

# City of Tampa General Employees' Pension Plan DROP Low-risk, Variable Rate Option

## Frequently Asked Questions (FAQs)

### **Florida House Bill 229: Section 26 - DROP**

*(D) Interest and Administrative Costs - Interest shall accumulate annually, whether positive or negative, during the DROP calculation period, less the cost of administering the DROP, all of which shall be determined by the Board of Trustees. A DROP participant shall have the opportunity to elect, as provided in this subsection, an investment option to be applied to such DROP participant's account for the Plan Year when entering the DROP and for each subsequent Plan Year. In such election, the DROP participant shall choose to have interest accumulate annually, whether positive or negative, at either:*

- (i) A rate reflecting the Fund's net investment performance, as determined by the Board of Trustees, or;*
- (ii) A rate reflecting a low-risk variable rate selected annually by the Board of Trustees in its sole discretion.*

*Each election must be made at such time, on such forms, and in such manner as the Board of Trustees may determine in its sole discretion. If the DROP participant fails to make a valid election upon entering the DROP, the Fund interest rate shall be applied as provided herein. If the DROP participant fails to make a valid election in a subsequent Plan Year, the election for the then-current Plan Year shall be applied."*

#### **1. What is the purpose of this new low-risk, variable rate option for DROP?**

To provide the opportunity for risk adverse DROP participants to choose a less risky option for their DROP money than the pension fund's return. The primary purpose of this low-risk, variable rate option is **capital preservation** - not growth and not income.

#### **2. When does this option become available?**

October 1, 2011.

#### **3. When can I sign up for this low-risk, variable rate option?**

Between August 1-31, 2011 and each August 1-31 thereafter while you are in DROP.

#### **4. How many times per year can I change my DROP return option?**

Once per year in August.

#### **5. Why select in August?**

The deadline for selection of this benefit option is September 1, 2011. The fund's fiscal year begins October 1 and the Board of Trustees and City staff need time to distribute confirmation letters to DROP participants and to properly record the participants' investment option election in the City's pension computer system.

#### **6. How do you envision this working for someone who is in DROP for 5 years?**

Everyone's financial objectives are different. It is assumed that many DROP participants starting out may choose DROP Investment Option 1 for the 1st, 2nd and probably 3rd year if the market is stable and fund returns are positive. However, in their 4<sup>th</sup> and 5<sup>th</sup> year when they have the highest amount of DROP money at risk, it is assumed that some may become more risk adverse and choose the low-risk variable rate option in the last year or two of DROP to minimize

potential loss of capital. Of course no one can predict human behavior or the capital markets with precision.

- 7. Let me give you a hypothetical situation--if I choose the fund return in September 2017, but the market goes way down in say, January 2018, when is the soonest I can change to the low-risk, variable rate option?**  
August 31, 2018. You may change your DROP rate option once per year in August.
- 8. What is the low-risk, variable rate investment instrument which the Board has chosen?**  
On August 16, 2011, the Board selected a 2a-7 Money Market Fund with JPMorgan Chase Bank.
- 9. Why is the low-risk, variable rate option so low?**  
There is a risk / return tradeoff in any investment. Low-risk generally yields low return. Higher risk generally yields higher return in order to compensate for the risk being taken. Recall that the primary purpose of this new low-risk variable rate option is **capital preservation** / safety of capital. The market yield on very low-risk investment vehicles is very low right now.
- 10. So this new low-risk variable rate option is just like the Nationwide fixed account or the FRS fixed rate for the FRS DROP?**  
No. It is not a *fixed* rate; it is low-risk and will vary with the market.
- 11. Does this new low-risk, variable rate option guarantee that I can't lose any money?**  
No. There are no guarantees. However, it is highly unlikely that the return on such a low-risk vehicle would turn negative—approach zero, yes, but significantly negative, highly unlikely.
- 12. I'm already in DROP now (before 9/1/2011), what if I want to stay with the fund return?**  
You will still need to complete an election form and select DROP Option 1. This is a policy mandated by the GE Pension Board that ensures proper documentation is on file for each and every DROP Plan participant.
- 13. Will I be required to make an election one way or the other in future years while I'm in DROP?**  
Yes, an election form will be sent to you every year in August, requiring that you formally make a selection for your DROP investment. Even if you select the same option year after year, an election form must be completed and on file in the Pension Office.
- 14. Can I keep a partial balance in Option 1 and put the remaining in balance in Option 2?**  
No. If you elect to move to DROP Option 2, your full balance will move from Option 1 to the new fund. You will not be able to keep a partial balance in DROP Option 1 and the remaining balance in DROP Option 2.

Notes:

*These FAQs are intended to provide general information. If there is a conflict between this document and the pension plan document, the pension plan document shall prevail.*

*A preliminary rate of return may differ from a final, actual rate of return once the books have been closed on the fiscal year ending September 30<sup>th</sup>. Generally the final rate of return will be available by the November Board Meeting.*

***Past performance is no indication of future performance.***