

**COMPARATIVE ANALYSIS:
CITY OF AURORA-POLICE MPPP AND FPPA
RETIREMENT PLANS**

**Prepared for: The Board of Trustees of the City of Aurora-Police
Money Purchase Pension Plan**

Prepared by: Retirement Plan Design, Inc.

March 17, 2005

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Date: March 17, 2005

To: City of Aurora-Police MPPP Board of Trustees

From: Retirement Plan Design, Inc.

RE: Comparative Analysis of City of the Aurora-Police MPPP and
FPPA Retirement Plans, and Analysis of APA December 2004 editorial's
comparison of the City of Aurora-Police MPPP and FPPA Re-affiliation

At the direction of the Board of Trustees of the City of Aurora-Police Money Purchase Pension Plan (MPPP), our firm has conducted a comprehensive analysis of the retirement plans offered through the Fire and Police Pension Association (FPPA) and your current local defined contribution plan. Additionally, at the MPPP Board's request, we will conduct a separate analysis of the review and comparison of these plans published in the Aurora Police Association's December 2004 *Roll Call* newsletter. In accordance with the Board's stated criteria, this firm's assessment will include an examination of the accuracy of these published comparisons and representations. The complete report of our analysis for the first project is provided herein. The report for the separate analysis of the *Roll Call* newsletter article will be forthcoming as soon as is administratively possible.

Sources of information - Research for the projects referenced above was conducted utilizing numerous sources, including:

- Colorado Revised Statute Title 31, Article 31
- Internal Revenue Code § 401 and § 415
- FPPA Publications: 2004 Member Handbook, Comprehensive Annual Financial Report Year Ending December 31, 2003, FPPA Statewide Defined Benefit Plan Actuarial Valuation as of January 1, 2004
- FPPA Electronic Information and Calculators contained at www.fppaco.org
- Report of the Colorado State Auditor – Performance Audit, November 2003
- Conversations with FPPA representatives, FPPA-affiliated employer representatives and MPPP participants

Specific source information is provided in the footnotes section of this document. The following analysis was prepared with extensive care and attention to detail regarding accuracy of representations provided herein, based upon the reliability and interpretations of the sources utilized.

Condition Summary

FPPA recently adopted 2003 statutory revisions, which permit, among other things, that local money purchase pension plans may irrevocably re-affiliate with FPPA and elect to participate in any of three FPPA retirement plans. Numerous other public safety departments report re-affiliation solicitation activities from FPPA. Participants of non-affiliated employers are being encouraged by FPPA representatives and supporters to discontinue their local money purchase pension plan in exchange for participation in FPPA's defined benefit, defined contribution, or hybrid plan. The stark differences in these options, and the many factors that require contemplation, are the subject of heated debate among many public safety departments. We have found much of the resulting concern is primarily attributable to the participants' inaccurate understanding of comparative benefits and potential consequences as a result of the difficulty in comparing benefits, features, and services. These misinterpretations of benefits, and sometimes, outright errors, are causing bias and incomplete or misleading information to be communicated to others.

**COMPARATIVE ANALYSIS OF THE CITY OF AURORA-POLICE
MONEY PURCHASE PENSION PLAN
AND FPPA RETIREMENT PLANS**

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A. FPPA STRUCTURE AND OPERATIONS

FPPA offers and/or administers several retirement and benefit plans for Colorado public safety personnel. Defined benefit-type (DB) plan assets are combined together for investment purposes in a common fund, while other plan assets are administered by Fidelity Investments. The plans offered through FPPA include the following:

- Statewide Defined Benefit Plan: retirement plan for firefighter and police employees hired on or after April 8, 1978.
- Statewide Money Purchase Plan: effective January 1, 1995.
- Statewide Hybrid Retirement Plan: effective January 1, 2004.
- Statewide Death and Disability Plan
- 457 Deferred Compensation Plan
- Affiliated local plans that include:
 - Local Money Purchase Pension Plans that have affiliated with FPPA
 - Local (Old-Hire) Defined Benefit Plans: retirement plans for firefighter and police employees hired before April 8, 1978 and are affiliated with FPPA.
 - Volunteer Firefighter Defined Benefit Plans: retirement plan for volunteer firefighters that are affiliated with FPPA.
- Additionally, FPPA has statutory authority to offer and administer a Defined Benefit Health Care Plan, subject to a 65% affirmative vote of affiliated members.

