

NPEA OPTIONS

Newsletter of the National Preretirement Education Association

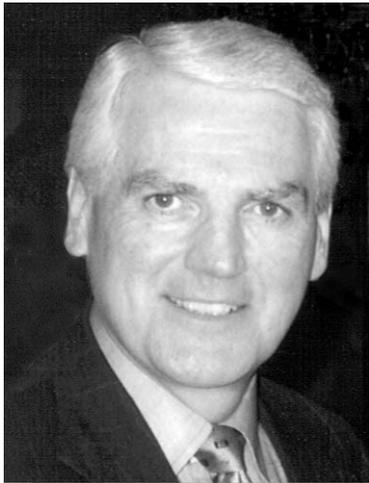
VOLUME 18

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ISSUE 1

FROM THE

PRESIDENT'S DESK



David Daly

Lessons From Enron

Like most systems, we were inundated with calls from our members wanting to know if the Enron bankruptcy would affect their retirement benefits. A lack of understanding of defined benefit plans, fueled by misleading and incorrect media reports, caused unnecessary concern for our retirees worried about the security of their pensions.

We had to reassure our members that the money lost represented a small portion of our fund's assets and would

not affect the guaranteed benefits under a defined benefit plan.

As retirement planning educators, there are several lessons we can learn from Enron. We have to increase our efforts to help our members better understand the differences between defined benefit and defined contribution plans; to make them aware of the investment risks and how benefits are determined.

We also have to encourage those in defined contribution plans to be more aware of their investment choices and the importance of seeking sound professional advice to develop strategies and make informed decisions about their financial future.

And lastly, we should be reminded of the integral part personal savings plays in retirement planning. We should continue to stress to our members the need to take advantage of every opportunity to maximize all sources of retirement income. By not relying on one or two incomes, they put themselves in a better position to face and overcome financial obstacles along the way to a secure and successful retirement.

Conference Updates

With the uncertainty following the tragic events of September 11, we weren't sure what to expect at this year's conference in St. Louis.

Fortunately, attendance was excellent and the conference went as scheduled. One thing was certain. We all left St. Louis with a greater sense of who we are and the role we play in assisting our members, who faithfully serve the public in so many different capacities, prepare for the rewards of their efforts.

As happens every year, we arrived home from one conference, and immediately began laying the groundwork for the next. We've already lined up some excellent speakers for New Orleans, October 19-23, 2002. So mark your calendars and plan to be with us as we look at "Retirement Planning in the Big Easy!" We'll have more details in the summer issue of *Options*.

Also, we'll be going west in 2004. We have selected San Diego as our conference location. The site and dates will be also announced this summer.

Systems Survey

If your system wasn't represented in St. Louis, please take the time to complete and return the State of the Systems survey on page 5. The "State of the System" session at this year's conference gave us an excellent opportunity to share our accomplishments and concerns. The conference evaluations rated this session near the top. We'll publish the results of the survey on our Web site.



clip and save



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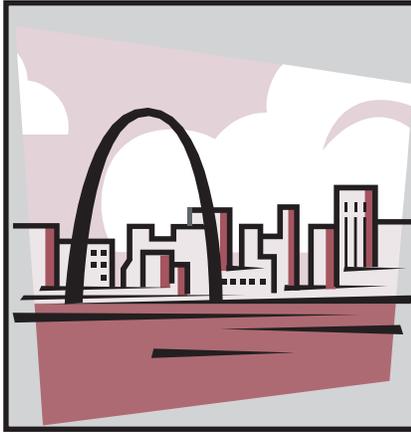
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Reflecting on St Louis

Once again, the NPEA Board did a great job of putting together a very successful, informative and entertaining conference. Our hotel was first rate and the view of the Gateway Arch from my room was spectacular. The board member who ordered good weather must have a strong connection because the weather was excellent. That, of course, made a walking sight-seeing adventure quite enjoyable. It also made for a delightful Tuesday night dinner cruise.

The 2000 conference in D.C. was quite an event and celebration as it was the 20th Anniversary for NPEA. But this year, the conference took on a special identity as well. After September 11th, many of us were not at all positive that we would be in a position to travel to St. Louis, if, indeed, the conference would still be held as scheduled. We were surrounded by uncertainty about everything from business to sports and entertainment to whether or not we would see some of our friends and loved ones again.

The St. Louis conference was billed correctly as **"Gateway to Opportunity."** We had the opportunity to expand our knowledge base; the opportunity to network with people from other states who work in the same arena; to share and gather ideas and updated information; to have a break from the daily work activities and to get motivated for another year. It was an opportunity to meet new colleagues and establish new friends. But, for me, it was also a genuine relief. Relief that I was once again given the opportunity to see some very dear and familiar faces and to be surrounded by professionals I have grown to respect and admire.

There were several first timers on hand in St. Louis and, from talking with many of them, I don't believe it will be their last NPEA conference. I hope that they, along with the seasoned members, will use the contacts established through the conference. It has been a great help for me at times to be able to pick up the phone or e-mail someone I met through NPEA. We are all in this business together and it is a tremendous advantage to have such readily available resources.

