

Below is a copy of the memo we received from PSPRS concerning the change in interest rates that will be paid on future DROP accounts. **Please note that if you are already in DROP this does not affect you.**

If you are considering entering DROP in 2006 it may have an effect on your decision about the date you select to start. In a nutshell, the interest rate you will receive if you enter DROP after July 1, 2006 will be variable. That means it could go down (or up if the fund does well).

Before you make a decision to DROP you need to consider the difference a 1% reduction in the interest rate on your DROP makes. I went to the PSPRS website and plugged in a retirement amount of \$4000 per month at different interest rates. The results are in the table below.

Monthly Pension Amount	Interest Rate	DROP account after 60 months	Difference
\$4000	8.5%	\$291,921.60	
\$4000	7.5%	\$284,227.14	\$7694.46
\$4000	6.5%	\$276,786.11	\$15,135.49

As you can see from the retirement estimates a reduction in the interest rate of 1 or 2% may not be significant enough over 60 months to warrant retiring before you planned to. If you received no interest and only had the amount of your benefit (\$4000) going into your DROP account you would still receive \$240,000 at the end of 60 months.

Every member's situation is different and you should consult a qualified financial planner before making a decision, especially if it involves retiring earlier than you originally planned.

As further information is available we will get it out to our members.

Sam Halverson  
Charlie Cluff

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM  
MEMORANDUM

TO: PSPRS LOCAL BOARDS  
FROM: TRACEY PETERSON, ASSISTANT ADMINISTRATOR  
SUBJECT: DROP  
DATE: DECEMBER 27, 2005

At the Fund Manager Meeting held on December 14, 2005, the Fund Manager decided that effective July 1, 2006, the interest rate credited to the DROP participation accounts could vary during the time a person participates in DROP, up or down, depending upon the assumed earnings rate set annually by the Fund Manager.

This means that anyone who elects to participate in DROP on or after July 1, 2006, or whose effective date of participation begins on or after July 1, 2006, will have an interest rate that may vary year-to-year depending upon the assumed earning rate set by the Fund Manager. Currently, the assumed earnings rate is set at 8.50%. The Fund Manager will set the assumed earnings rate for the fiscal year beginning July 1, 2006, at their meeting scheduled for January. This decision does not impact those participants already participating in DROP.

For those members that wish to participate in DROP and continue to receive a fixed rate of interest at 8.50%, they must execute the necessary documents and make the election to participate with the effective date of participation prior to July 1, 2006.

If you have any questions or concerns, please give me a call at (602) 255-5575.