Each of the Local Defined Benefit and Volunteer Defined Benefit Plans are governed by their local plan document and local pension boards, and, each has a separate actuarial evaluation conducted every two years. Many of the local defined benefit plans are underfunded (do not currently maintain sufficient assets for expected liabilities) and have received state assistance to offset unfunded liabilities. Whereas, the Statewide Defined Benefit, Money Purchase, Hybrid, and Death and Disability Plans operate under common plan documents maintained by FPPA, and are controlled by a common FPPA board of trustees, and are not eligible for state funding assistance. While FPPA administers both

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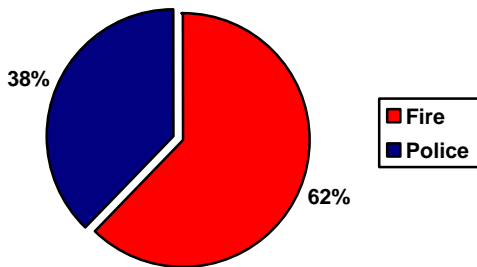
local (old-hire) defined benefit plans and the Statewide Defined Benefit Plan, new departments may participate only in the Statewide Defined Benefit, Hybrid, or Money Purchase Plans.

Board Authority and Control

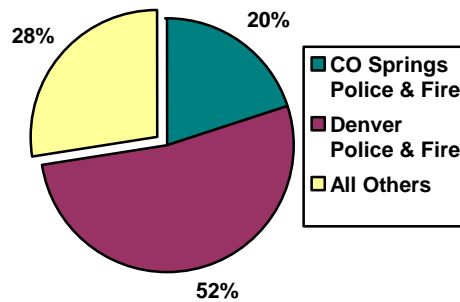
The FPPA Board of Trustees is comprised of 9 members, serving four-year terms. Board members are appointed by the Governor and confirmed by State Senate. Powers, duties and authority of the Board are granted and defined by state statute (C.R.S. § 31-31-202). A partial list of Board authority includes, (1) hire consultants, actuaries, investment managers, and other professionals; (2) modify minimum contribution amounts with legislative approval; (3) decrease benefits; (4) increase minimum retirement age by up to 5 years for Normal Retirement and up to 10 years for Vested Retirement; (5) determine annual COLA amount 0% - 3%; (6) determine how much, if any, excess contributions are allocated to SRA accounts when excess contributions exist; (7) order the transfer of funds held in SRA accounts for purposes of offsetting unfunded liabilities, should such condition exist. C.R.S.

FPPA Plan Statistics¹

Membership



Division of Net Assets



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Net Assets Available for Benefits¹

Plan	Assets	Funding (2003)	Funding (1998)
Statewide Defined Benefit Plan	\$474,442,369	114%	153%
Statewide Money Purchase Plan	\$5,109,027		
Statewide Death & Disability Plan	\$210,869,773	84%	132%
Local Defined Benefit Plans	\$1,773,492,455*	91%*	81%
Local Money Purchase Plans	\$14,157,802		
457 Deferred Compensation Plan	\$21,895,703		
TOTAL	\$2,499,967,129		

*Assets and funded ratio as of 2002 (2003 data not available).

Employers, Participants¹

Plan	Employers	Participants
Statewide Defined Benefit Plan	115*	3,677
Statewide Money Purchase Plan	27	94
Statewide Hybrid	0	0

*Active employer groups, FPPA Comprehensive Annual Financial Report Year Ending December 31, 2003

Average Assets Per-Participant¹

Plan	Average Assets
Statewide Defined Benefit Plan	\$129,030
Statewide Money Purchase Plan	\$54,351
Statewide Hybrid	0

¹ Source: FPPA Comprehensive Annual Financial Report Year Ending December 31, 2003

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Other Statistical Data: Statewide Defined Benefit Plan¹

Average Age: 38.4
Average Tenure: 9.1 years
Number of Retirees and Beneficiaries: 61

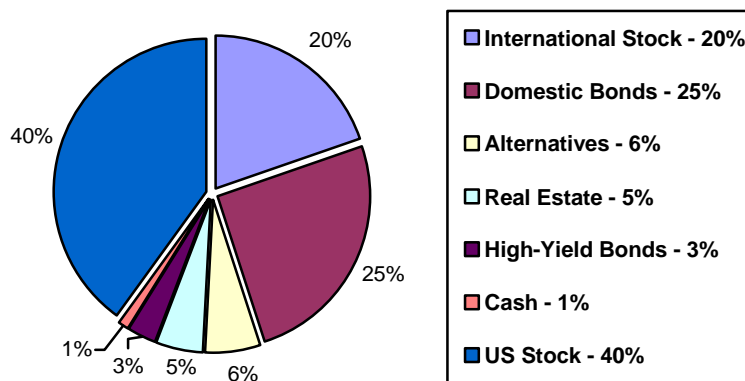
Average Annual Retirement Benefits: \$17,292
Average Monthly Retirement Benefits: \$1,441

Investment Information: Common Pool¹

Historic Investment Performance for Period Ending December 31, 2003

1 Year: 21.92%
3-Years (annualized average): 1.44%
5-Years (annualized average): 3.53%
10-Years (annualized average): 8.07%
Since Inception (annualized average): 10.97%

2003 Investment Allocation



FPPA Operating Expenses¹

Administration and investment management fees were \$9.2 million in 2003, which is 0.37% when expressed as a percentage of total assets. Administrative and capital expenditures were \$3.2 million, of which the largest portion (63%) allocated to salaries and benefits for FPPA's staff. This does not include \$545,243 paid to consultants. ²

² FPPA Comprehensive Financial Report for fiscal year ending December 31, 2003, pages 51-53.