I am already looking forward to the 22nd NPEA Conference and I hope all of you are as well. If you have never experienced New Orleans then prepare yourself for a memory-making trip. Start planning now and We'll see ya'll in the *Crescent City!*

Judy Price Guy

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Future Conferences

2002 - New Orleans, LA
October 19 - 23

2003 - Destin, Florida
November 1 - 5

2004 - San Diego, CA
to be announced

Benefit Statements Top Sources of Financial Guidance

Financial planners fare well, but retirement benefit brochures and statements remain the top information sources utilized by employees, according to the 2002 Retirement Confidence Survey (RCS).

The new results show that 82% of respondents access those resources for guidance. Sixty-eight percent of employees turn to newsletters or magazines. Seminars (66%), financial planners (61%), and workbooks or worksheets (58%) round out the top five.

By age, 40-59 year olds are more likely to read newsletters and magazines for financial advice than those aged 20-39 (72% vs. 58%). And those in the 20-39 age group are more likely to obtain financial information through online services than persons aged 40-59 (57% vs. 38%).

The RCS, conducted by the nonpartisan Employee Benefit Research Institute and the American Savings Educational Council, gathered responses from 1,000 working and retired individuals.

DROP Plans: Having Your Cake and Eating It, Too! by Ronald J. Cohen

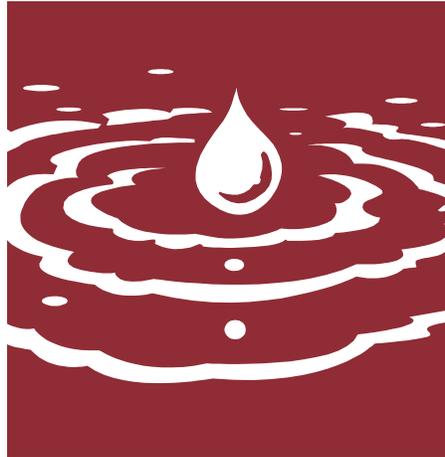
In recent years, the single most popular benefit enhancement in public employee retirement plans has been the Deferred Retirement Option Plan or DROP. This article explains how the DROP option works, and discusses the advantages and disadvantages of the option.

A DROP plan is simply a benefit option which allows a plan participant to choose to take a portion of his or her retirement benefit in a lump sum. When a person chooses to enter the DROP, service credit for pension purposes ceases. So, too, does compensation for pension purposes. The amount of the monthly pension is fixed at the time the person enters the DROP, although the participant continues to work for the plan sponsor. The monthly pension amount is credited to the participant's DROP account. The participant may not access the DROP money until he or she actually resigns from employment.

Let's take a look at how this works. Assume that a plan provides for a 3% multiplier. Assume that an employee plans on a 25-year career. At the time of retirement, the retiree will receive a pension equal to 75% of compensation. Assume that this same employee decides to enter the DROP after 20 years. That retiree's monthly pension will be 60% of compensation, significantly less than if he or she had not entered the DROP. But the pension which the retiree has earned will be paid into the retiree's DROP account. Assume that the DROP period is five years. Also assume that the 60% pension is \$3,500 per month, or \$42,000 per year. That amount will be paid into the participant's DROP account for each and every year that the retiree is in the DROP plan. This will allow the retiree to accumulate a significant nest egg, which would have been difficult to accumulate otherwise. In exchange, the retiree agrees to take a smaller monthly pension.

The money that is the DROP account can be invested in a number of

different ways. One popular way is to commingle the money with all other monies of the fund, and to invest it in the same manner that all the other money is invested. Separate accountings are made and each retiree can be credited with the overall gains of the fund or debited with the overall losses of the fund. It is only in recent years that DROP participants are experiencing losses in their accounts, and this could cause DROPs to lose some of their attractiveness. Alternatively, each retiree can be credited a fixed amount,



regardless of how the fund's investments do. This amount is customarily the actuarially assumed rate of return. A recent method that is growing in popularity is self-directed investments whereby the retiree has individual choices of investments which meet the investment guidelines of the fund.

An attractive feature of a DROP plan is that it can be designed to meet the needs and desires of the plan and the plan participants. Some DROP periods are three years. Other are five years, and some even more. Generally speaking, a retiree is not eligible for a disability retirement once he or she enters the DROP, but there are DROP plans that allow a retiree to re-enter the plan in order to apply for a disability pension. This latter feature is very rare and if the DROP does not contain it, participants should be made aware, before they enter the DROP, that they will not be entitled to a disability pension.

Contributions for the employee cease upon entry into the DROP, thereby increasing take-home pay.

The usual Internal Revenue Code rules concerning distribution of the DROP money applies. It is customary, but not universal, for DROP participants to elect to rollover their DROP monies into a qualified IRA, in order to avoid adverse tax consequences.

