

AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND RULES

Amended as of September 20, 2016

I. Purpose

Pursuant to Section 2.11 of Vernon's Texas Civil Statutes Article 6243e.1 (the "Act"), the board of trustees (the "Board") of the Austin Fire Fighters Relief and Retirement Fund (the "Fund") may adopt rules desirable for the efficient administration of the Fund in order to ensure that the Fund may satisfy the qualified plan requirements under the Internal Revenue Code of 1986, as amended (the "Code"). In addition, the Board has specific authority to adopt rules and procedures under Section 2.03(b) (certain election procedures, Section 7.09(d) (beneficiary designations) and 8.05(d) (DROP distributions). These rules are adopted pursuant to the applicable provisions of the Act as set forth above

II. Definitions

Unless otherwise specifically provided in these rules, the terms and phrases used herein have the meanings assigned by Section 1.02 of the Act.

III. Qualified Plan Rules

1. Qualified Plan. All assets contributed to the Fund will be held in trust, separate from the assets of the municipality, and maintained and administered by the board of trustees for the exclusive purpose and benefit of all members, retirees, and beneficiaries of the Fund. At no time before the termination of the Fund and the satisfaction of all liabilities with respect to members, retirees, and their beneficiaries shall any part of the principal or interest of the assets of the Fund be used for or diverted to purposes other than the exclusive benefit of members, retirees, and their beneficiaries. The Fund and the assets held in trust thereunder are intended to qualify under Section 401 of the Code, be exempt from federal income taxes under Section 501(a) of the Code, and conform at all times to applicable requirements of law, regulations, and orders of duly constituted federal governmental authorities. Accordingly, if any provision of the Act and these rules is subject to more than one construction, one of which will permit the qualification of the Fund, that construction that will permit the Fund to qualify and conform will prevail. At no time shall any part of the assets of the Fund revert back to the municipality unless the reversion is due to a good faith mistake of fact.
2. Required Minimum Distributions. For plan years beginning after December 31, 1985 and prior to January 1, 2003, the member's entire interest under the Fund shall be distributed, or begin to be distributed, by the required beginning date, and any distribution under the Fund shall at all times comply with and conform to the requirements of Section 401(a)(9) of the Code and the proposed regulations under Section 401(a)(9) that were published in the Federal Register on July 27, 1987, 52 FR 28070.

Effective January 1, 2003, the member's entire interest under the Fund shall be distributed, or begin to be distributed, by the required beginning date, and any distribution under the Fund shall at all times comply with and conform to the requirements of Section 401(a)(9) of the Code and Treasury Regulations §§1.401(a)(9)-1 through 1.401(a)(9)-9 (the "401(a)(9) Requirements"). A member's required beginning date shall be April 1 of the year after the later of the year in which the member leaves active service with the fire department or the year in which the member attains age 70½. Any distribution required under the incidental death benefits requirements of Code Section 401(a) shall be treated as a distribution required by the 401(a)(9) Requirements. The provisions of this Act and these rules shall override any distribution options inconsistent with the 401(a)(9) Requirements.

3. Rollovers. Effective January 1, 1993, any member or eligible beneficiary who is entitled to receive any distribution that is an eligible rollover distribution is entitled to have that distribution transferred directly to another eligible retirement plan of the member's or eligible beneficiary's choice on providing direction to the Fund regarding that transfer in accordance with procedures established by the board of trustees. For purposes of this rule, the following terms shall be defined as provided below:

- a. An "eligible rollover distribution" is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's eligible beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Code section 401(a)(9); the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities described in Code section 402(e)(4)); and other amounts determined to not be eligible rollover distributions under applicable law, including the Code and regulations issued pursuant to the Code (see, e.g., Regulation § 1.402(c)-2, Q&A-4).

Effective January 1, 1999, an "eligible rollover distribution" also does not include any amount that is distributed on account of hardship or unforeseeable emergency.

