



POLICE PENSION NEWS



A Hollywood Police Officers' Retirement System Publication

Issue 3

Date of Issue:

Third Quarter 2002

SECOND QUARTER PENSION FUND SUMMARY

As of June 30, 2002, our fund had a total market value of \$142,254,000. For the quarter, the fund lost \$5,745,000.

in the second quarter of 2002. The worst performing sector was information technology, which dropped 26.04%.

The discount rate is the interest rate that the Federal Reserve charges banks for short-term loans.

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On June 30th, our fund was 51% invested in stocks, 42% in bonds, and 7% in cash equivalents (i.e., short term liquid interest bearing investments similar to money market funds).

Our ongoing target for investment in stocks is 54% of the total fund we will usually be near that target, perhaps a little bit above or below.

For the quarter ended June 30th, the total fund lost 3.87%. Compared to the previous quarter, where the fund gained 1.75%. For the period since 10-01-2001, the plan experienced a gain of 3.88%.

Stocks in general, large, small, international were down, while bonds were up for the quarter.

The best performing sector among US stocks was materials, which declined 2.65%

As you may recall, the worst performing sector for last quarter was telecommunication services, which dropped 15.9%.

Among the major economic indicators, the Consumer Price Index (CPI Urban) rose only 1.1% for the twelve months ended in June. This compares to an increase of 1.5% for the twelve months ended in March 2002.

The Producer Price Index (PPI) for finished goods declined 2.1% for 12-month period ended in June. The seasonally adjusted annual rate for the 3 months ended in June was -2.0%.

The unemployment rate was 5.9% in June, compared to 5.7% in March.

Real Gross Domestic Product (GDP) rose at an annual rate of 6.1% (final) for the first quarter, 2002, compared with an increase of 1.7% (final) in the fourth quarter, 2001.

The Federal Reserve maintained the discount rate at 1.25% in the second quarter of 2002.

457 Transfers

The Board of Trustees has amended the DROP Plan to receive direct transfers or rollovers from governmental 457(b) plans. As such, DROP participants have the opportunity to rollover their deferred compensation account into the DROP. *The 457 money will be credited based the variable rate of return of the plan. It is not eligible for the fixed rate of return.*

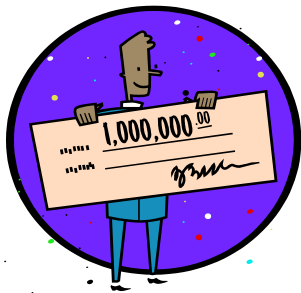
This means that when an *Active DROP* participant leaves the department he/she has the ability to roll their deferred comp account over to their established DROP Account. This option would also be available to *Inactive DROP Members* with an existing 457 Account. This rollover is in accordance of Internal Revenue Code Section 402(c)(4).

Distributions should be made payable to the *City of Hollywood Police Officers' Retirement System* on your behalf. Payments are to be mailed to the Office of Retirement. Call for details.

Web Site Wins Awards!!!

The Board of Trustees are proud to announce that your new web site is a recipient of multiple web site awards!!!





SHARE PLAN NEWS

As of this publication, active members should have received a “Share Plan Booklet” Members may also review and print out a copy of the “Share Plan” provisions as approved by the Board of Trustees on June 28, 2002 on the Internet.

The document may be located on the pension plan website at www.hollywoodpolicepensionfund.com. The document may be viewed directly from the site, and/or downloaded as an Adobe file.

A new “Share Plan” file system has been created for our computer network. With this new program, a “Share Account” will be opened and maintained for each active pension plan member.

Representatives from the State of Florida, Division of Retirement have informed me that our state revenue funds will be released

shortly. We have no control when the check will be released. Once the money is received and the deposit is made, the money will be divided among the active members and deposited into your personalized “Share Account”. When this happens, you will receive a written statement of your account from the plan. This statement will be sent out to you annually.

The *second phase* of this program is offering accessibility to your “Share Account” to you on-line. This will be a voluntary program, and this information will be posted only upon your request. With on-line access, you will be able to track the balance of your account on a monthly basis.

A “Request for Internet Access” form may be obtained from the pension plan website under the heading “Forms”. Simply complete the form on-line, print it out, sign it and forward a hard copy to the office. When the *second phase* of the program is in place, you will be notified.

Should you have any questions, kindly give us a call at the Office of Retirement.

