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# DEFERRED COMPENSATION PLAN BOARD REPORT 06-33



Date: October 6, 2006

To: Board of Deferred Compensation Administration

From: Staff

Subject: Deferred Retirement Option Plan (“DROP”) Outreach  
& Communication Strategy

Recommendation:

That the Board of Deferred Compensation Administration receive and file information regarding efforts to develop a communication/outreach strategy for participants in DROP.

Discussion:

Over the last several months staff and the Plan Administrator have been working together to develop a communication strategy and materials for participants in the Deferred Retirement Option Plan (“DROP”) who wish to roll their DROP funds into the Deferred Compensation Plan upon separation from service. Staff’s objective has been to ensure that (1) DROP participants who are also Deferred Compensation Plan participants have all the information they need to make informed decisions regarding whether a rollover to the Deferred Compensation Plan is appropriate for them; and (2) for those who choose rollovers to the Deferred Compensation Plan, that the rollover process is clearly communicated and user-friendly.

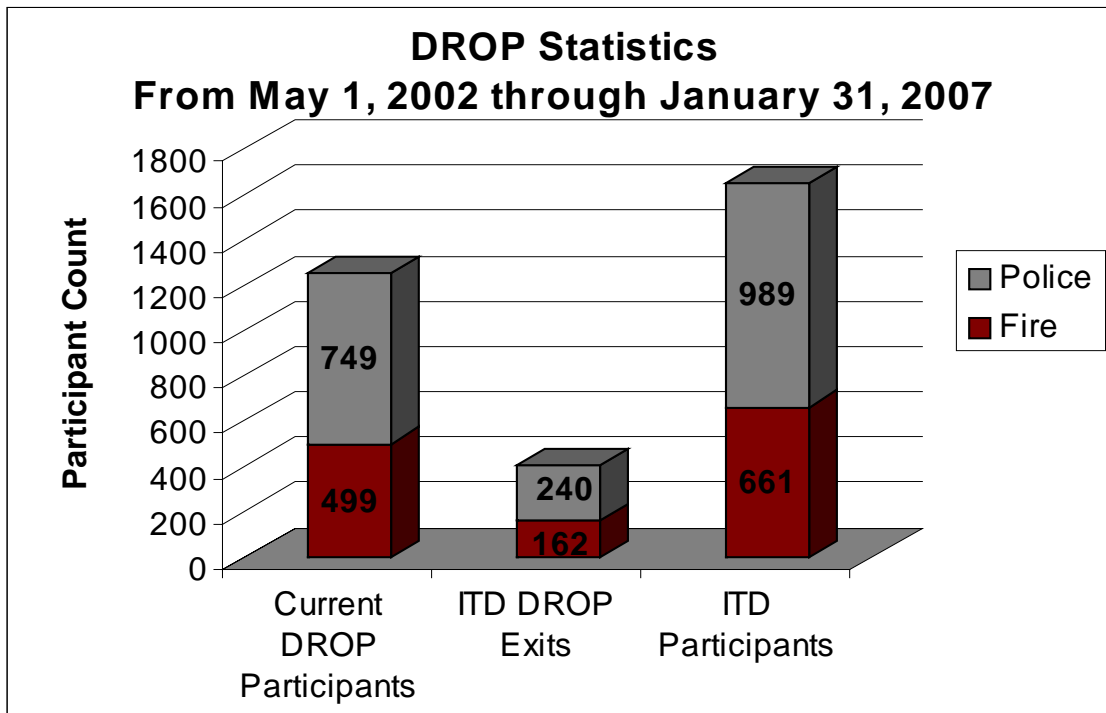
**DROP Background** - DROP is a voluntary program that allows eligible members of the Fire & Police Retirement System to receive service pension benefits while continuing to work. The intent of DROP is to slow attrition for Police Officers and Firefighters. Members may participate in DROP for up to a maximum of five years; thereafter the participant is mandated to exit the program. For example, someone who enrolls in DROP on April 30, 2007 must exit the program by April 29, 2012 (an earlier final separation date is acceptable).

While in the program, DROP participants are credited with monthly pension payments plus any applicable cost-of-living increases for those payments. DROP participants receive five-percent interest per annum, on a tax-deferred basis, on their accounts. DROP became effective on May 1, 2002 and extends through April 30, 2007; however, the City may act to continue it past this date.

Upon separation from service, DROP participants have the option of taking distribution of their accounts or rolling funds over to another tax-deferred vehicle. This could include an Individual Retirement Account or the City's Deferred Compensation Plan.

**DROP Statistics** - The Department of Fire & Police Pensions has provided a summary of projected mandated DROP exits anticipated from April 30, 2007 through April 30, 2011. Attachment # 1 provides information on projected exits per month by department and a summary by year. Approximately 492 participants are projected to exit DROP between April 30, 2007 through April 30, 2008 (over 60% within the first three months). However, as stated previously, DROP participants have the option of leaving at an earlier date.

The following graph provides a glance overview of DROP activity inception-to-date (ITD) from May 1, 2002 through January 31, 2007. ITD, 402 participants have exited DROP and over 1,248 participants are currently enrolled. In total, over 1,600 participants are enrolled in and/or have exited DROP.



**Communication Issues** – Making decisions regarding what to do with their DROP accounts may feel momentous for participants, particularly since they have the potential to accumulate significant balances in their accounts. Many of these participants have indicated a preference for using the Deferred Compensation Plan as their rollover vehicle given their familiarity with the Plan and its investment options, and its competitive fee structure. For those individuals who are interested in using the Deferred Compensation Plan, the purpose of developing a specialized communication strategy and materials has been to:

- (1) In a user-friendly way, communicate the trustee-to-trustee rollover process and manage participant expectations of the process; and
- (2) Communicate available distribution/payment options and tax implications.

The materials that have been developed are attached to this report. Staff has also worked in collaboration with the Plan Administrator and Department of Fire and Police Pensions staff to design a customized DROP exit/retirement seminar presentation for those individuals who have made the decision or are interested in rolling their DROP accounts to the Deferred Compensation Plan.

Staff participated in meetings with Pensions earlier this year to discuss outreach strategies and development of a DROP exit/retirement seminar. Pensions' strategy includes offering seminars starting in January 2007. Staff's concept is to offer a separate seminar presentation that can "piggyback" on the proposed DROP exit/retirement seminar by Pensions. The separate seminar would directly follow the Pensions presentation but would only be offered to individuals who have made the decision or are interested in rolling their DROP accounts to the Deferred Compensation Plan.

As Pensions staff conduct other seminars or need other assistance in this area, staff and the Plan Administrator will continue to make their resources and support available wherever needed. Staff will also continue to report to the Board regarding its efforts.

Submitted by:

- Natasha Zuvich
- Steven Montagna

Reviewed by:

- Maryanne Keehn