- b. An "eligible retirement plan" is an individual retirement account described in Code section 408(a), an individual retirement annuity (other than an endowment contract) described in Code section 408(b), that accepts the distributee's eligible rollover distribution, a qualified retirement plan described in section 401(a) or section 403(a), of the Code. The definition

of eligible retirement plan shall also apply in the case of a distribution to an eligible beneficiary, or to a spouse or former spouse who is the alternate payee under a qualified domestic relation order, as defined in section 414(p) of the Code; provided, however, if the distributee is an eligible beneficiary of a deceased member who is not a surviving Spouse, a direct rollover is only available to an individual retirement account described in Code section 408(a) or an individual retirement annuity (other than an endowment contract) described in Code section 408(b) that has been established on behalf of the eligible beneficiary as an inherited IRA (within the meaning of Code section 408(d)(3)(C)) and is subject to the requirements of Code section 401(a)(9).

Effective January 1, 2002, an “eligible retirement plan” also includes a tax sheltered annuity plan described in section 403(b) of the Code, and an eligible plan under section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Fund.

- c. A “distributee” includes a member and a participant’s spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code section 414(p).

Effective January 1, 2007, a “distributee” also includes the eligible beneficiary of a deceased member to the extent permitted in Code Section 402(c)(11).

- d. A “direct rollover” is a payment by the Fund to the eligible retirement plan specified by the distributee. The Fund shall be responsible for providing, within a reasonable period of time prior to making an eligible rollover distribution, an explanation to a member of his or her right to elect a direct rollover and the income tax withholding consequences of not electing a direct rollover.

- 4. Nonforfeitability upon Plan Termination. The retirement benefit earned by a member shall become nonforfeitable, to the extent funded (if not already nonforfeitable), upon the termination or partial termination of the Fund or the complete discontinuance of contributions to the Fund.
- 5. Forfeitures. Amounts representing forfeited nonvested benefits of terminated members may not be used to increase benefits payable from the Fund but may be used to offset obligations for future plan years.
- 6. Code Section 401(a)(17) Limits. Effective for plan years beginning on or after January 1, 1996, the total compensation taken into account for any purpose for any member of the Fund may not exceed that annual compensation limit under

Code Section 401(a)(17), as shall be periodically adjusted in accordance with guidelines provided by the United States Secretary of the Treasury. For 2011, such annual compensation limit is \$245,000.

7. USERRA. Notwithstanding any provision in the Act to the contrary contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Code Section 414(u), effective January 1, 1998, and Code Section 401(a)(37), effective as set forth below, including, without limitation, in accordance with the provisions set forth below.

a. Definitions. For purposes of this Section 7, the following terms shall be defined as provided below:

i) Differential Wage Payment. The term “Differential Wage Payments” means any payment as defined in Code Section 3401(h) which is made by the municipality for a pay period after December 31, 2008, and that (a) is made to a member with respect to any period during which a member is performing Qualified Military Service; and (b) represents all or a portion of the remuneration such member would have received from the municipality if the individual was performing services for the fire department.

ii) Qualified Military Service. The term “Qualified Military Service” means any service in the uniformed services (as defined in chapter 43 of title 38, United States Code) by any member if such member is entitled to USERRA Reemployment Rights under such chapter with respect to such service.

iii) USERRA Reemployment Rights. The term “USERRA Reemployment Rights” means the rights and benefits to which a member covered under USERRA is entitled upon his or her return from Qualified Military Service. A member will not be entitled to USERRA Reemployment Rights if (a) such member did not provide advance notice of his or her military service to the fire department; or (b) such individual had more than five years of cumulative Qualified Military Service measured from his or her date of hire to his or her date of return to employment with the fire department.

b. Death Benefits.

i) Deemed Reemployment Date. A member who dies on or after January 1, 2007, while performing Qualified Military Service (an “Eligible Deceased Member”) will be deemed (a) to have resumed employment with the fire department as of the day preceding the date of his or her death (the “Deemed Reemployment Date” for

purposes of this Section); and (b) to have terminated service on the date of his or her death.

- ii) Additional Benefits. To the extent the Fund provides for any benefits that are contingent upon the member's death, then an Eligible Deceased Member will be provided with such benefits. Such benefits must be provided to all similarly-situated individuals in a uniform, non-discriminatory manner.
- iii) Service. An Eligible Deceased Member shall receive service under the Fund for the period of the Qualified Military Service during which the member died for purposes of attaining eligibility to receive the benefits provided under the Fund and, to the extent the requirements of Section 4.02 of the Act are otherwise satisfied, for purposes of calculating benefits. For purposes of Section 4.02 and consistent with Section 7(b)(i) above, an Eligible Deceased Member will be treated as returning to service on the day preceding the date of his or her death, and an eligible spouse or other beneficiary may file the application and provide the proof required under Section 4.02 of the Act.

c. Differential Wage Payments.

