
Deferred Retirement Option Plan (DROP) Procedures

**City of Boca Raton
Police & Firefighters' Retirement System**

Adopted: June 17, 1992

Last Amended: February 28, 2013

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Pursuant to the authority granted to the Board of Trustees by Section 12-151(7) of the Boca Raton Code, the Board of Trustees (Board) of the Boca Raton Police & Firefighters' Retirement System (System) hereby adopts the Deferred Retirement Option Plan for Police Officers and Firefighters, hereinafter referred to as "DROP", as follows:

1. **Eligibility**

A member of the System may enter into the DROP on the first day of any month following the completion of twenty (20) years of continuous service or attainment of age 55 and completion of ten (10) years of continuous service.

2. **Written Election**

A member electing to participate in the DROP must complete and execute the proper forms, including benefit election, choice of regular or self-directed DROP, and a current designation of beneficiary. Entry into the DROP is irrevocable once DROP credits begin. Participation in the DROP is a one-time irrevocable election. However, a one-time only change to the member's benefit option may be elected during the DROP participation.

3. **Limitation and Disqualification for Other Benefits**

After commencement of participation, the member shall not again have the right to be a contributing member of the System and shall not be eligible for disability or pre-retirement death benefits.

4. **Cessation of Contributions**

Upon the effective date of a member's commencement of participation in the DROP, the member's contributions will be discontinued and the City's contribution for the normal cost of the member's service after the effective date will be discontinued.

5. **Benefit Calculation**

For all System purposes, the average monthly earnings and continuous service of a member participating in the DROP shall remain as they existed on the effective date of commencement of participation in the DROP. Service, earnings or increases in earnings thereafter shall not be recognized by the System or used for the calculation or determination of any benefits payable by the System. The monthly retirement benefits, including any future cost of living increases, that would have been payable had the member elected to cease employment and receive a normal retirement benefit shall be credited to the member's DROP account.

6. DROP Options

Upon electing to participate in the DROP, a member must choose one of the options set forth in paragraphs (a) and (b) below.

(a) **Regular DROP.** The member's DROP account is credited or debited with the same return as the System's investment portfolio. The net rate of investment return earned on the member's account is the actual rate of return, net of brokerage commissions and transaction costs, realized by the System's portfolio according to the investment guidelines adopted by the Board. The member's account shall be separately tracked. The member shall receive quarterly statements from the System.

(b) **Self Directed DROP.** The member's DROP account is invested as directed by the member in a set of mutual fund options determined and monitored by the Board as recommended by the System's Investment Consultant. The net rate of investment return earned on the member's account is the actual net rate of return realized by the member's designated options. The investments are held by a third party trust company but remain the assets of the System. The member shall receive quarterly statements directly from the third party trust company.

(c) **Option Change.** After making the initial selection, a member may elect a maximum of two changes at any time during active DROP participation. Request for an option change must be submitted prior to January 15th or July 15th. The transfer will occur within 60 days of the submittal deadline.

7. Account Earnings

Investment earnings are applied to the member's account as follows:

(a) **Regular DROP.** The member's DROP account shall be credited or debited with an amount calculated based on the rate equal to the actual net rate of investment return realized by the System each month applied to the member's average daily balance. Exhibit A demonstrates the calculation of monthly DROP earnings.

(b) **Self-Directed DROP.** The electing member's DROP account shall be credited or debited at a rate equal to the actual quarterly net rate of investment return realized by the member's self-directed DROP account investment choices.

8. **Administrative Expenses**

To compensate the System for the expenses of administering and operating the DROP, each member's account shall be charged a monthly administrative fee based on the System's administrative expenses which shall be reviewed and is subject to increase or decrease annually. The administrative expense charged to members participating in the regular DROP is the administrative rate applied to the member's average daily balance monthly. Exhibit A demonstrates the calculation of monthly administrative fee expense. The administrative expense charged to members participating in the self-directed DROP is the administrative rate excluding investment manager expenses applied to the participants in the self directed program.

9. **Payout**

(a) Upon the termination of a member's employment (for any reason, whether by retirement, resignation, discharge, disability or death), the retirement benefits payable to the member or to the member's beneficiary (if the member selected an optional form of retirement benefit which provides for payments to the beneficiary) shall be paid to the member or beneficiary and shall no longer be paid to the member's DROP account.

