

**BOARD OF TRUSTEES
CITY OF LAUDERHILL POLICE OFFICERS' RETIREMENT PLAN**

**ADMINISTRATIVE RULE GOVERNING DROP ACCOUNT
HOLDBACK & EARNINGS ON FINAL DROP DISTRIBUTION**

1. Section 2-87.1 of the Lauderhill City Code governs the Lauderhill Police Officers' Retirement Plan DROP Program.
2. Section 2-87.1(h) governs DROP payout as follows:
 - a. No payment may be made from the DROP until the employee actually separates from service with the city. Payments from the DROP shall be made within ninety (90) days of separation from service. Payment shall be made either:
 - i. in a lump sum, or
 - ii. may be rolled over to a qualified retirement plan that accepts the payment.
3. Section 2-87.1(f) governs the crediting and debiting of DROP account balances. In regards to those members entering the DROP after April 28, 2014, the section provides:
 - a. For the purpose of determining interest earned on a member's DROP account on or after April 28, 2014, a member's DROP account shall be credited (if applicable) at a rate of interest as set forth herein. The rate of interest that will be used is the monthly actual rate of return achieved by the trust fund, positive or negative, net of investment and other direct administrative expenses (the "actual rate of return"). Upon exiting the DROP, a participant's account cannot be less than the sum of their monthly payments into the DROP during their DROP period. Members shall not have the option of receiving a fixed amount in their DROP account for any period after April 28, 2014.
4. The Lauderhill Police Officers' Retirement Plan Board of Trustees' recognizes that calculating the final value of a member's total DROP account, based upon the formula proscribed for members entering the DROP after April 28, 2014, is not possible considering that certain investment managers do not report their returns for 30 to 60 days after the quarterly closing period.¹ Calculating the final value of a member's DROP account prior to obtaining all investment returns could lead to an incorrect valuation of the account.

¹ An example would be real estate investments.

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5. In accordance with the Lauderhill Police Officers' Retirement Plan Board of Trustees' power under Section 2-87.1(k), to adopt administrative rules necessary to administer the DROP, the Board hereby adopts the following rules governing the holdback and investment of residual DROP account balances for those members entering the DROP after April 28, 2014.
6. When a DROP participant requests a distribution of their DROP balance, the following procedure shall apply:
 - a. Holdback: The Administrator shall distribute the PRINCIPAL of the DROP account balance (all pension payments to the account) as of the date of the member's separation, as soon as is administratively possible. The remaining sum, which should constitute the DROP account returns (interest, dividends and any other non-principal accumulations in the member's DROP account), will be distributed when the returns are reported and verified by the actuary and investment consultant.
 - b. \$15,000 trigger: Members shall be notified if their DROP balance declines to \$15,000, or less. Following notification, the entire DROP balance shall be paid as a single lump sum as soon as is administratively possible, unless the member requests a rollover.

This rule was considered by the Board of Trustees at a public hearing, following proper notice, on August 10, 2016 and September 7, 2016. The Administrative Rule was adopted by vote of the Trustees on September 7, 2016.



Chairman



A PARTNERSHIP OF PROFESSIONAL ASSOCIATIONS
ATTORNEYS AT LAW

**RE: ADMINISTRATIVE RULE GOVERNING DROP ACCOUNT
HOLDBACK & EARNINGS ON FINAL DROP DISTRIBUTION**

Dear Members of the Lauderhill Police Officers' Retirement Plan:

On behalf of the Board of Trustees, this letter is prepared to advise you of a recently enacted rule of procedure governing distributions of DROP account earnings. Under Florida law, your defined benefit retirement plan is governed and controlled by the City of Lauderhill Code of Ordinances, specifically Sections 2-74 through 2-88 of the City Code. Your plan's DROP provisions are found at Section 2-87.1, which describes DROP eligibility, funding calculations, duration and separation.

Plan members who entered the DROP before April 28, 2014 will have their DROP account interest calculated on a fixed basis; therefore the Administrative Rule Governing DROP Account Holdback will not affect them. However, the City of Lauderhill and the Fraternal Order of Police's collective bargaining agreement of 2014 requires members entering after April 28, 2014 to have their DROP account interest calculated on a fluctuating basis. Pursuant to the Plan ordinance, fluctuating DROP account interest is calculated by the Plan's "monthly actual rate of return achieved by the trust fund, positive or negative, net of investment and other direct administrative expenses (the "actual rate of return")." See Lauderhill City Code, Section 2-87.1(f). This method of calculating DROP account interest, however, has the unfortunate effect of causing delays in DROP benefit calculations.

The Plan is a trust fund, which invests in a variety of different investments, like stocks, bonds and money market notes. These types of investments are generally liquid and easily valued, which allows the Plan's investment and actuarial professionals to readily calculate DROP account returns. However, in order to obtain more robust investment earnings for the Plan and DROP accounts, the Board of Trustees invests in less liquid investments like real estate trusts. These investments calculate their returns on a trailing basis because it requires the professionals administering those investments to evaluate real estate holdings in a manner similar to a property appraisal. Considering that average real estate trusts contain dozens, if not hundreds of properties in their portfolios, trailing calculations of 30 to 60 days are not uncommon.

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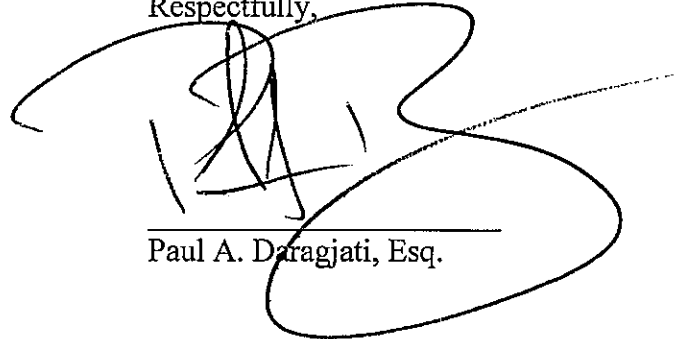


What this means for an individual DROP account is that even though a member picks a specific day to separate from the City and gives the Plan notice of that date of separation, the Plan actuary might not be able to accurately calculate the member's final DROP balance, to the dollar, for 30 to 60 days afterward. If the entire balance of a DROP account is immediately paid to a separating member, that member's DROP benefit could be either less or more than what is actually owed to the member.

Under Florida law, the Board of Trustees is subject to the fiduciary standards set forth in Sections 112.656, 185.06 and 518.11, Florida Statutes, which require the Board to exercise management over the trust fund in a prudent manner. The Board is thus compelled to formulate a rule that is uniform to all DROP members in its application, yet as sympathetic to varying circumstances as possible. To that end, the Board has approved the enclosed rule which addresses fluctuating DROP accounts. The Rule states that once a Plan member separates from the City, their contributions to their DROP account will be paid as soon as is administratively possible. However, their DROP account returns will be paid when they are reported and verified by the actuary and investment consultant. Experience dictates that this process could take up to 60 days, at which time the benefit will be provided to the member (in either a lump sum or rollover—however the member chose to receive their contributions).

Any member with questions or concerns regarding this Rule is encouraged to attend a meeting of the Board of Trustees, which are open to the public and normally held on the first Wednesday of each month.

Respectfully,

A large, stylized handwritten signature in black ink, appearing to read 'P. Daragjati', is written over a horizontal line. The signature is highly cursive and loops around the line.

Paul A. Daragjati, Esq.

Cc: Board of Trustees, Lauderhill Police Officers' Retirement Plan
Precision Pension Administration, Inc.