- i) Employee Status. Effective January 1, 2009, an individual receiving Differential Wage Payments from the municipality will be treated as an active member and will receive service under the Fund during such period for purposes of attaining eligibility to receive the benefits under the Fund and the calculation of such benefits.
- ii) Compensation. The term "Compensation " as used under the Act for purposes of calculating benefits or determining contributions will include any amounts paid by the municipality as a Differential Wage Payment.

8. Code Section 415 Limits. Pursuant to Section 9.03(a) of the Act, a member or beneficiary of a member of the Fund may not accrue a benefit, in excess of the benefit limits applicable to the Fund under Section 415 of the Code. The board of trustees shall reduce the amount of any benefit that exceeds those limits by the amount of the excess. If the total benefits under this Fund and the benefits and contributions to which any member is entitled under any other qualified defined benefit plan maintained by the municipality that employs the member would otherwise exceed the applicable limits under Section 415 of the Code, the benefits the member would otherwise receive from the Fund shall be reduced to the extent necessary to enable the benefits to comply with Section 415 of the Code. For purposes of determining applicable benefit limitations under Code section 415, the limitation year shall be the calendar year.

9. Actuarial Assumptions. The Fund's actuarial equivalence assumptions shall be those as specified in Appendix A of these rules.

- Notwithstanding such Appendix A or any other plan provisions to the contrary, effective January 1, 2008, the applicable mortality table used for purposes of adjusting any benefit or limitation under §415(b)(2)(B), (C), or (D) of the Code and the applicable mortality table used to satisfy the requirements of §417(e) of the Code (if and as such requests are applicable) is the table prescribed in Treasury Regulation § 1.430(h)(3)-1.

- For distributions with annuity starting dates after December 31, 2002 and before January 1, 2008, the applicable mortality table shall be the applicable mortality table provided in Rev. Rul. 2001-62.

- For distributions with annuity starting dates on or prior to December 31, 2002, the applicable mortality table shall be the applicable mortality table provided in Rev. Rul. 92-19.

10. Exemption of Benefits from Judicial Process, Assignment or Alienation

- a. All assets held in trust under the Fund, and all rights and all accrued and accruing benefits of any member, may not be (A) held, seized, taken, subjected to, or detained or levied on by virtue of any execution, attachment, garnishment, injunction, or other writ, order, or decree, or any process or proceedings issued from or by any court for the payment or satisfaction, in whole or in part, of any debt, damage, claim, demands, or judgment against any member entitled to benefits, or (B) assigned or otherwise alienated.
- b. The preceding provisions of these rules shall not preclude the withholding of Federal taxes from pension benefits, the recovery by the board of trustees of overpayments of benefits previously made to any person, the direct deposit of benefit payments to an account in a bank, savings and loan association or credit union (provided such arrangement is not an alienation), or, pursuant to any policy adopted by the board of trustees and uniformly applied to any voluntary arrangement for the withholding and direct payment of health care or life insurance premiums or similar payments from his or her monthly benefit payments. An attachment, garnishment, levy, execution or other legal process is not considered a voluntary arrangement.

IV. Trustee Election Procedures

1. Background. Section 2.03(b) of the Act provides that, in the event only one firefighter or retiree is nominated for a position pursuant to Section 2.03(c) of the Act, the Board may appoint the sole nominated

candidate through procedures established by the Board prior to any nominations, with such appointment to be held at the first board meeting in January in lieu of holding an election. The rules in this Section IV set forth such procedures and take effect for the nominations period beginning September 1, 2015.

2. Notice of Nomination Period. Pursuant to Section 2.03(c) of the Act, the period for nominating candidates for the election of a member of the Board begins on September 1 and ends September 15 of each calendar year. Prior to each election period, the Fund will provide notice to active members of the nomination period through posting at fire stations (either electronically or in a physical location where postings typically are made) and will provide notice to retirees through regular mail. In addition, notice of the election period will be posted on the Fund's website.