DROP Return Update



As reported in the last newsletter, pursuant to contractual negotiations, DROP participants will be able to elect a fixed rate of return (FRR), which is the assumption rate of return (*currently 8% annually*) or a variable rate of return (VRR) and continue to receive the plan’s rate of return starting October 1, 2002. **A minimal administrative fee is charged against either option selected.**

The Board of Trustees have selected four window periods to make a “DROP Investment Return Selection”. They are as follows: August 1-31st for the October 1 Quarter; November 1-30th for the January 1 Quarter; February 1-28th for the April 1 Quarter and May 1-31st for the July 1 Quarter.

NOTE: Once a selection is elected, you are locked into that option for one year. For example, if you would like a FRR beginning October 1, 2002 you must exercise that option in the month of August 2002 and it will remain in effect at least till September 30, 2003. In August 2003 you may do nothing and remain with the same option, or opt out. If you do nothing, you may opt out during any window period thereafter, but once another selection is made you are once again locked in for one year as presented above.

The Board of Trustees recommends that you consider all your options before making a selection, and consult your financial advisor for direction.



Hollywood Police Alumni Association

4th Annual Reunion — October 4-6th 2002

The reunions are open to all current and former

Hollywood Police employees and their guest.

Call the Office of Retirement for details

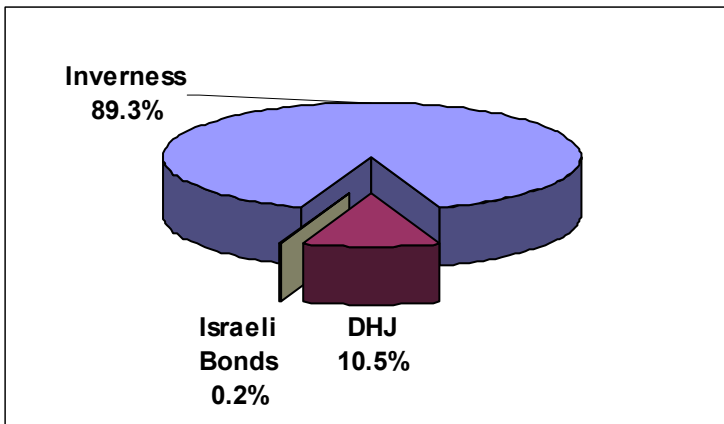


Total Fund Summary

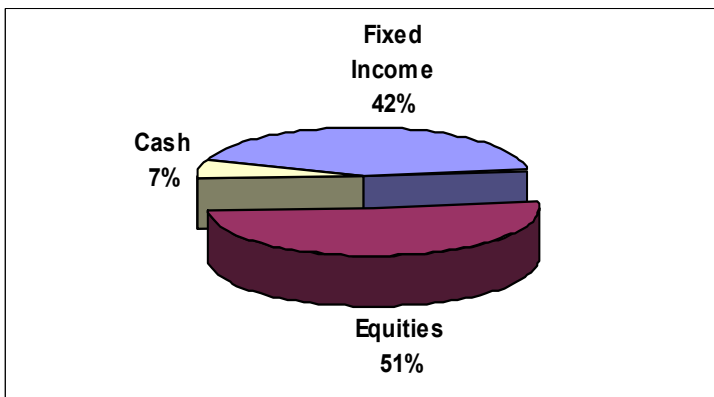
One Year For the last twelve months, the rate of return of the fund was -1.94%. (Fiscal year rate of return is in positive territory with a 3.88% return). We beat our investment benchmark which was -6.62%. Both our stocks and our bonds beat their separate markets. Stocks were down 10.10%, while the benchmark was down 17.52%. Bonds were up 8.71%, while the benchmark was up 8.21%. Our core equity (stock) manager, Inverness, outperformed our growth stock manager, Davis Hamilton Jackson, for the year ending June 30, 2002, -8.62% vs. -15.59%, both beat the S&P 500 which was down 17.99%.

Long Term Since September 30, 1992, the fund has an average annualized rate of return of 9.23% per year. For the last five years, the total fund has an average annualized rate of return of 5.76% per year, which beat the overall combined stock and bond markets' 4.95% return. During that time, stocks averaged 4.44% and bonds 7.43%, while their respective benchmarks averaged 3.64% and 7.34%. Over most time periods in the past, the overall stock market has beaten the bond market.

Division of Assets by Investment Manager



Your Plan's Asset Allocation



RETIREE CORNER

Congratulations to our latest Retirees

Greg Brand	04-30-02
Shawnee Fross	05-05-02
John Wilson	05-31-02
Rodger Schilling	06-01-02
Randy Horne	06-03-02
Ben Russo	06-15-02
Scott Feder	06-17-02
Brent Biagi	07-02-02
Bill D'heron	07-12-02
Gregory Brilliant	07-22-02

Congratulations to our new DROP Member

John Kerns	07-01-02
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Retirees: If you have an announcement to make, please let us know. We will incorporate it in our next newsletter!