B. FPPA Statewide Defined Benefit (New-Hire) Plan

The plan became effective January 1, 1980 and provides coverage for employees hired on or after April 8, 1978. Employers may affiliate with FPPA on January 1 of each year. Employers could elect to withdraw from the plan until January 1, 1988, when this option was statutorily removed. Therefore, affiliation with FPPA is now irrevocable.

Retirement Age/Eligibility

A statutory revision in May 1983 allows the FPPA Board of Trustees to change the retirement age on an annual basis, based upon actuarial soundness and other enumerated factors. The Board may set *Normal Retirement age* (described below) in a range from 55 to 60, and is currently set at age 55. The Board-established *Vested Retirement age* (described below) eligibility may range from 55 to 65, and is currently set at age 55.

Retirement Benefits

Retirement benefits are based upon years of service and the highest average salary (HAS) over three consecutive years. Benefits accrue at a rate of 2% of HAS for each year of service up to 10 years, and 2.5% of HAS for each year of service thereafter. These benefit percentages are based upon a lifetime benefit for only the participant. Other options, which provide benefits to the beneficiary of a participant upon the participant's death are available; however, electing one of these options will reduce the benefit paid to the participant. The benefit reduction amount is determined by the age of the participant's beneficiary, and vary for each individual officer and his/her beneficiary.

Normal Retirement: at least 25 years of service and age 55, this may be increased by the Board, at its sole discretion, up to age 60.

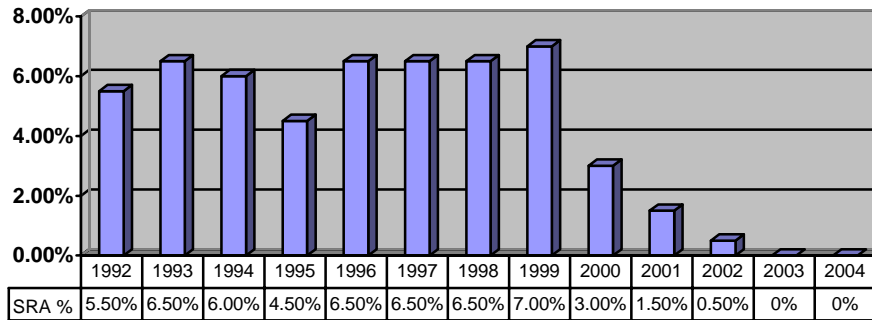
Deferred Retirement: the same requirements as Normal Retirement, except the participant may postpone receiving an adjusted benefit as late as age 65.

Early Retirement: may be elected with 30 years of service or age 50, to receive a reduced benefit that reflects an actuarial adjustment for early receipt of the benefit that would have been received at age 55.

Vested Retirement: at least 5 years of service and job termination at any age, to begin receiving benefits at age 55 (which age may be increased by the Board, at its sole discretion, up to age 65).

Stabilization Reserve Account: the FPPA Board may, at its sole discretion, fund a separate account established for each participant when the amount of contributions exceeds the Defined Benefit Plan’s funding requirements. In this instance, the Board will determine how much, if any, of the excess contributions are contributed to these accounts on a pro-rata basis. Should the plan become under-funded, the Board may reduce retirement benefits or utilize amounts held in SRA accounts to increase the funded status of the plan. Participants are eligible to receive additional benefits from this account, if any, upon election of a normal, deferred, early, or vested retirement.

Actuary’s Recommended SRA as a Percent of Pay³



Deferred Retirement Option Plan (DROP): participants eligible for normal retirement (at least 25 years of service *and* age 55); vested retirement (5-24 years of service *and* age 55); or early retirement (at least 30 years of service *or* age 50); may elect to continue working for a specified period not greater than 5 years, dependent upon a written irrevocable agreement with the employer. Employers maintain the sole discretion to determine, in a discriminatory fashion, if an employee will be permitted to enter the DROP, and the term of such arrangement. During this period the participant does not continue to accrue additional years of service under the DB Plan, fixing the percentage of HAS; however, an amount equal to what the participant’s monthly retirement benefits would be at the time of DROP election, plus an amount equal to what the participant would have been contributing to the defined benefit plan, are deposited into a separate self-directed account, which is available to the participant upon termination of the DROP agreement. The employer does not make contributions during the DROP period.