3. Form of Nominations. Pursuant to Section 2.03(c) of the Act, nominations may be made in person, by mail, or by telephone to the Fund's office. The Fund will also accept nominations in electronic format via e-mail or facsimile. Nominations must be received prior to the end of a nomination period. A nomination sent prior to the end of a nomination period, but not received by the Fund until after the period, does not satisfy the above requirement.

4. Re-opening of Nominations Period. In the event that no candidate has been nominated following the nominations period ending September 15, the Board will re-open the nominations period and establish the final day of such period, which will not be later than October 31 of the same calendar year. Notice of the re-opening of the nominations period will be provided in the same manner as described in paragraph 2 in this Section IV.

4. Nomination of Sole Candidate. If at the end of a nomination period, only one candidate has been nominated, the Fund will notify members and retirees in the same manner as described in paragraph 2 in this Section IV that only one candidate has been nominated and that no election will be held. The Board will appoint this candidate to the Board at its January meeting following the nomination.

V. DROP Distributions

1. Background. Section 8.05(d) of the Act provides that the Board may adopt rules that modify the availability of distributions under the deferred retirement option plan (the "DROP"), provided that the modifications do not (A) impair the distribution rights under Section 8.05(a) of the Act, which provides for four life time payments prior to April 1 of the year after the member attains 70 ½ years of age or (B) cause distributions to occur later than as required under Section 401(a)(9) of the

Code. The rules in this Section V modify the availability of DROP distributions as contemplated under Section 8.05(d) of the Act.

2. Additional Distributions from DROP Account. In addition to the distribution options available under Section 8.05(a) of the Act, a member who participates in the DROP may take up to eight distributions prior to April 1 of the year after the member attains 70 ½, but no more than four distributions in any given calendar year. The distribution option provided in this paragraph 2 of Section V will not be available to an alternate payee under a qualified domestic relations order that has been approved by the Fund and awards the alternate payee a right to a portion of the member's DROP account. Such alternate payee will be limited to the distribution options in Section 8.05(a).

3. Effective Date and Implementation. The rules under this Section V will take effect as soon as administratively practicable following September 1, 2015, but no later than November 1, 2015, in order to allow the Fund a period of time to implement administrative processes and procedures to accommodate the additional distributions provided under paragraph 2 of this Section V. These processes and procedures may include the imposition of a fee for a number of distributions in excess of four and a prior notice requirement to allow the Fund sufficient time to process a distribution. The distribution option under paragraph 2 of this Section V will apply (A) to all DROP accounts established on or after the effective date of these rules, and (B) to DROP accounts of a member established prior to the effective date of these rules, provided that any distributions taken by a member from his or her DROP account prior to the effective date of these rules will be counted against both the eight total distribution limit and the four annual distribution limit provided in paragraph 2 of this Section V.

VI. Beneficiary Designations (as amended, September 20, 2016)

1. Background. Section 7.09 of the Act provides that a retiree or member eligible to retire may designate a beneficiary for a survivor benefit on a form provided by the Fund if the Act does not otherwise provide a benefit payable to a spouse or child of the member or retiree upon his or her death. Pursuant to Section 2.11 of the Act, the Board may adopt rules it considers necessary or desirable for the efficient administration of the Fund. In addition, Section 7.09 of the Act provides that the Board may adopt rules to establish procedures for and requirements governing beneficiary designations. Through this Section VI, the Board adopts rules and procedures for designating beneficiaries under Section 7.09 of the Act, including limiting the circumstances under which such designations can be made. This Section VI is intended to replace and supersede any previous policy relating to beneficiary designations established by the Board.

2. Form. A form established by the staff of the Fund shall be utilized for purposes of designating a beneficiary under Section 7.09 of the Act, and such form shall be the only method by which a beneficiary may be designated under such section. Any attempt by the member to designate a beneficiary other than through the form established by the Fund's staff, whether electronically, in writing or verbally, shall have no effect.

3. Eligibility—Active Members. An active member may designate or change a beneficiary under Section 7.09 if such member (A) is unmarried and (B) does not have a living child who is unmarried and under the age of twenty-two (a "Dependent Child"). Any form submitted to the Fund following September 1, 2012 that is executed on a date on which the member submitting the form is either married or has a Dependent Child shall have no effect and be null and void. An active member is not subject to a benefit reduction described in paragraph 4 below.

