



# POLICE PENSION NEWS



A Hollywood Police Officers' Retirement System Publication

Issue 4

Date of Issue:  
Fourth Quarter 2002

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## Warm Greetings

**The Board of Trustees wishes you and your family a joyful holiday season and a prosperous new year.**

## THIRD QUARTER PENSION FUND SUMMARY

As of September 30, 2002, our fund had a total market value of \$134,268,000. For the quarter, the average allocation of our fund was 49% invested in stocks, 43% in bonds, and 8% in cash equivalents (i.e., short term liquid interest bearing investments similar to money market funds). Our ongoing target for investment in stocks is 54% of the total fund - we will usually be near that target.

For the quarter ended September 30<sup>th</sup>, the total fund lost 5.60%, beating out the benchmark that was down 7.55%. Stocks in general - large, small, international - were down, while bonds were up for the quarter. The best performing sector among US

stocks was health care, which declined 7.56% in the third quarter of 2002.



The Producer Price Index (PPI) for finished goods declined 1.9% for 12-month period ended in September. The seasonally adjusted annual rate for the 3 months ended in September was -0.6%.

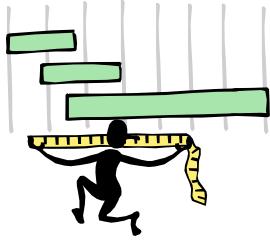
The unemployment rate was 5.6% in September, compared to 5.9% in June. Real Gross Domestic Product (GDP) rose at an annual rate of 1.3% (final) for the second quarter, 2002, compared with an increase of 5.0% (final revised) in the first quarter, 2002.

The Federal Reserve maintained the discount rate at 1.25% in the third quarter of 2002. The discount rate is the interest rate that the Federal Reserve charges banks for short-term loans.

The worst performing sector was telecommunication services, which tumbled 26.63%. As you may recall, the worst performing sector for last quarter was information technology, which dropped 26.04%. Among the major economic indicators, the Consumer Price Index (CPI Urban) rose only 1.5% for the twelve months ended in September. This compares to an increase of 1.1% for the twelve months ended in June.

## DROP Update

The Board of Trustees is pleased to announce that on September 18, 2002, the City Commission unanimously passed the ordinance relating to the assumed rate of return as it applies to DROP accounts. The Board has had an overwhelming response to the first window period. 70 DROP members have elected the FRR (Fixed Rate of Return), as of October 1, 2002. This means that they will be locked into this selection for one year. The open window period for these 70 members will be August 1-31st, 2003, for the October 2003 Quarter.



## DROP WINDOW PERIODS



As a reminder, the Board of Trustees have selected four window periods to make a "DROP Investment Return Selection".

They are as follows: August 1-31<sup>st</sup> for the October 1 Quarter; November 1-30<sup>th</sup> for the January 1 Quarter; February 1-28<sup>th</sup> for the April 1 Quarter and May 1-31<sup>st</sup> for the July 1 Quarter.



Mouse Pads now available. See page 8 for details.

## SHARE PLAN NEWS



Since our last publication, the 185 Share money was received from the State of Florida. A State Warrant for the sum of \$897,360.15 was deposited into the System. \$67,447.00 of that amount was earmarked to comply with minimum benefits as required by 99-1 state law. The share funds available for distribution (\$829,913.15) were divided among all the "active members" of the plan. A personal account has been established for each share member.

Active members who were in the system from July 1, 2001–June 30, 2002 received \$2,996.08. A pro-rata amount was given to members with less service, based on each full month of service during the plan year. Annual "Share Plan" statements have been sent out to all participants, detailing the deposit made on their behalf.

As you know, this money will be invested by our money managers, and your account will receive the same rate of return as the system. Yes, this means your account may go up or down.

Shortly, the *second phase* of this program will be offering accessibility to your "Share Account" on-line. This will be a voluntary program, and this information will be

posted only upon your request. With on-line access, you will be able to track the balance of your account on a monthly basis on your pension web site. A "Request for Internet Access" form may be obtained from the pension plan web site under the heading "Forms".

Simply complete the form on-line, print it out, sign it and forward a hard copy to the office. When the *second phase* of the program is in place, you will be notified.

Should you have any questions, or to learn more about the program, kindly give us a call at the Office of Retirement.

