

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, the Self Directed Option 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 Member with a balance statement of their DROP benefits. The System's administrative office will also respond to other balance inquiries.
6. Should a DROP Member desire to change his or her previously designated beneficiary, the DROP Member must execute a new Beneficiary Election Form. The System's administrative office will provide the DROP Member 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 Member's DROP benefits. As a consequence of signing a new Beneficiary Election Form, the DROP Member 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 Member'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 System's administrative office will provide a DROP distribution form to a DROP Member upon his or her request.

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 (the "Five Year DROP Participation Period").
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 Five Year DROP Participation Period 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.

For fiscal years beginning on or after October 1, 2008, a Member's DROP account will be credited with earnings based on the available Options determined by the System, from time to time, based on the System's actuary's recommendation. Members may make an initial election on a Self Directed Option 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 during the fiscal year.

For fiscal years beginning on or after October 1, 2008, until such time as the System modifies the percentages in Options 1, 2 and/or 3 based on the System's actuary's recommendation, the available Self Directed Options are as follows:

- i. a rate equal to 4.5% per annum (Option 1);
 - 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% (Option 2); 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% (Option 3).
- (d) The DROP account of any Member with a DROP account that has not delivered an executed Self Directed Option Form to the System's administrative office or any new DROP Member that does not deliver an executed Self Directed Option 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. (Option 4)
 - (e) 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, 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.

- (f) For any Member whose DROP account is credited with amounts determined under either Option 2 or Option 3 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 Option 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.
- (g) The System may modify the percentages in Options 1, 2 and/or 3 from time to time based on the System's actuary's recommendation. The percentages in Options 1, 2, and/or 3 in existence at the time the Member files his initial Self Directed Option Form with the System administrative office as to that Member will not be modified even if the percentages in Options 1, 2, and/or 3 are subsequently changed. However, if the Member files a replacement Self Directed Option Form, the percentages in the Options selected by the Member on the replacement Self Directed Option Form will be the percentages in existence for Options 1, 2 and 3 on the effective date of the replacement Self Directed Option Form. In addition, if a Member files a replacement Self Directed Option Form after September 30, 2020 with an effective date after October 1, 2020, and the selected Options are modified on such Form then any Option that was modified will be variable and will automatically be adjusted from time to time when the percentages in the Options are changed by the System.

Members that have not completely withdrawn the amount credited to his or her DROP account prior to September 30, 2020 may make an election to change his/her chosen Self Directed Option by filing a replacement Self Directed Option Form and may divide his/her DROP account equally between two of the Self Directed Options, provided that one of the selected Options is the fixed rate of return under Option 1. The Options selected on the replacement Self Directed Option Form will be effective on October 1, 2020 and will be based on the percentages then in place for Options 1, 2, and/or 3 as determined by the System.

Members that enter DROP after the effective date of this Revised Policy and Procedure may elect to divide his/her DROP account equally among two of the Self Directed Options, provided that one of the selected options is Option 1.

- (h) After the completion of the Five Year DROP Participation Period the Member may elect to change the Member's Self Directed Option(s). Any change to the Member's Self Directed Option(s) will be effective on the October 1st following

the date that the Member delivers the replacement Self Directed Option Form to the System's administrative office. After the Five Year DROP Participation Period, a DROP Member may elect to make future changes to his/her Self Directed Option(s) at any time as long as at least three (3) years have elapsed since the date the last change was delivered to the administrative office. Any new change to the Member's Self Directed Options will be effective on the October 1st following the date the new Self Directed Option Form was delivered to the System's administrative office. Any change will be at the Option percentages in effect on the October 1st effective date.

If a Member makes any change to a Self Direction Option previously selected effective after October 1, 2020, then the earnings on the Options that were modified will be variable and will automatically be changed to the percentages in the Options determined by the System based on the System's actuary's recommendation as they are modified from time to time.

- (i) 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.
- (j) For example, John Doe is a DROP Member. He entered DROP on July 1, 2012 and on his initial Self Directed Option Form designated Option 2. On July 1, 2020, John Doe filed a replacement Self Directed Option Form with the System's administrative office and directed that 50% of his DROP account earnings be based on Option 1 and 50% be based on Option 3 effective October 1, 2020. On July 5, 2023, John Doe files a replacement Self Directed Option Form electing for his entire DROP account earnings to be calculated under Option 1. John Doe may file a new replacement Self Directed Option Form as early as July 5, 2026.

Effective October 1, 2020 the Options are:

- i. a rate equal to 4.25% per annum (Option 1);
- ii. a rate equal to 91% of the actual earnings of the System at the end of each fiscal year, not less than zero percent or more than 7.5% (Option 2); or
- iii. a rate equal to 75% of the actual earnings of the System at the end of each fiscal year, not less than zero percent or more than 8.5% (Option 3).

For example, the period prior to October 1, 2020 the earnings allocated to John Doe's DROP account will be equal to 90% of the actual earnings of the System at the end of the fiscal year, not less than 0% or more than 7.625%. For the period from October 1, 2020 through September 30, 2023, ½ of John Doe's DROP account will be credited with earnings equal to 4.25% per annum and ½ of his DROP account will be credited with earnings equal to 75% of the actual earnings of the System at the end of the fiscal year not less than 0% or more than 8.5%.

From October 1, 2023, all of John Doe's DROP account will be credited with earnings at a rate equal to the percentage under Option 1 as modified by the System from time to time until John Doe files a new Self Directed Option Form. The rate of earnings for all of John Doe's DROP account will automatically be adjusted based on the System's percentages in place for Option 1 from time to time.