There can be many advantages to the employer. Not all DROPs are cost neutral, but with careful work by your actuary, many can be adopted with no cost to the employer. This allows the plan sponsor to offer a much-desired benefit at no cost to the employer. Moreover, DROP plans can increase the certainty of predicting when various positions in the organization will become vacant. Experience has shown that approximately 90% of persons eligible to enter the DROP do so on the first available date. When a participant enters the DROP, he or she must file an irrevocable letter of resignation, agreeing to resign no later than the end of the DROP period. These factors allow employers to plan, with a good deal of certainty, when positions will open up. It also allows employees to get a good fix on when they may be eligible for promotions.

DROP plans can be met with a good deal of adverse publicity. Some people consider the DROP plan to be "double dipping." That conclusion is flatly incorrect. Although the pension is being paid to the participant's account, the participant is not receiving the pension. Moreover, in exchange for the DROP money being paid to the account, the participant agrees to take a smaller monthly pension. A DROP plan is merely a trade off in which an employee gives up several things, including a large pension, the right to keep working until mandatory retirement age and the right to a disability pension in exchange for receipt a portion of the benefit in a lump sum.

Ronald J. Cohen is an attorney representing several public pension funds in Florida. He specializes in pension law and issues and is a frequent presenter at state and national conferences. He can be contacted at (954) 922-1446.



State of the Systems Survey

System Name _____

What's new in your system?

If your system has experience with any of the following, and you or someone from your system would be willing to receive inquiries from NPEA colleagues on these topics, please check all that apply (we'll be posting this information on our Web site at www.npea.com):

- | | |
|--|--|
| <input type="checkbox"/> Call Center | <input type="checkbox"/> Investment Education |
| <input type="checkbox"/> DROP Plans | <input type="checkbox"/> Defined Contribution Plan |
| <input type="checkbox"/> 403(b), 457 Plan Administration | <input type="checkbox"/> Imaging & Workflow |
| <input type="checkbox"/> Offsite Retirement Counseling | <input type="checkbox"/> Teleconference Counseling |
| <input type="checkbox"/> Video Conference Counseling/Seminar | <input type="checkbox"/> Web Calculators |
| <input type="checkbox"/> Secure Web/ Access/Member Data | <input type="checkbox"/> Employer Reporting via Web |
| <input type="checkbox"/> New Member Programs | <input type="checkbox"/> Mid-career Programs |
| <input type="checkbox"/> Post-retirement Programs | <input type="checkbox"/> New Computer Systems (please describe): |
| <input type="checkbox"/> Other: | |

Please use the space on the back of this form to list a special project or program your system has developed that you would be willing to present at a future NPEA conference.

Please provide contact information:

Name _____ Title _____
E-mail _____ Phone _____

Please fold, secure and return this form to the address listed on the back.

Name of Project/Program _____

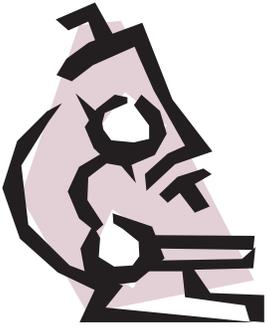
Details: _____

Return Address:

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Stamp
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Volunteers Needed for Study

You might consider sharing the following notice with your members, or anyone they know, who meet the following criteria:

- ✓ Women age 94 or older
- ✓ Men age 90 or older
- ✓ Who are interested in participating in a study of the role of genetics in human longevity

Centagenetix, a company formed by leading scientists from Harvard Medical School, is collaborating with the New England Centenarian Study of Boston University to conduct a genetic research study on aging, and volunteers meeting the above criteria are needed.

The study, formally known as the Genetics of Human Longevity Study, is designed to gain a better understanding of the aging process and the diseases associated with aging. Specifically, researchers are looking for genes that enable some people to delay or escape diseases that commonly afflict older people. By identifying these genes, researchers hope to better understand diseases such as Alzheimer's, cancer and heart disease.

Participants will be asked questions about their health and family history, and will be required to provide a small blood sample. **There is no charge to participate in the study and no travel is required.** All information shared will be kept strictly confidential.

If your members would like to participate or discuss the study in further detail, they may contact Stephanie Jo Brewster, Manager of Research Study Recruitment, at Centagenetix' toll-free number **866-548-3100**. They may also contact Ms. Brewster by e-mail (sbrewster@centagenetix.com).

Visual Aids: Get the Most Impact

Whether it's a power point presentation, overhead or flip charts, to get the most impact from visual aids at meetings, follow these tips:



- Don't show a visual aid until the exact moment you plan to discuss it.
- When you do reveal it, give the audience a few seconds to take in the information before discussing it.
- Make one point per visual, with minimal and readable text.
- If the visual is complicated, offer guidance and take the time to point out its details.
- Point only to the visual to clarify — otherwise focus on the audience. You'll give the impression that you know your stuff.
- Be creative. Do the unexpected. Some ideas: Use a live model, or members of your audience as visual aids.

(Successful Meetings)