4. Eligibility—Retired Members. Effective November 1, 2016, if such member agrees to the benefit adjustment described in the paragraph below, a retired member may designate or change a beneficiary under Section 7.09 if such member (A) is unmarried, (B) married, but only if the retiree's marriage occurred after retirement and the term of the marriage is less than twenty-four-months, and (C) does not have a Dependent Child. Notwithstanding the above, a retiree will not be eligible to designate or change a beneficiary after retirement if such retiree has already made two designations or changes following his or her date of retirement, and such two designations or changes occurred on or after January 1, 2017.

A retiree who designates or changes a beneficiary must agree to a benefit reduction for the designation or change to take effect. The benefit reduction will be determined by treating the monthly benefit amount that the retiree is receiving at the time of the designation or change of beneficiary as a single life annuity for the life of the retiree and converting such single life annuity into the form of benefit that the retiree was receiving under the Fund at the time of the designation or change, taking into account the current age of the beneficiary. The method of the conversion described above will be determined by the Fund's actuary and based on the actuarial assumptions in effect under the Fund at the time of the designation or change. The reduction described in this paragraph will apply to any designations or changes in beneficiaries on or after January 1, 2017.

5. Requirements for Beneficiaries. A beneficiary may be any living person selected by the member.

6. Termination of Beneficiary Designation. In the event a member who has previously submitted a valid beneficiary designation subsequently becomes married or has Dependent Children, the previously-submitted

form shall be null and void as of (i) in the event of a subsequent marriage, the date that the member's spouse would be eligible for survivor benefits under Article 7 of the Fund (which, in the case of a spouse who married a retiree after his or her retirement, would be twenty-four months following the date of such marriage), or (ii) in the event of the birth or adoption of a Dependent Child, the date that the member's Dependent Child would be eligible for survivor benefits under Article 7 of the Fund. The nullification of a beneficiary designation pursuant to this paragraph 6 shall be permanent and shall not be reinstated.

7. Reduction of Benefit for Beneficiary 10 or More Years Younger. The reduction of a beneficiary's benefit as described in Section 7.09(c) for a beneficiary of a member (active or retired) who is 10 or more years younger than the member at the time of the member's death will be determined in accordance with tables provided by the Fund's actuary and approved by the Board, as may be updated from time to time at the recommendation of the Fund's actuary. The tables as approved by the Board are set forth in Appendix B.

8. Administration. The application, administration and interpretation of this Section VI shall be at the full and absolute discretion of the Fund. Any decision relating to a beneficiary designation under this policy by the Fund shall be final and binding.

9. Termination of Provisional Beneficiary Designation. All provisional beneficiary designations made by members during the period beginning May 1, 2016 through June 1, 2016, on the special form provided by the Fund for such purpose (the "Provisional Designations") will expire at 12:00 am on November 1, 2016 (the "Expiration Date") and be null and void. No individual named under Provisional Designations will have any right or interest in the Fund following the Expiration Date solely by virtue of being named in such Provisional Designation. The Board did through action at its meeting of August 18, 2016 extend the survival period for Provisional Designations through the Expiration Date.

VII. Procedures for Adoption of Annual COLA

1. Background. Section 9.04 of the Act provides for the circumstances under which a benefit being provided to a retiree or survivor is subject to a cost-of-living adjustment (COLA). This Section VII sets forth the procedures for (A) determining whether or not an Annual COLA (as defined below) is available, and, if so, the amount of such COLA and (B) implementing the Annual COLA.

2. Annual COLA. The process and procedures set forth in this Section VII relate to an annual COLA contemplated to be provided by the Fund that would be effective for eligible benefits payable after January 1

of a given calendar year if the requirements of Section 9.04 are satisfied (the “Annual COLA”). These procedures would not apply to a COLA to take effect as of some other date during a calendar year as permitted under Section 9.04(a-1)(2) of the Act.

3. Calculation of the Collective Adjustment Amount. For purposes of calculating the collective adjustment amount as provided in Section 9.04(a-2) of the Act for the Annual COLA:

(A) the CPI-U (all items) for the 12-month period ending September 30th will be utilized; and

(B) the Fund’s actuary will utilize the methodology described in Section VIII in order to determine whether the collective adjustment amount (i) must be adjusted to maintain the financial stability of the Fund under Section 9.04(a-2)(A) or (ii) can be increased without impairing the financial stability of the Fund under Section 9.04(b).

