

POLICE AND FIRE PENSION

City of Lincoln, Nebraska

555 South 10th Street, Room 201, Lincoln, Nebraska 68508

Dear Police and Fire Pension Member:

Enclosed is your calendar year **2003** pension statement, an estimate of your normal age and service retirement benefits, and a Summary Annual Report. The pension statement shows your account's activity and your primary and secondary beneficiaries. If none are listed, your spouse is automatically your primary beneficiary. *Please call 441-8749 to request a beneficiary form if you would like to change or add a beneficiary.*

The benefit estimate assumes a 4% annual salary increase and a 7.5% annual return rate on assets. To help you in financial planning, benefit estimates for any future separation date are available at no charge (call 441-8749).

Below are calendar year end figures on members and benefit payments.

	1999	2000	2001	2002	2003
Active Member Count	545	565	580	540	526
DROP Member Count	N/A	N/A	27	52	62
Pensioned Member Count	293	300	303	308	309
Regular Pension Benefits	\$3,519,095	\$3,762,074	\$3,880,513	\$4,292,587	\$4,434,567
COLA Benefits	\$214,286	\$235,834	\$244,212	\$253,696	\$264,302
DROP Benefits	N/A	N/A	\$2,498,658	\$2,428,140	\$2,200,556

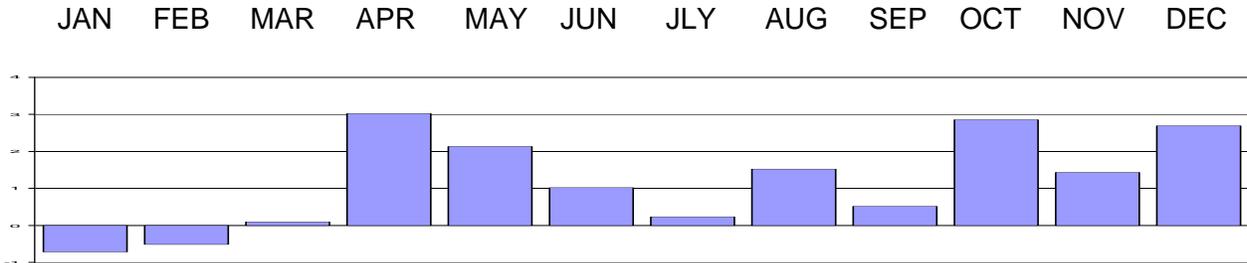
Deferred Retirement Option Plan

To be eligible for DROP a member must be eligible for normal age and service retirement. This is age 50 and 25 years of service for Plan A members, or age 53 and 21 years of service for Plan B and C members. DROP allows a member to retire for pension purposes, but to continue working. The member receives a check from his or her work, and the member's monthly pension benefit would be deposited into the member's DROP account. Members of Plan B or C could also chose to have his or her accumulated pension contributions and interest deposited into his or her DROP account. The member chooses how to invest the money in his or her DROP account from a menu of choices. Members can monitor and make changes to their account using a secured site on the internet.