³ FPPA Statewide Defined Benefit Plan Actuarial Valuation as of January 1, 2004, conducted by Mellon Human Resources & Investor Solutions

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Benefit Options

Normal Option: participant receives the maximum benefit for life, upon participant's death, no benefits are payable to a beneficiary. If the amount paid to the participant prior to death was less than the participant's (not employer) contributions, the difference is paid to participant's estate.

Option One: participant receives a reduced lifetime benefit, and beneficiary receives the same reduced lifetime benefit upon participant's death. Upon death of beneficiary, no additional benefits are payable unless participant (not employer) contributions exceed total amount paid in benefits. If beneficiary pre-deceases the participant, the participant may not declare another beneficiary, and benefits end at participant's death.

Option Two: participant receives a reduced lifetime benefit, and beneficiary receives 50% of the reduced lifetime benefit upon participant's death. Upon death of beneficiary, no additional benefits are payable unless participant (not employer) contributions exceed total amount paid in benefits. If beneficiary pre-deceases the participant, the participant may not declare another beneficiary, and benefits end at participant's death.

Option Three: participant receives a reduced lifetime benefit. Upon death of participant or beneficiary, the survivor receives 50% of the reduced lifetime benefit upon death of participant or beneficiary death. Upon death of last survivor, no additional benefits are payable unless participant (not employer) contributions exceed total amount paid in benefits.

Option Four: participant receives a reduced lifetime benefit, and beneficiary receives the same reduced lifetime benefit upon participant's death. If the beneficiary pre-deceases the participant, the participant's benefit increases to the Normal Option for the remainder of the participant's life. If the beneficiary survives the participant, benefits remain at the same reduced amount, and, upon death of beneficiary, no additional benefits are payable unless participant (not employer) contributions exceed total amount paid in benefits.

Option Five: participant receives a reduced lifetime benefit, and beneficiary receives 50% of the reduced lifetime benefit upon participant's death. Upon death of beneficiary, no additional benefits are payable unless participant (not employer) contributions exceed total amount paid in benefits. If the beneficiary pre-deceases the participant, the participant's benefit increases to the Normal Option for the remainder of the participant's life.

Contributions

Participant and employer contributions rates to the plan are currently 16% of base salary, divided equally between employer and employee. The Board has established a higher rate of 20% for existing participants of the Statewide Money Purchase Plan or a local money purchase plan, such as the Aurora-Police MPPP, that enter the Statewide Defined Benefit Plan after January 1, 2004. While employers and participants both must contribute at least 8%, the additional 4% may be divided at the discretion of the employer. The contribution rate for additional personnel hired in the future is currently 16%.

Refund of Contributions

Upon termination of employment, participants may request a refund of contributions of their contributions. A premium of 5% is added to this amount and referred to as interest, although it is not compounded. All employer matching contributions and any earnings in excess of the 5% premium are forfeited by the participant and employer to the FPPA. Additionally, the entire balance of the participant’s SRA account, if any, is forfeited back to the FPPA Defined Benefit Plan.

Cost of Living Adjustment (COLA)

The Board may, at its sole discretion, increase annual retirement benefits by an amount not to exceed 3%.

Historic FPPA COLA Averages

3-Year	5-Year	7-Year	10-Year
2.1%	2.3%	2.2%	2.3%

Vesting

Participants are subject to a five year vesting period. Participants that do not meet eligibility requirements are entitled to a refund of their contributions and a 5% premium, referred to as interest, although it is not compounded. All employer contributions, any excess investment return, and any SRA balances are forfeited by the participant and employer back to the FPPA.

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Purchasing Service Credits

In addition to earning service credits for years of service while participating in the Defined Benefit Plan, participants may also purchase years of service for other public, military, and private employment, within certain restrictions defined by state statute and Internal Revenue Code. The cost of past service credits is based upon HAS and age at the time of purchase, and is the *actuarial equivalent* cost to the plan. Actuarial Equivalent, means the present value lump-sum amount required to fund future promised benefits. This *amount* is determined by considering many factors, including how long the money has to grow before benefits will start, an assumed (projected) investment return that will be earned on this money, actuarial life expectancy, along with other assumed factors.

C. FPPA Statewide Money Purchase Plan

This a multiple-employer Plan than allows multiple employers to participate under a common plan document, and such employers grant control and authority to a common FPPA Board. The Plan is established and maintained pursuant to Internal Revenue Code § 401(a). An individual account is established for each participant, in which employee and employer contributions are deposited, and the participant is responsible for self-directing the investment of assets through a menu of investments offered and controlled by the Board.