The standards for determining the financial stability of the Fund as it relates to the collective adjustment amount are set forth in Section VIII of these Rules (COLA Adjustment Policy). The Fund’s actuary will provide the collective adjustment amount and any other information required by the Board relating to the Annual COLA prior to the November meeting of the Board.

4. Board Approval of the Collective Adjustment Amount. At its November meeting, the Board will approve the collective adjustment amount for the Annual COLA as determined by the Fund’s actuary and the method for allocating the Annual COLA. Generally, it is the Board’s intention to allocate the collective adjustment amount for the Annual COLA equally on a percentage basis as applied to the benefits eligible for a COLA being received by members and survivors. However, the Board may in its discretion adopt an alternative allocation method as permitted under Section 9.04(a-1)(1).

5. Effective Date of Annual COLA. The Annual COLA will take effect as to all eligible benefits payable after January 1st of the calendar year subsequent to the calendar year in which Board approves the Annual COLA at its November meeting. The Fund will take all necessary steps following approval to implement the Annual COLA by such January 1st.

VIII. COLA Adjustment Policy

1. Background. The purpose of the policy in this Section XIII is to provide the actuarial basis for the determination of the collective adjustment amount available for cost-of-living adjustments under Section 9.04 of the Act. Satisfaction of actuarial soundness and financial stability

of the Fund must be met prior to any post-retirement adjustments under Section 9.04 of the Act.

2. Methodology. Subject to the terms of the Act, including without limitation, Section 9.04(a-4) and (b-1), a projection to measure the liabilities associated with a cost-of-living adjustment under a specified set of actuarial assumptions will be performed to demonstrate the soundness and stability of the Fund over an extended period following such adjustment.

The period for the projection will be a ten-year period beginning with the effective date of most recent actuarial valuation (which must be no more than 12 months prior to the effective date of the cost-of-living adjustment). Such projection will be based on the actuarial methods and assumptions typically utilized by the Plan, except for the following:

(A) the investment rate of return assumed for the experience on plan assets for the initial year of the projection will be equal to the product of the actual rate of return on Plan assets realized from January 1 through September 30 of such year and the Plan's actuarial rate of return for the period October 1 through December 31 of such year; and

(B) the applicable determination period for the increase in the CPI-U under Section 9.04 (a-2)(1) shall be the 12 month period ending on the September 30 of the initial year of the projection.

3. Standards. Actuarial soundness and financial stability for purposes of adoption of a cost-of-living adjustment will be demonstrated by satisfying the following two parameters for all years in the projection period:

(A) the funding period to amortize the unfunded accrued actuarial liability after the cost-of-living adjustment may not exceed 30 years for any year during the ten-year projection period; and

(B) the ratio of the actuarial value of assets divided by the actuarial accrued liability after the cost-of-living adjustment would not be less than 80% for any year in the ten-year projection period

4. De Minimus Adjustment. A "de minimis" cost-of-living adjustment will not be considered to adversely impact actuarial soundness or financial stability of the Fund and will not subject to the requirements in paragraph 3 above. A cost-of-living adjustment will be defined as de minimis if the following criteria are satisfied:

(A) the increase in the normal cost rate arising from the cost-of-living adjustment is 0.1% of covered payroll or less; and

(B) the increase in the funding period to amortize the unfunded accrued actuarial liability is 0.2 years or less.

IX. Benefit Improvement Policy

1. Background. The purpose of the policy in this Section IX is to provide the actuarial basis for adoption of benefit improvements to the Fund, including without limitation, changes to the factor used for normal service retirement benefit calculations under Section 5.04(b) and (b-1) of the Act. Satisfaction of actuarial soundness and financial stability of the Fund must be met prior to any benefit improvement.

2. Methodology. Subject to the terms of the Act, including without limitation, Section 5.04(b-1), a projection to measure the liabilities associated with a benefit improvement under a specified set of actuarial assumptions will be performed to demonstrate the soundness and stability of the Fund over an extended period following such improvement.