Assume that a Member of the System elects to go into DROP effective May 1, 2021, after the percentages in Options 1, 2 and 3 were changed. The Member will not be able to change his Self Directed Options until after the Member's Five Year DROP Participation Period and then will be able to make a change to his/her Self Directed Options as long as at least three (3) years have elapsed since his/her last change. Changes will always be effective on the October 1st following the date the replacement Self Directed Option Form is delivered to the System's administrative office. If the Member ever takes advantage of the opportunity to modify his Self Directed Option Elections, any modification will be based on the Option percentages in effect on the effective date of the modification and for any Option that was changed after the Member's initial election on a Self Directed Option Form said Option will be automatically adjusted when the System's Option percentages are changed.

- (k) If a Member's spouse is a beneficiary of the Member's DROP account, upon the death of the Member following his/her retirement, the spouse shall have the same rights to file a replacement Self Directed Option Form as if the surviving spouse was the Member. The Self Directed Option percentages for any modification shall be based upon the then current percentages for the three Options determined by the System.
5. Upon retirement after return to non-DROP participation status, the Member's retirement allowance shall be computed based on the 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 in accordance with D, Distributions From DROP below;

If a DROP Member makes any change to his Self Directed Options at any time effective after October 1, 2020, any changes to the Member's Self Directed Options shall be at the then effective percentages announced by the System and for those Options that have been changed will become variable based on the System's Option percentages as they are modified from time to time.

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, the beneficiary shall be paid a lump sum payment of the Member's DROP account after taxes are withheld or, if permitted under the Internal Revenue Code, may rollover the balance of the deceased Member's DROP account. Notwithstanding anything herein to the contrary if a Member dies who has terminated employment if the Member's beneficiary is the Member's spouse, the Member's spouse shall be entitled to payment of the Member's DROP account balance in a (i) lump-sum distribution or rollover of the balance of the DROP account credited to the DROP Member, (ii) partial lump-sum withdrawals, (iii) monthly payments, or any combination of ii and iii above. The Member's spouse must continue to receive at least the Member's Required Minimum Distribution based on what the Member's age would be from year to year as if the Member was still living. Upon the surviving spouse's death the remainder beneficiary designated on the Beneficiary Election Form shall be paid a lump-sum payment, after taxes are withheld, of 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 or the surviving spouse beneficiary of a Member that died after the Member's retirement 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 election on his or her Self Directed Option Form. A DROP account where no Self Directed Option Form is in

place shall continue to increase (or decrease) based upon the performance of the total System assets, except for the fiscal year during which the Member or spousal beneficiary 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 Member 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 Member's death. A death certificate would be deemed "sufficient documentation".
4. All requests for distributions from a DROP account must be made with the System's office no later than the 20th of each month.
5. All distributions from a DROP account will be paid on the 1st business 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 or beneficiary specifies in writing to a different arrangement for payment of taxes.
7. Payment of a DROP Member'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 Member;
 - 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 72, 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. The Distribution Periods below will be changed, from time to time, if the Required Minimum Distribution life expectancy tables are changed by law. 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 72, 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
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 February 1, 1948. The Member retired on or prior to February 1, 2020. His DROP account balance on December 31, 2019, 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 \$7,812.50, \$200,000 divided by the 25.6 Distribution Period at age 72. The amount of the Member's December 1, 2020 pension check shall be increased by \$5,468.75, 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, 2020, 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 \$2,812.50, 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, other than the Member's surviving spouse 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 of a Member's DROP account, if any, to the Member's remainder beneficiary after the death of the Member's spouse, shall be made within one year following the Member's spouse's death, unless required to be made sooner in accordance with the timing requirements 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 Member will have the opportunity to designate a beneficiary of his or her DROP benefits when filing the application. The DROP Member 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 Member.
2. The System's administrative office will provide a Beneficiary Election Form upon request of the DROP Member.

3. In the event a DROP Member fails to designate a beneficiary, his or her spouse, or if none, his or her then living children, or if none, his or her then living grandchildren, or if none, his or her estate will receive the DROP benefits.
4. If the Beneficiary Election Form names the DROP Member's spouse as the primary beneficiary, the Beneficiary Election Form must also designate a remainder beneficiary to receive the balance of the DROP account in the event the Member's spouse survives the Member but dies before the entire DROP account has been distributed to the Member's spouse. Except as otherwise provided herein, a Beneficiary Election Form that names a beneficiary other than the DROP Member's spouse will be invalid unless the Beneficiary Election Form is signed by the Member's spouse and such signature is witnessed by a Notary Public.

A DROP Member may designate a beneficiary other than his or her spouse; however, if a DROP Member 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 Member 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 Member's spouse at the time of his or her death shall not be the beneficiary of the DROP account. If the DROP Member is divorced after the DROP Member 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 Member, unless the DROP Member 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.

5. A DROP Member's 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 Member. 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 living primary beneficiary, or contingent beneficiary on the Member's death or no living remainder beneficiary on the Member's spouse's death to accept the DROP Member's DROP benefits, such benefits will be paid to the DROP Member's then living spouse, or if none, to the DROP Member's then living children in equal shares, or if none, to the DROP Member's then living grandchildren in equal shares, or if none, to the DROP Member's estate, in accordance with the laws of the state in which the DROP Member resided at the time of his/her death.