Investment Options

This Plan is administered by Fidelity Investments, which is also the provider of many investment options offered to participants in the Plan. There are 21 total investment options, of which 17 are Fidelity-managed investments, and 4 are managed by other investment managers. Ten of the 21 investment options are lifecycle funds (Fidelity Freedom Funds) that contain equity, income, and cash allocations comprised entirely of Fidelity-managed investments. The allocation within these funds vary according to a specific target-date (retirement), and the allocation modifications are controlled by Fidelity Investments. Participants may self-direct their investments into any of the 11 core funds and/or 10 lifecycle funds. The Plan automatically chooses one of the lifecycle funds for participants that do not make an investment allocation decision. Additionally, the Plan recently added Fidelity Investments' self-directed brokerage option, which provides access to additional mutual funds, stocks, bonds, and other investments.

Benefits

Participants are eligible to receive a distribution of their vested balance upon termination of employment at any age. However, distributions prior to attaining age 55 may be subject to a 10% penalty. Retirement benefits are determined by participants based upon the value of their account at retirement. There are several distribution options available, which are listed below. Excepting an Annuity distribution, the participant maintains control of investments during distribution.

Lump-Sum: participant may request a distribution of the entire account balance.

Deferred Payments: participant may defer receiving any distribution until some point in the future, as late as April 1st of the calendar year following the year participant attains age 70½. The entire balance is paid to the beneficiary(ies) designated by the participant upon the participant's death.

Periodic Payments: participant specifies an amount to be distributed periodically until the account is exhausted, or a specific number of years to receive periodic payments until the account is exhausted. Upon the participant's death, the remainder is distributed to the beneficiary at least as rapidly as disbursed prior to the participant's death.

Systematic Payments Over Life Expectancy: periodic payments are calculated by Fidelity based upon the participant's and beneficiary's (if applicable) life expectancy. Payment amount may fluctuate with investment performance of the account. Upon the death of the participant or the beneficiary, payments may be calculated based the survivor's remaining life expectancy.

Combination of Lump Sum and Periodic Payments: participant receives an initial lump sum, of an amount determined by the participant, and the balance is distributed in periodic payments for a specified number of years or amount, until the account is exhausted. Upon the participant's death, the remainder is distributed to the beneficiary at least as rapidly as disbursed prior to the participant's death.

Annuity: participants may use all, or a portion, of their account to purchase an annuity contract, which is available with many different forms of guarantees. Annuities generally offer a guaranteed investment return for the term of the contract. Various forms of annuities include: lifetime periodic payments to the participant and beneficiary (if applicable), periodic payments over a specified period, and periodic payments of a specified amount. Lifetime annuities are further divided into many different categories that are distinguished from one another based upon the type of guarantee provided. These include single-life, joint survivor, term certain, and cash refund annuities.

Rollovers: participants may rollover any portion of their account to another eligible retirement plan, including 401(a), 401(k), 403(b), 457(b) retirement plans, and IRAs. The Plan also accepts rollovers from other eligible retirement plans.

Contributions

The FPPA Board established minimum contribution rates for the employer and employee, which are currently at 8% for each. The employer may, with a 65% affirmative vote of its employees, increase the employer contribution rate, employee contribution rate, or both.

Vesting

Participants own 100% of their contributions and investment return. Ownership (vesting) in employer contributions and associated investment return is earned over a five-year period, in annual increments of 20%, for each year of plan participation.

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Services

Record-keeping, investment transactions, distributions, customer service, and participant educational services are provided primarily through Fidelity Investments via the Internet and a toll-free telephone number. Additionally, FPPA representatives provide on-site visitations every two years, according to FPPA publications.

Expenses

Participants pay a flat \$20 annual fee to FPPA, along with investment management fees to Fidelity Investments. As both record-keeper and investment provider, Fidelity captures any revenue generated from investment management administrative re-allowance (revenue sharing) and sub-transfer agent fees that would normally be paid to the Plan to offset record-keeping and administrative expenses.

D. FPPA Statewide Hybrid Plan

This Plan combines a defined benefit component and a money purchase plan component, with a portion of total contributions allocated to each. Two different types of benefits will be available when the participant retires. Through a 2003 legislative action, FPPA was granted authority to offer such an arrangement. Because this is a new Plan, historic performance and Plan experience data is not available. The money purchase component provides for the same provisions, investment options, and distribution options described above (FPPA Money Purchase Plan). The defined benefit component operates similar to the Statewide Defined Benefit Plan, with a reduced benefit structure. Additionally, participants may purchase eligible past service credits in the defined benefit component with amounts held in the money purchase portion of their account.