The period for the projection will be a ten-year period beginning with the effective date of most recent actuarial valuation (which must be no more than 12 months prior to the effective date of the benefit improvement). Such projection will be based on the actuarial methods and assumptions typically utilized by the Plan, except for the following:

(A) the investment rate of return assumption utilized for the projection period will be equal to the net market rates over immediately-preceding ten-year period;

(B) the annual rate of salary increase would be assumed to be equal to a rate that is 1% greater than the assumption otherwise in effect and to be used during the 10-year projection period; and

(C) the projection will also be subject to producing results no more favorable than if the actuarial rate of return was earned on assets.

3. Standards. Actuarial soundness and financial stability for purposes of adoption of a benefit improvement will be demonstrated by satisfying a minimum of three of the following parameters for all years in the projection period:

(A) the funding period to amortize the unfunded accrued actuarial liability after the benefit improvement may not exceed 30 years for any year during the ten-year projection period;

(B) the ratio of the actuarial value of assets divided by the actuarial accrued liability after the benefit improvement would not be less than 80% for any year in the ten-year projection period;

(C) the FASB 35 funded ratio of the present value of accrued benefits to the market value of assets after the benefit improvement would not be less than 90% during any year in the ten-year projection period; or

(D) the increase in the funding period of the unfunded accrued actuarial liability in any year of the projection period may not exceed 5 years over the funding period stated in the most current actuarial valuation.

4. De Minimis Improvements. A “de minimis” benefit improvement will not be considered to adversely impact actuarial soundness or financial stability of the Fund and will not subject to the requirements in paragraph 3 above. A benefit improvement will be defined as de minimis if the following criteria are satisfied:

(A) the increase in the normal cost rate arising from the benefit improvement is 0.1% of covered payroll or less for the year in which the benefit improvement takes effect; and

(B) The increase in the funding period to amortize the unfunded accrued actuarial liability is 0.2 years or less for the year in which the benefit improvement takes effect.

X. Optional Forms of Benefit (effective, November 1, 2016)

1. Background. Section 9.10 of the Act provides the Board with the authority to approve an optional retirement annuity instead of the normal form of annuity payable under Section 5.04 of the Act (the “Normal Form of Benefit”), as long as such optional form is certified by the Fund’s actuary to be the actuarial equivalent of the Normal Form of Benefit. The rule under this Section X is intended to provide additional optional forms of benefit which members may elect upon retirement and the requirements and procedures with respect to such optional forms and the member’s election and will take effect November 1, 2016.

2. Single Life Annuity. Instead of the Normal Form of Benefit, a member upon retirement may elect to choose to receive a life annuity with no survivor benefit (the “Life Annuity Option”) that is actuarially equivalent to the Normal Form of Benefit, provided that the spousal consent requirements in paragraph 3 of this Section X are satisfied. The conversion from the Normal Form of Benefit to the Life Annuity Option will be based on the actuarial assumptions in effect under the Fund at the time of retirement with the assumption that the member’s spouse or beneficiary under the Normal Form of Benefit is the same age as the member, regardless of the actual age of the spouse or designated beneficiary. The method and process for such conversion to the Life Annuity Option will be determined by the Fund’s actuary.

If the member elects to participate in the deferred optional retirement program (“DROP”), the amounts credited to a member’s DROP account that relate to annuity payment amounts will be adjusted to reflect the Life Annuity Option election.

3. Spousal Consent. A spouse of a member who elects the Life Annuity Option must consent to such election for the election to be valid and take effect. The consent must be in writing and witnessed by an employee or officer of the Fund or acknowledged by a notary public. If a member’s spouse has been adjudicated incompetent, the consent may be given by the spouse’s guardian (see Section 9.10(g) of the Act).

If a physician determines that a member’s spouse is not mentally capable of managing the spouse’s affairs, the consent may be given by the member if (A) the member would be qualified to serve as a guardian of the spouse and (B) the Board determines that a guardianship of the estate is not necessary (see Section 9.10(h) of the Act).

Spousal consent is not required if the Board determines that (A) no spouse exists, (B) the spouse cannot be located, (C) the first anniversary of the marriage will not occur before the date that the first annuity from the Life Annuity Option becomes payable, or (D) a former spouse is entitled to receive a portion of the member’s optional retirement benefit under a qualified domestic relations order (see Section 9.10(i)). To clarify (D) above, the spousal consent requirement will still apply as to any current spouse of a member, even if the member has a qualified domestic relations order on file with the Fund for a former spouse.