(b) After termination of a member's employment, DROP balances remain in the System until withdrawal is requested by the member. The balances in the member's DROP account shall be payable at the member's option within 60 days after Board approval. The withdrawal may be a direct payment to the member; a rollover into another IRS qualified plan; or a combination of the two. Direct payments other than rollovers, are subject to federal income tax withholding.

Funds in the self-directed accounts must be transferred into the System for authorized distributions in annual increments as directed by the member. A withdrawal from the self-directed accounts is not processed until received from the third party trust company and is non-interest bearing during the processing period. If the self-directed DROP member elects a full withdrawal of the DROP balance at employment termination, the Board will approve the estimated DROP balance distribution during the normal retirement conversion process with a final balance ratification on the subsequent Warrant.

Withdrawal options are as follows:

- i. During the termination of employment process, the member may elect a full or partial withdrawal of the DROP balance. This withdrawal does not count toward the annual withdrawal limitation (section ii below).
- ii. After the termination of a member's employment, the member may elect a partial withdrawal of the DROP balance once every 12 months.
 - a. equal monthly installments may be requested by regular DROP members only, the amount of which may be changed once every 12 months.
 - b. an emergency partial withdrawal may be requested by a member one time only during the member's life.
- iii. After the termination of a member's employment, a full single lump sum withdrawal of the remaining balance of the DROP account may be requested by a member anytime.

(c) Balances in a member's account after deduction of installment payments shall continue to be credited or debited with account earnings and charged with expenses until the entire balance is paid out.

10. Participation Limits

If a member remains in the City's employment covered by the System after participating in the DROP for five years, beginning with the member's 61st month of DROP participation, the member's DROP account will no longer be credited or debited with earnings. The assets of self-directed DROP accounts will be transferred from the trust company to the System's custodian. All benefit payments from the System and all DROP account activity, including the posting of investment return, will cease. Once the member terminates employment or dies, the member's (or any survivor annuitant's) monthly benefit payments and the posting of regular DROP account investment returns will resume. A member employed by the City after five years of DROP participation will still not be eligible for pre-retirement death or disability benefits.

11. Death Payments

If a DROP member dies before his or her account balances are paid out in full, the participant member's designated beneficiary shall have the same rights as the member to elect and receive the payout options set forth in paragraph 9 above. DROP payments to a beneficiary shall be in addition to any retirement benefits payable to the beneficiary under any optional form of retirement benefits elected by the member. Members who are or have been DROP participants are not eligible for pre-retirement death or disability benefits.

12. Amendments

The Board can amend these DROP procedures at any time. Such amendments shall be consistent with the provisions covering the DROP as set forth in the police and firefighters' collective bargaining agreements, the City of Boca Raton Code of Ordinances, the Florida Statutes and the Internal Revenue Service Rules and Regulations. Such amendments shall be binding upon all future DROP participants and upon all DROP participants who have balances in their account. Such amendments may increase the expenses, decrease the account earnings or limit or restrict the Payout options.

The above was adopted by the Board of Trustees at their June 17, 1992 meeting and last amended on February 28, 2013.



Chairman

EXHIBIT A

EXAMPLE OF MONTHLY DROP ACCOUNT ACTIVITY

Assumptions:

DROP Account Balance on January 1: \$25,000

Monthly deposit on the 30th: \$2,000 (Generally one of the last two days of the month)

Net investment return for the Month: .67% (rate used is plan's actual return)

Monthly administrative fee: .0569% (Administrative plus investment expenses divided by average net assets)

Calculations:

The monthly earnings and administrative fee is calculated based on the average daily account balance for the month.

The Average Daily Balance:

(25,000 x 29 days outstanding) / 31 days in month in January = \$23,387.10

(\$25,000 + \$2,000 deposit = \$27,000 x 2 days outstanding) / 31 days = \$1,741.94

Average Daily Balance for the Month \$25,129.04

Calculation of Earnings

\$25,129.04 Average Balance x .67% Monthly earnings rate = \$168.36 Earnings

Calculation of Administrative Fee

\$25,129.04 Average Balance x .0569% Monthly admin rate = \$14.30 Fee

DROP Account Balance on January 31:

Beginning Balance \$25,000.00

Add: Monthly Deposit \$ 2,000.00

Add: Earnings \$ 168.36

Less: Administrative Fee (\$ 14.30)

Balance at End of Month \$27,154.06

DROP activity is calculated monthly and DROP statements are distributed quarterly.

THE ABOVE EXAMPLE IS FOR DEMONSTRATION PURPOSES ONLY AND IS NO INDICATION OR GUARANTEE OF INVESTMENT PERFORMANCE.