### Breakdown of Distribution

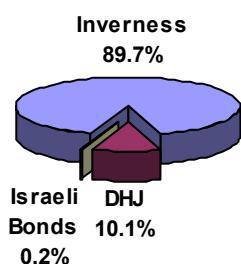
12 Months	\$2,996.08
11 Months	\$2,746.40
10 Months	\$2,496.73
9 Months	\$2,247.06
8 Months	\$1,997.38
6 Months	No one rec'd
5 Months	\$1,248.37
4 Months	\$998.69
3 Months	\$749.02
1 or 2 Months	No one rec'd

## Total Fund Summary

**One Year** For the last year our fund lost 1.69%, while its benchmark was down 7.91%. Both our stocks and our bonds beat their separate markets. However, stocks declined 9.95%, while the benchmark was tumbled 19.78%. Bonds were up 8.77%, while the benchmark was up 8.65%. Our core equity (stock) manager, Inverness, outperformed our growth stock manager, Davis Hamilton Jackson, for the year ending September 30, 2002, -7.86% vs. -17.07%, while the S&P 500 was down 20.49%.

**Long Term** As this is a pension plan, we must look at long term results. Since September 30, 1992, the fund has an average annualized rate of return of 8.36% per year. For the last five years, the total fund has an average annualized rate of return of 3.79% per year, which beat the overall combined stock and bond markets' 2.35% return. During that time, stocks averaged 0.25% and bonds 7.79%, while their respective benchmarks averaged -1.61% and 7.75%. For 2000, 2001 and so far for 2002, bonds have outperformed stocks. However, over most time periods in the past, the overall stock market has beaten the bond market.

### Division of Assets by Investment Manager



### Your Plan's Asset Allocation

Fixed



### RETIREE CORNER

#### Congratulations to our latest Retirees

Kevin Minger	08-19-02
Richard Koehn	08-19-02
Deborah Futch	08-31-02
James Futch	08-31-02
James Reeck	09-01-02
Richard Lemack	09-30-02
Allen Campbell	10-13-02
Hector Zeno	10-31-02
Michael Lopushansky	10-31-02
Carlos Vignau	11-30-02

No **DROP** entries since our last publication



## The "529" Rip-Off

**Those new college savings plans aren't so great.**

In the past year, parents have been pouring money into the new "529" state college savings plans. Since the 2001 Bush tax bill exempted qualified withdrawals from taxes, the 529 plans have become one of the fastest-growing personal financial products in history. About \$25 billion is now invested in 529 plans, three times as much as two years ago, and investors are expected to add \$40 billion more by 2006.

Financial advisers and even *Consumer Reports* have been touting 529s as a miraculous way to save money for your children's college. They seem flawless. Unlike other tax-advantaged savings plans, the 529s have extremely high contribution limits and no income cut-offs. All earnings are tax-exempt if they're spent on education. The 529 plans are supposed to be an enormous federal tax subsidy for education.

But serious flaws in the 529s are being overlooked. The long-run potential of the plans has been seriously compromised by excessive "management" fees that states have added to these plans. In addition, all but a few of the plans limit investors to a single financial firm that offers only two or three investment options. The reality of 529 plans is that much of the tax subsidy is merely going to pay these higher fees to states and financial companies. Under some plans, families would actually do worse investing in 529 plans than in traditional savings instruments.

Take one of the most egregious examples, Arizona's InvestEd plan, operated by Waddell and Reed. Investing in its class "A" shares with the highest equity option, an investor must pay 92 basis points (0.92 percent of assets) per year for fund expenses and then another 91 basis points of state management fees. When you cash out, you have to fork over another 5.75 percent of total assets as a "sales load." The class "B" shares don't take the 5.75 percent final cut, but the extra management fee is 162 basis points, meaning the state and Waddell

**By Austan Goolsbee**

and Reed grab a whopping 2.54 percent of your savings every year.

These fees are unbelievably high, vastly more than you'd pay for any normal investment. Over the life of the fund, the fees can kill the benefits of these plans completely. Consider two parents who want to save enough money to pay tuition and room and board at Harvard for their now-infant daughter. If Harvard's costs grow 5 percent annually, the parents will need \$330,000 in 2021. Imagine the Arizona 529 plan were a low-expense S&P Index fund—the Vanguard fund that has expenses of 18 basis points, for example. With \$50,000 in the account today and the historical rate of return of 11 percent, these parents would have \$350,000 in 2021.

But woe to them if they opt for the actual Arizona plan. Assuming the same 11 percent return, after the extra fees and the sales load, the class "A" shares would yield \$237,000 in 2021, the class "B" shares \$217,000. Here, the excessive expenses have cost these two parents more than \$110,000 dollars. This is hardly the boon to educational savings they might have hoped for. In fact, this family would do better to skip the 529 entirely. If they put the money in an index fund and then paid the capital gains taxes when they sold, they would still clear \$290,000, much more than with the Arizona 529 plan.