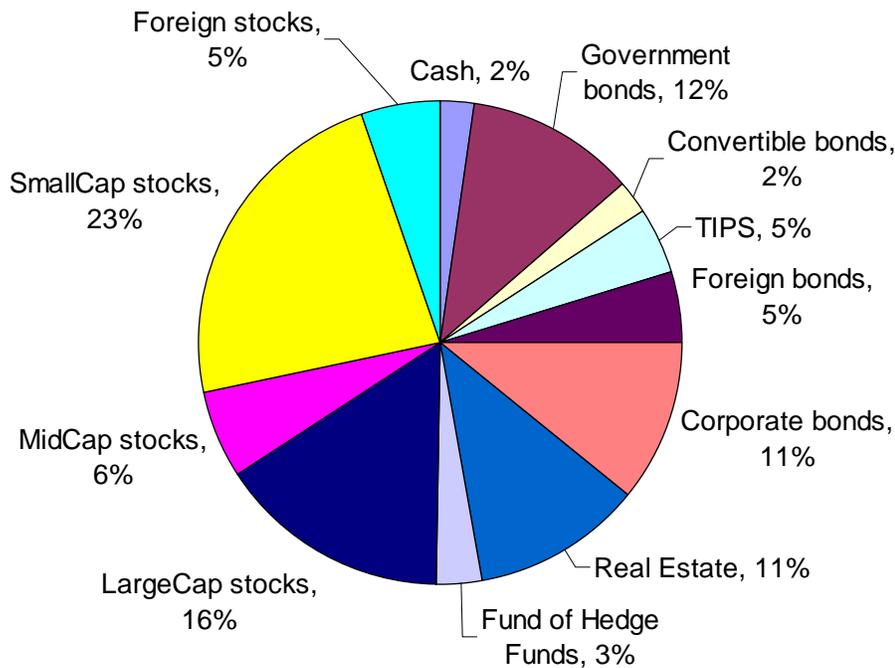
The member may exit DROP at any time, but after five years of participation the member must exit DROP and "retire-in-fact." When the member retires-in-fact his or her monthly pension benefit will be paid directly to them and they will have access to the money in their DROP account.

Assets

The compounded return for calendar year 2003 was 15.1486%. Below is a graph of the monthly returns. Each horizontal line represents 1%.



We are continually seeking the best asset allocation. In 2003 real estate, Treasury Inflation Protected Securities (TIPS), convertible and foreign bonds were added to the mix. Pension assets are well diversified by location, size, growth vs. value, products and services, and income vs. capital appreciation. Below is a pie chart illustrating one way to show the diversification.



The pension fund is in excellent financial health. Assets benefited from a rebound in equity returns and are allocated to take advantage of future economic upturns while limiting downside risk. Continued financial health depends on both asset returns and City contributions. We are working closely with the Finance Department and Mayor's Office to move toward increasing the City's pension contribution to the full normal cost of providing plan benefits.

Check out the Pension's Web Site.

The pension has a home page on the City Internet site under the Personnel Department. You can go to it directly by entering <http://www.ci.lincoln.ne.us/city/person/clascom.htm> in your browser software. Once there you can view:

- Plan A, B, and C General Benefit Brochures, DROP Brochures, and applicable Lincoln Municipal Codes.
- Minutes of past Advisory Committee meetings.
- Prior Annual Letters to Members (like this letter)
- Retirement Planning Links
- Roth IRA Component (of the Payroll Deduction Investment Plan)

Please plan for your financial future.

The City of Lincoln offers payroll deduction savings programs for the American Funds family of mutual funds, U.S. Savings Bonds, 1st Choice Credit Union, Deferred Compensation, College Savings Plan, and the Roth IRA.

- Deferred Compensation is a program that allows you to save and invest for your retirement. In 2004 you may defer up to \$13,000 of your income. If you are over age 50 you may contribute an additional \$3,000 for a total of \$16,000 in 2004. Contributions are deducted from each pay check. You may increase, decrease, stop, and re-start contributions as often as you wish. Federal and state taxes are deferred until your assets are withdrawn. Assets can be withdrawn if you leave City employment, or at retirement. You may choose one of three providers, Ameritas, ICMA or Nationwide. All offer many investment choices including stock, bond, and guaranteed funds. All offer telephone and internet services so you can direct the investment of your assets.
- The Roth IRA is also a program for retirement savings. In 2004 you may invest up to \$3,000 of your income. If you are over age 50, you can invest \$3,500. (You must earn less than \$110,000 if single or \$160,000 if married and filing jointly). Earnings are completely tax free if withdrawn after five years due to attaining age 59 ½., death, disability, a first time home purchase (Max. of \$10,000) or for college expenses.

Please call John Cripe (441-7879) or Paul Lutomski (441-8749) for more information on any of the topics mentioned in this letter or for any of your pension needs.

Respectfully,

Don W. Taute
Personnel Director