Get cool summer tax breaks with these hot tips By Jeff Schnepfer

Squeeze some overlooked tax breaks out of your work, travel and vacation this summer. Pay your kids to work, define that vacation 'home' and talk shop when you entertain.

It may be hot and humid this summer, but here are some ways to cool off the Internal Revenue Service with a series of tax tips specifically for summertime. I've even included my *best tax tip* in each category to make the most of these hot days.

Let your children work

Your children are home from school over the summer. Put them to work! Each of your children can earn as much as \$4,700 *tax free* in 2002. They can earn another \$2,000, put it in an IRA, and still pay no tax. That's a total of \$6,700 in tax-free income.

As long as you provided more than half their support, you can still claim them as your dependents. If they spend all their earnings (big surprise), then you can gift them the dollars necessary to fund their IRAs.

That's the good news if your children work for someone else. If they work for you, the news gets even better. Not only are the dollars going to the children tax free, but if they also work for your business, you get to deduct their earnings.

Best tax tip: Moreover, if you are not incorporated and your children are under age 18, no Social Security or Medicare taxes have to be paid, nor do, normally, unemployment or disability taxes.

If you hire two children, age 16 and 17, to work for your unincorporated business, and pay each one \$6,700, they can pay zero tax and you get a (combined) deduction of \$13,400. This deduction reduces your income both for income tax and for Social Security/Medicare taxes as well. If you are in the 27% bracket in 2002, with a 15.3% Social Security/Medicare rate, that saves *you* \$5,668 in federal taxes alone!

How old do your children have to be before they can go to work? Normally, state labor laws require them to be at least 14, but if they work for you, the

IRS has allowed deductions for children as young as 7. Just make sure the wages you pay them are reasonable in relation to their ages and what they do. And yes, you really have to pay them.

Send 'em to camp

If you can't put your children to work, at least get them out of the house. If both you and your spouse work (or if one is disabled, or going to school), you can qualify for the child-care credit. That's a dollar-for-dollar reduction in your tax.

Your child must be under 13, but the credit can be as much as 30% of what you spend on "child care." The deduction is good for up to \$2,400, for up to two children. The minimum credit is 20%, no matter how much income you earn. That means that you can get a direct reduction in your tax bill of as much as \$1,440 each year (two children at \$2,400 = \$4,800; \$4,800 x 0.3 = \$1,440; the minimum credit for two children at \$2,400 each is \$960). As of January 1, 2003, the maximum credit increases to 35% of \$3,000 x 2 or \$2,100.

Best tax tip: Qualified "child care" includes not only the cost of a babysitter, but includes what you pay for summer day camp (sleep-over camp doesn't qualify).

Vacation homes

You can deduct the real-estate taxes on a vacation home, as well as the interest on any second home. Here's where it gets interesting.

A "second home" is defined as any place with sleeping, cooking and bathroom facilities. That would include not only the traditional second home, but boats and motor homes as well. The interest on these vacation "properties"

But we're not done yet. If you rent out your second home for more than 14 days and also use it yourself for more than 14 days, or more than 10% of the number of days it is rented (whichever is greater), any rental income received is taxable. You can deduct rental expenses up to the amount of income recognized. Losses are carried forward to when the property begins to generate positive income.

If you rent out your second home for more than 14 days and you don't use it yourself for more than 14 days, or more than 10% of the number of days it is rented (whichever is greater), then the normal passive investment rules apply. It's treated like a normal investment property.

Best tax tip: If you rent it out for 14 days or less, you get to deduct interest and taxes, but the income received is tax free!

Travel and entertainment

We all know that business travel and entertainment are deductible. The summer season gives you the opportunity to enjoy your life further -- on a tax-deductible basis.

Forget about your summer "vacation." However, summer "business" trips are fully deductible. There's no reason why you can't combine business with pleasure.

To deduct your travel costs (airfare, train, etc.), more than half the days away must be business-related. Your other expenses (food, hotel, dry cleaning, etc.) are deductible depending on whether the day is a business or a pleasure day. If Friday or Monday are business days, so, too, are the week-ends.

