) is not made, the Member may have to pay a 50% excise tax on the amount not distributed. Any excise tax will be the sole responsibility of the Member and not the responsibility of the System. The System cannot give tax advice, tax instructions, or legal advice. The System suggests that each Member seek guidance from a financial advisor or a tax professional to determine how much he/she must withdraw from his/her DROP account each year.

E. DESIGNATION OF BENEFICIARIES

1. A DROP participant will have the opportunity to designate a beneficiary of his or her DROP benefits when filing the application. The DROP participant may designate a contingent beneficiary on the Beneficiary Election Form, who will receive the balance of the Member's account in the event the first selected beneficiary dies before the DROP participant.
2. The System's administrative office will provide a Beneficiary Election Form upon request of the DROP participant.
3. In the event a DROP participant fails to designate a beneficiary, his or her spouse, or if none, his or her estate will receive the DROP benefits.
4. A DROP participant may designate a beneficiary other than his or her spouse; however, if a DROP participant is married at the time he or she files a Beneficiary Election Form with the System's administrative office, either on initial participation in the DROP program, or upon the filing of a new Beneficiary Election Form, his or her spouse must consent to such designation and the spouse's consent must be witnessed by a notary. If the DROP participant is not married at the time he or she files a Beneficiary Election Form with the System's administrative office, the Beneficiary Election Form executed prior to a subsequent marriage shall be binding and the DROP participant's spouse at the time of his or her death shall not be the beneficiary of the DROP account. If the DROP participant is divorced after the DROP participant has filed a Beneficiary Election Form and the Beneficiary Election Form names the former spouse as a beneficiary, it shall be treated as if the former spouse predeceased the DROP participant, unless the DROP participant files an authorization or a new Beneficiary Election Form naming the former spouse with the System's administrative office, and the contingent beneficiary shall become the primary beneficiary. If there is no contingent beneficiary, upon the Member's death the balance of the Member's DROP account shall be paid to his or her estate.
5. A DROP participants DROP benefit is not subject to division by a Court of law, except as may be required by Missouri law, but may be subject to a division pursuant to the authorization of the DROP participant. All DROP account distributions made prior to a Member's death will be taxed to the Member without regard to whom the distribution is made.

6. In the event there is no beneficiary or contingent beneficiary to accept the DROP participants DROP benefits such benefits will be paid to the DROP participants' estate, in accordance with the laws of the state in which the DROP participant resided.

Effective Date of Implementation of DROP – March 20, 1994

Effective Date of Revision of DROP – March 29, 2006

Effective Date of Revision of DROP – May 14, 2009

Effective Date of Revision of DROP – January 6, 2016