

# Memo

## FIREFIGHTERS' RETIREMENT SYSTEM

**To:** All DROP/IBO Participants  
**From:** Steven Stockstill  
**Date:** September 18, 2008  
**Subject:** DROP/IBO Interest

Members: The purpose of this memo is to clarify the way interest is posted to DROP and IBO accounts. Interest is posted after the actuarial rate of return has been approved by the FRS board of trustees. The interest is usually approved in or around October, posted in December, and paid in January.

There has been one change. The old policy allowed a person to withdraw all of his DROP/IBO funds at anytime during the year and his closed account would be posted with actuarial interest at the end of the year. Interest was based on the balances kept in the account before the withdrawal. The system sent that person an interest-only check the next January. Under the new policy, a person can still withdraw all of his DROP/IBO funds at anytime during the year, but now, if he withdraws all of his funds before the actuarial interest is posted at the end of year, then he will be paid investment interest at the time of his withdrawal.

In that case, the interest is based on the investment report received from the system's investment consultant. The investment interest rate is higher than the actuarial interest rate, because of differences of accounting techniques required to be used by the investment consultant and actuary. For that reason, an adjustment factor is applied to the interest received at the time of withdrawal. The investment interest rate will then be equal to the actuarial interest rate (or as close to equal as possible). Again, this only applies to members who withdraw their entire DROP/IBO balance before the end of year posting. Balances that are drawn down to \$1,000.<sup>00</sup> or less are automatically closed by the system and the balance is mailed to the member.

This change means the payment of interest is now synchronized with the period that it is earned. It also means interest is paid at the time of closing a member's DROP/IBO account, instead of January of the next year. The change only applies to members who close out their DROP/IBO accounts. If you are participating in the money market DROP account, your interest will continue to be posted as is and without change. If you are part of the "grandfathered" DROP/IBO class, your interest will be posted as stated above, but you are still not subject to negative interest. The grandfathered class are those members who began participating in DROP/IBO (or became eligible to participate) in DROP/IBO on or before December 31, 2003.

This is complicated. If you have any questions or need any additional information or assistance, please feel free to call me at the retirement office. The number is (225) 925-4060. Thanks. Steven.