Contributions

The minimum contribution rate of 16% of compensation is divided equally between employer and employee. The employer may, with a 65% affirmative vote of its employees, increase the employer contribution rate, employee contribution rate, or both. The Board of Trustees determines, at its sole discretion, the allocation of contributions to each plan component, and may modify the same based upon the funding ratio of the defined benefit component. Initially, the Board has determined to allocate 14% of compensation to the defined benefit component and 2% of compensation to the money purchase component. The Board will review the funding ratio of the defined benefit component on an annual basis. Should the board determine that additional contributions are necessary to maintain the actuarial soundness of the define benefit component, it may reduce or eliminate contributions to the money purchase component to provide additional funding to the defined benefit portion, without any corresponding increase in the benefit of the Defined Benefit component. An employer group with a 20% contribution structure would have 14% allocated to the DB component and 6% allocated to the money purchase component.

Retirement Benefits: DB Component

Retirement benefits from the defined benefit portion of the Hybrid Plan are based upon years of service and the highest average salary (HAS) over three consecutive years. Benefits accrue at a rate of 1.5% of HAS for each year of service. Unlike the Statewide Defined Benefit Plan, a higher rate is not earned for years of service greater than 10. These benefit amounts are based upon a lifetime benefit for only the participant. Other options, which provide benefits to the beneficiary of a participant, are available; however, electing one of these options will reduce the benefit paid to the participant. The benefit reduction amount is determined by the age of the participant's beneficiary.

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Normal Retirement: at least 25 years of service and age 55.

Deferred Retirement: the same requirements as Normal Retirement, except the participant may postpone receiving an adjusted benefit as late as age 65.

Early Retirement: may be elected with 30 years of service or age 50, to receive a reduced benefit that reflects an actuarial adjustment for early receipt of the benefit that would have been received at age 55.

Vested Retirement: at least 5 years of service and termination at any age, to begin receiving benefits at age 55.

Deferred Retirement Option Plan (DROP): participants eligible for normal, early, or vested retirement, and age 55, may elect to continue working for a specified period not greater than 5 years, dependent upon a written irrevocable agreement with the employer. Employers maintain the sole discretion to determine, in a discriminatory fashion, if an employee will be permitted to enter the DROP, and the term of such arrangement. During this period the participant does not continue to accrue additional years of service; however, the participant's retirement benefit and participant contributions are deposited into a separate self-directed account, which is available to the participant upon termination of the DROP agreement. The employer does not make contributions during the DROP period.

Benefit Options

Normal Option: participant receives the maximum benefit for life, upon participant's death, no benefits are payable to a beneficiary. If the amount paid to the participant prior to death was less than the participant's (not employer) contributions, the difference is paid to participant's estate.

Option One: participant receives a reduced lifetime benefit, and beneficiary receives the same reduced lifetime benefit upon participant's death. Upon death of beneficiary, no additional benefits are payable unless participant (not employer) contributions exceed total amount paid in benefits. If beneficiary pre-deceases the participant, benefits end at participant's death.

Option Two: participant receives a reduced lifetime benefit, and beneficiary receives 50% of the reduced lifetime benefit upon participant's death. Upon death of beneficiary, no additional benefits are payable unless participant (not employer) contributions exceed total amount paid in benefits. If beneficiary pre-deceases the participant, benefits end at participant's death.

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[Option Three: participant receives a reduced lifetime benefit. Upon death of participant or beneficiary, the survivor receives 50% of the reduced lifetime benefit upon death of participant or beneficiary death. Upon death of last survivor, no additional benefits are payable unless participant (not employer) contributions exceed total amount paid in benefits.

Option Four: participant receives a reduced lifetime benefit, and beneficiary receives the same reduced lifetime benefit upon participant's death. If the beneficiary pre-deceases the participant, the participant's benefit increases to the Normal Option for the remainder of the participant's life. If the beneficiary survives the participant, benefits remain at the same reduced amount, and, upon death of beneficiary, no additional benefits are payable unless participant (not employer) contributions exceed total amount paid in benefits.

Option Five: participant receives a reduced lifetime benefit, and beneficiary receives 50 % of the reduced lifetime benefit upon participant's death. Upon death of beneficiary, no additional benefits are payable unless participant (not employer) contributions exceed total amount paid in benefits. If the beneficiary pre-deceases the participant, the participant's benefit increases to the Normal Option for the remainder of the participant's life.

Refund of Contributions

Upon termination participants may request a refund of contributions of their employee contributions. A premium of 5% is added to this amount and referred to as interest, although it is not compounded. All employer matching contributions and any earnings in excess of the 5% premium are forfeited by the participant and employer to FPPA Hybrid Plan.