With respect to all Board determinations under this paragraph 3 of Section X, (A) the Board may request action, information and documentation as it deems necessary to make any determinations, including, without limitation, a statement by an independent physician of the spouse’s mental condition, and shall not be required to make a determination if it has not received such requested information or documentation; and (B) all such determinations will be made at sole and absolute discretion of the Board, and its determination shall be final and binding.

3. Guaranteed Term of Payments. A member upon retirement may elect to receive a reduced monthly annuity benefit that would guarantee that either the member’s spouse, designated beneficiary or estate, as applicable, would receive a 100% survivor benefit if the member dies within the first ten years after annuity payments commence for the remainder of such ten-year period (referred to as “Option 2”). Option 2 is available for members who elect the Life Annuity Option. Following the end of the ten-year period, the amount of the survivor benefit (if any) to be paid under Option 2 will be based on the applicable terms of the Fund and these Rules, the member’s monthly annuity at the time of death, the form

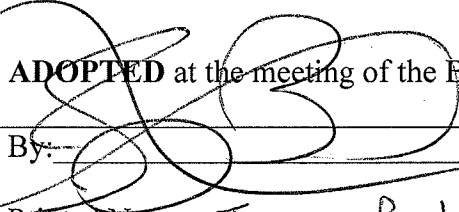


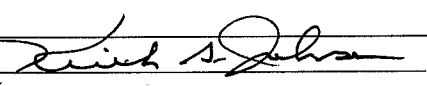
of benefit that the member has elected, and in the case of a survivor who is a designated beneficiary, the age of such beneficiary. An estate is not eligible to receive a survivor benefit beyond the guaranteed 10-year period. The amount of the member's monthly annuity will be reduced if Option 2 is elected so that such is the actuarial equivalent of the Normal Form of Benefit (taking into consideration any Life Annuity Option election, if applicable) that the member would otherwise receive, with the method for such reduction to be determined by the Fund's actuary and based on the actuarial assumptions in effect under the Fund at the time of retirement.

If the member elects to participate in DROP, (A) the amounts credited to a member's DROP account that relate to annuity payment amounts will be adjusted to reflect the Option 2 election, and (B) the ten-year period will commence as of the retirement date that is selected by the member for purposes of DROP and not the member's actual date of termination of active service.

4. Election Forms. All elections for optional forms of benefit under this Section X will be made through forms and procedures established by the Fund and shall not be valid unless made pursuant to these forms and procedures. In the event of any inconsistencies between the terms of the election forms and the Act or these Rules, the Act and these Rules shall control.

5. Irrevocability. All elections made by members for optional forms of benefit shall be irrevocable and cannot be changed by members after monthly annuity payments have commenced.

ADOPTED at the meeting of the Board of Trustees of the Fund on September 20, 2016.

By:  , Trustee Printed Name: <u>Jeremy Burke</u>	By:  , Trustee Printed Name: <u>ART ALFARO</u>
By:  , Trustee Printed Name: <u>Dmitri Nichols</u>	By:  , Trustee Printed Name: <u>KEITH A. JOHNSON</u>
By: _____, Trustee Printed Name: _____	

APPENDIX A

Actuarial Assumptions for Actuarial Equivalence Factors

Mortality:	1994 Group Annuity Mortality Table			
Member:	Males:	97%	Females:	3%
Spouse:	Males:	3%	Females:	97%
Non-spouse Beneficiary:	Males:	50%	Females:	50%
Interest Rate:	8.00%			
COLA:	1.00%			
Retirement Age:	50			
Spouse Age:	50			
Non-spouse Beneficiary Age:	50			

APPENDIX B

Reduction of Benefit for Beneficiary 10 or More Years Younger

10-Year Rule Joint & Survivor Benefit Forms

<u>Age Difference</u> <u>(Retiree minus Beneficiary)</u>	<u>Percent Continued to</u> <u>Beneficiary</u>
Less than 10	75%
10 – 14	45%
15 – 19	40%
20 – 34	35%
35+	30%

Please note the above table represents the percentage of the retiree's accrued benefit that is payable if the retiree predeceases the selected beneficiary.