The excessive fees aren't limited to Arizona. Of the 45 states that have established plans, 27 of them charge expenses of more than 1 percent per year, and 10 of those take additional sales loads. Even the best 529 plans, the ones run by states that chose low-expense investment companies—notably TIAA-CREF and Vanguard—are still charging more than they would for similar, non-529 investments. Tennessee, Minnesota, and Michigan, for example, use the same TIAA-CREF equity option (a mixture of the Growth and Income fund and the International Equity Index).

Investing in these funds with a regular IRA would mean expenses of about 45 basis points. But the same investment with the Minnesota and Michigan 529s costs 65 basis points in expenses. In the Tennessee 529, it costs 95 basis points. Utah has by far the cheapest 529 plan, but even it adds 25 basis points of state fees to Vanguard's tiny 7 basis points of expenses.

These state fees make it easy to understand why every state either has a 529 plan or is developing one. The maintenance fees are a regular cash stream for them. The financial companies, too, are clamoring for the exclusive 529 franchises because they provide such huge fees. In Illinois, for example, where the exclusive provider is Salomon Smith Barney, the state treasurer has appeared in a series of statewide ads promoting the 529—paid for by Salomon Smith Barney.

The federal government will forgo billions of dollars in tax revenue to subsidize 529s. The goal of this subsidy was to encourage education, not to have the federal government provide a windfall to states and financial firms in the form of high fees. An easy way to fix the 529 problem would be to bestow the benefits of the 529s on other savings plans. Congress could raise the limit on contributions to Coverdell/Education IRAs or allow penalty-free withdrawals from 401(k) accounts for educational expenses. In these other accounts, people can choose any investment from any provider, without paying extra management fees. It would cost the federal government the same amount as the current 529 system, but the benefits would go to the parents, not the providers.

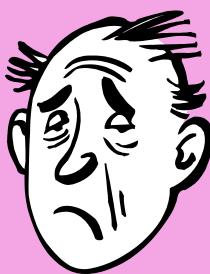
Austan Goolsbee is a professor of economics at the University of Chicago Graduate School of Business. You can e-mail him at [goolsb@yahoo.com](mailto:goolsb@yahoo.com)

## POLICE MEMORIAL PINS

The Alumni Association are selling Hollywood Memorial Pins for \$5.00. American Flag Ribbons are available for \$3.00. Also available are Alumni Association T-Shirts for \$10.00. These collector's items are in short supply, so get yours today. Call Cheryl @ ext 4395. All proceeds going the Hollywood Police Alumni Association. Support your Alumni Association!!!!



## 13th Check



As we all know, the state of the investment market has been dismal at best. Even with the diligent efforts made by our investment managers exceeding their respective benchmarks and beating the market, it was just not enough.

As such, the Board of Trustees are saddened to say that there will not be a 13th check issued this year.



### *A Hanukkah Blessing*

May this festival of lights bring blessings upon you and all your loved ones for happiness, for health, and for spiritual and material wealth, and may the lights of Hanukkah usher in the light of Moshiach and a better world for all of humankind

## TOP 10 EQUITY HOLDINGS

### (STOCKS)

<u>INVERNESS</u>	<u>DAVIS HAMILTON</u>
<b>Proctor &amp; Gamble</b>	<b>Wal Mart</b>
<b>Johnson &amp; Johnson</b>	<b>Exxon Mobil Corp.</b>
<b>Union Pacific</b>	<b>Johnson &amp; Johnson</b>
<b>Carlisle Companies</b>	<b>Microsoft Corp.</b>
<b>Conagra Foods</b>	<b>Wells Fargo</b>
<b>Apollo Group</b>	<b>Pfizer</b>
<b>Dreyers Ice Cream</b>	<b>General Electric</b>
<b>General Mills</b>	<b>Proctor &amp; Gamble</b>
<b>American International</b>	<b>Stryker</b>
<b>Greenpoint Financial</b>	<b>US Bancorp</b>

## INSURANCE RATES RISE



The Board of Trustees have been notified by Ms. Gail Reinfeld, Director of Human Resources and Risk Management that retiree insurance rates are going up effective January 1, 2003. As you are paid in arrears, you will notice the new deduction in your February 1, 2003 payment. A complete illustration of the rate change is now available for your review on your web site.

If have not received notification or have questions, you may contact Ms. Kathie Lewis @ 954.921.3505.

**When you think of some other places in the world, it's not hard to see that we have a lot to be thankful for. Remember these advantages when you count your blessings on Thanksgiving Day.**



## Alumni Reunion A Great Success!!!

During the weekend of October 2002, the Hollywood Police Alumni Association held the 4th Annual Reunion in Ocala, Florida.