Vesting

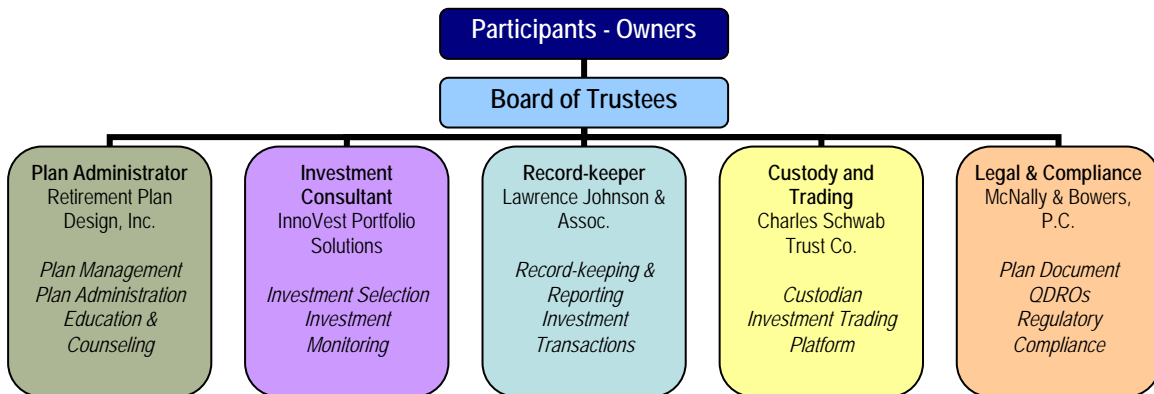
Participants own 100% of their contributions and investment return in the money purchase component. Ownership (vesting) in employer contributions and associated investment return in the money purchase component is earned over a five-year period, in annual increments of 20%. The defined benefit component is subject to a five year vesting period. Participants that do not meet eligibility requirements may be entitled to a refund of their contributions and a 5% premium, referred to as interest, although it is not compounded. All employer contributions and any excess investment return are forfeited by the participant and employer to FPPA.

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E. City of Aurora-Police Money Purchase Pension Plan

In 1988, the City of Aurora terminated affiliation with FPPA’s retirement plans adopted and provided a new separate retirement plan for the City of Aurora Police Department. That plan, the City of Aurora – Police Money Purchase Pension Plan, is established and maintained pursuant to Internal Revenue Code § 401(a). It is a typical money purchase pension plan, where an individual account is established for each participant, in which employee and employer contributions are deposited, and the participant is responsible for self-directing the investment of assets through a menu of investments offered and controlled by a Board of Trustees of that Plan. The Board also serves as Plan Administrator under the terms of the Plan’s trust document. The Board is composed of five individuals, four of whom are employees of the Police Department, with the fifth being selected by the other four. Board members serve staggering 3-year terms. The Plan employs an *un-bundled* approach, delegating recordkeeping, trading and custodial duties, and administration and employee education to independent providers. The stated business purpose is to incorporate the best available product(s) and/or service(s) in each separate component.

MPPP Organizational Structure



Contributions

The current contribution rates are at 10% for both the employer and employee,. The employee’s contribution is “picked-up” by the City on a pre-tax basis pursuant to section 414(h) of the Internal Revenue Code.

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Vesting

The current schedule provides for 5-year cliff vesting, 0% vesting until 5-years of service, then 100% thereafter. Second, vesting applies only to the employer contribution. All employee contributions (pick-up contributions), and investment return on both employee and employer contributions, are immediately vested. This increases the attractiveness of the benefit within the first five years of Plan participation.

Investment Options

The Plan is a participant-directed retirement plan that offers a three-tier investment menu. The first tier is composed of portfolios professionally designed and managed for several different target retirement age groups with age 55 as the assumed retirement age. The Plan employs an independent investment consultant that periodically reviews each portfolio and modifies the allocations on an annual basis to more conservative investments as the investor group ages. Each portfolio is re-balanced on a quarterly basis. Tier One target-date portfolios that are age-appropriate serve as the Plan's default investment option for participants. The portfolios are composed of investments available in the second investment tier. The second tier is composed of ten mutual fund investment options chosen pursuant to a written investment policy statement. The menu is designed to provide a variety of investments across different asset classes, and investment styles. These investments are selected and continually monitored by the Board and the Plan's investment consultant. Because the Plan's custodian and trading platform, Charles Schwab is independent from the Plan's administration and other providers,, the Plan may select from over 4,000 differing investment funds. To provide additional diversification opportunity, Tier Three allows participants to allocate a portion of their retirement savings to a brokerage account at Charles Schwab Company. Through that account, participants can invest in individual stocks, bonds, mutual funds, and other securities.