Please continue on page five

TOP 10 EQUITY HOLDINGS (STOCKS)

June 30, 2002

<u>INVERNESS</u>	<u>DAVIS HAMILTON JACKSON</u>
Carlisle Companies	ExxonMobil Corp.
Johnson & Johnson	Wal Mart
Union Pacific	Pfizer
Conagra Foods	General Electric
Bank America	Microsoft Corp.
Pepsico Inc.	US Bancorp
Honeywell	Wells Fargo.
Motorola	Pepsico Inc.
Greenpoint Financial	Johnson & Johnson
IBM	3M



Dick Hynds, President of the Hollywood Police Alumni Association and Ted Coombs (pictured L-R) come by the office to meet with Dave Williams and Cheryl Winton (not pictured)

Summer Tips

Con't from page four

Best tax tip: When you're at home, you can still have fun as well. Go ahead, plan that big back-yard barbecue, but make sure that at least half of the guests are business clients or people who you'd like to become clients. During the party, you **must** discuss business. However, if you spend \$2,000 on a pool party and 70% of your guests are business related, you get to deduct \$700 of the cost. (How did I get that number? $\$2,000 \times 0.7 = \$1,400$. Tax laws then say you can only deduct half of your entertainment costs, so now you're at \$700.) Make sure you keep good records of who came, their business relationship and the business discussed.

Substantiation is the key with all deductions. No receipt equals no deduction.

Jeff Schnepfer is the author of the best-selling, "How to Pay Zero Taxes," which is in its 15th edition. He has written several other books on finance and taxation including "TurboTax Deluxe," "How Much is it Worth? Asset and Business Valuation," "The New Bankruptcy Law: A Professional Handbook," and "Inside the IRS, How it Works (You Over)." A former professor of taxation, accounting and finance, Schnepfer has argued before the U.S. Supreme Court and has appeared on numerous national and local television programs. He lives in New Jersey.



A recent e-mail from a retiree:

If you bought \$1000 worth of Nortel stock one year ago, it would now be worth \$49.

If you bought \$1000 worth of Budweiser (the beer, not the stock) one year ago, drank all the beer, and traded in the cans for the nickel/aluminum deposit, you would have \$79.

It is therefore financially prudent in these troubled times to drink heavily and recycle.

Please Visit Us !!!

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Think you have trouble?

Just think how we feel when we send you something in the mail and it is returned by our friends at the US Postal Service. Have you moved recently? Did you let us know? If not or unsure, take the time to complete a change of address form. Available on-line or by calling the office. *Please keep us in the loop!!!*

Disclaimer

The information contained herein is provided for informational purposes only. The foregoing information/summary/prices/quotes/statistics have been obtained from sources we believe to be reliable, but cannot guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes investment, tax and/or legal advice from the Board of Trustees and/or any and all entities thereof. Please consult your professional investment, tax and/or legal advisor for such guidance.

Odds and Ends



In Memoriam

The Board of Trustees wishes to extend their condolences to *Retiree Jim Prigodich* for the loss of his wife *Dori*, and to *Mary Barbetta* for the loss of her husband *Retiree Fred Barbetta*.

Internet Access

Drop Members who would like to access their accounts may again do so. If you currently have a password, you may enter and review the latest information known about your account. If you do not have a password for your account and would like to establish one, you must complete and return a "Request for Internet Access" form. You may find this document on the web site on the forms page.

Print it out, fill it out and drop it in the mail or bring it by the office. We will have you up and running with the latest details of your account.

DROP Provisions

You may now review the latest DROP Provisions as revised April 1, 2002. The provisions may be viewed on the pension web site by entering the DROP Plan portion of the site. Once there click on the DROP provision icon. If you do not have access to the web, you may call the office for a hardcopy.

Forms now on-line

Change of Address, Direct Deposit and Tax Withholding forms are now available on the pension web site. This service is being offered in an effort to better serve you, and expedite your requests. Don't fear, you may still call the Office of Retirement should you need a form as well.

Attention In-Active DROP Members

If you are a DROP member who receives an annual distribution in January and you wish to change the amount received, you must do so before September 30th 2002.

This does not apply to DROP members who are receiving a DROP Annuity payment, unless otherwise provided by law.

When determining the amount to withdraw, please consider this. Many members factor in the 13th check as part of their income. *With the dismal market conditions, it is unknown what, if any 13th check will be issued next year.* For that reason, please take the time to think about your income level required. Kindly call the office for details.



Congratulations!!!

To Cathy (*Board Trustee*) & Jeff Marano for the birth of their daughter. **Cameron Eve** was born June 26, 2002 at Hollywood Memorial Hospital. Mom, Baby & Dad are doing well

Ponderism:

Laughter is the brush that sweeps away the cobwebs of the heart.