Over 100 members were in attendance during this 3 day event.

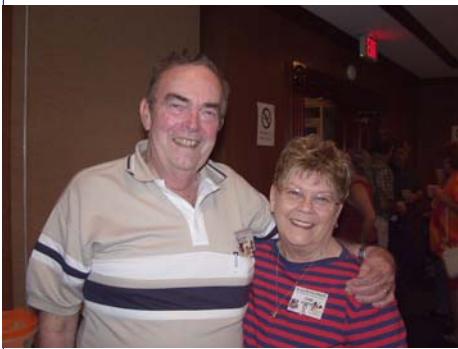
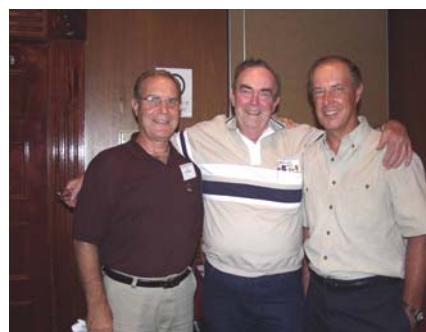
Along with the reunion dinner, there was a motorcycle ride in Ocala horse country, a golf outing and a visit to Silver Springs.

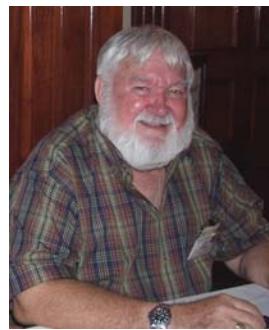
The Board of Trustees would like to congratulate the association members on yet another great event. The Board would also like to thank Mrs. Joan North for sharing her photographs with us.

## SMILE FOR THE CAMERA



Hope you enjoy the pictures, but if you don't see yourself or your friends, please forgive us, as we are limited in space. Hope you understand.





Please Visit Us !!!

[www.hollywoodpolicepensionfund.com](http://www.hollywoodpolicepensionfund.com)

#### THE BOARD OF TRUSTEES

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*A note from Dave Williams* As we close out this year, I want to thank the Board of Trustees' for putting their trust in me to administer your plan. I would also like to thank Cheryl for all her hard work and dedication to me, the Board of Trustees, the members, and the plan over the last year.

As I look back over my first year, one of the many things that stands out is all the kind words of encouragement and support given to me. For that I "thank you" the members. I am *committed to the success* of this plan, by continuing to provide professional leadership, working in partnership with the Board of Trustees, city officials and our service providers all for the benefit of you and your family. Wishing you a joyous holiday season from my family to yours.

#### Disclaimer

The information contained herein is provided for informational purposes only. The foregoing information/summary/prices/quotes/statistics have been obtained from sources we believe to be reliable, but cannot guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes investment, tax and/or legal advice from the Board of Trustees and/or any and all entities thereof. Please consult your professional investment, tax and/or legal advisor for such guidance.

## Odds and Ends

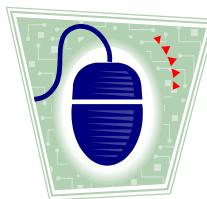


#### Retirement Affidavits

The Board of Trustees would like to thank the retirees and beneficiaries who completed and returned the retirement confirmation affidavits. This process will be part of our annual audit process. While we see many of you during the year, our auditors do not. This affidavit provides a level of assurance to our auditors that the person entitled to the benefit is entitled to it. Thanks Again!

#### Independent Audit Underway

With the end of year another fiscal year, the Board of Trustees are gearing up for our annual independent audit, which is required by state law. Details will follow as warranted.



#### Mouse Pads

In an effort to publicize your award winning pension web site, we are now offering mouse pads with our web site address on it. Throw out that old mouse pad and replace it with ours. If you did not receive yours, let us know.

#### After & Pre-Tax Contribution

An issue for retirees that the Board would like to remind you about is your after tax contribution to the system. Prior to 1994, members of the plan contributed to the retirement system before taxes were withheld. This means that if you made \$100.00, you were taxed on that gross number and then your contribution was deducted. Since 1994, your contribution to the system was deducted and then you are taxed on the net number. After tax contributions are also



made on buy-back of probation time, and most recently, senior buy-out contributions. For all these affected members, you may be entitled to reduce the amount of your pension income reported on your tax return by the tax free portion of the payment represented by after tax contribution you made. If you are retired and do not know how much you contributed to the system on an after tax basis, please let us know. We will provide you with a letter of after tax contribution, to share with your tax professional.

#### Ordinance Revision

A copy of the latest ordinance revision, is now available. Please visit your pension web site for complete details.

#### What is wrong with this picture?