Benefits

Participants are eligible to receive a distribution of their vested balance upon termination of employment at any age. However, distributions due to termination of employment with the City of Aurora-Police prior to attaining age 55 may be subject to a 10% penalty, unless received in accordance with specific guidelines published by the Internal Revenue Service. In any case, distributions received after age 59½ are not subject to a 10% penalty tax. Retirement benefits are determined by participants based upon the value of their account at retirement. There are several distribution options available, which are listed below. Excepting an Annuity distribution, the participant maintains control of investments during distribution.

Lump-Sum: participant may request a distribution of the entire account balance.

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Deferred Payments: participant may defer receiving any distribution until some point in the future, as late as April 1st of the calendar year following the year participant attains age 70½. The entire balance is paid to the beneficiary(ies) designated by the participant upon the participant's death.

Periodic Payments: participant specifies an amount to be distributed periodically until the account is exhausted, or a specific number of years to receive periodic payments until the account is exhausted. Upon the participant's death, the remainder is distributed to the beneficiary at least as rapidly as disbursed prior to the participant's death.

Combination of Lump Sum and Periodic Payments: participant receives an initial lump sum, of an amount determined by the participant, and the balance is distributed in periodic payments for a specified number of years or amount, until the account is exhausted. Upon the participant's death, the remainder is distributed to the beneficiary at least as rapidly as disbursed prior to the participant's death.

Annuity: participants may use all, or a portion, of their account to purchase an annuity contract, which is available with many different forms of guarantees. Annuities generally offer a guaranteed investment return for the term of the contract. Various forms of annuities include: lifetime periodic payments to the participant and beneficiary (if applicable), periodic payments over a specified period, and periodic payments of a specified amount. Lifetime annuities are further divided into many different categories that are distinguished from one another based upon the type of guarantee provided. These include single-life, joint survivor, term certain, and cash refund annuities.

Rollovers: participants may rollover any portion of their account to another eligible retirement plan, including 401(a), 401(k), 403(b), 457(b) retirement plans, and IRAs. The Plan also accepts rollovers from other eligible retirement plans.

Services

Customer service is coordinated through the Plan's local on-site office. The Plan's administrator, Retirement Plan Design, Inc. employs operations liaison personnel full-time. In addition, Principals of that firm provide educational forums and individual retirement and investment counseling not only during business hours but after-hours as requested by the Trustees. Twenty-four hour access is offered through the Plan's own web-site, found at www.apmppp.org. Record-keeping, investment transactions, distributions and voice-responsive account information are provided through the Plan's recordkeeper, Lawrence Johnson & Associates. Investment trading and custody is the responsibility of Charles Schwab Trust Company.

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Expenses

Utilizing its un-bundled structure, the Plan captures 100% of any revenue generated from investment management administrative re-allowance (revenue sharing) and sub-transfer agent fees. The Plan utilizes many institutional class shares of investments which do not pay any revenue sharing. Available revenues are used to offset record-keeping and administrative expenses. Any expenses not offset are charged on a pro-rata basis to the participant on a quarterly basis. These administrative fees are reported to the participant with each quarterly statement. The Plan's 2005 adopted budget anticipates annual administration fees of just over one-quarter percent (.2636%).

F. Comparative Analysis: FPPA Statewide Defined Benefit Plan and City of Aurora-Police Money Purchase Pension Plan

Defined Contribution or Defined Benefit?

Comparing the City of Aurora-Police Money Purchase Pension Plan (MPPP), which is a defined contribution (DC) plan, to a defined benefit (DB) plan is quite difficult, because the approach to providing retirement benefits is distinctly different, resulting in an “apples to oranges” comparison. Clearly it is impossible to unilaterally state that either DB or DC is a better option for a given group of participants, because a consultant’s opinion should be limited to objective factual data, while a participant’s preference may be based, in part, upon the participant’s subjective and emotional considerations. For example, a participant that stands to benefit from a defined contribution arrangement may be willing to exchange a greater retirement benefit for the “big-brother” type of approach of a defined benefit plan, while another participant that could receive greater benefits from a defined benefit plan may prefer the flexibility and control offered through defined contribution. Fortunately, these types of participants tend to be a minority of a given group, and the majority usually favors the type of plan that will benefit most participants in the group.

DC plans *define contribution* amounts made by the employer and employee that are deposited into individual accounts, from which the employee will create a retirement benefit. MPPP participants choose the investment allocation of their account, individually, or with professional assistance. Whereas, DB plans combine employer and employee contributions into a common pool of investments that are managed by the Plan. A formula is established by the DB plan that specifies a *defined benefit* to be paid in an annuity-like form (lifetime), based upon years of service, highest average salary (HAS), and a benefit factor (i.e. 2% of HAS for each year of service). Additionally, the Plan sets certain eligibility requirements for benefits, such as years of service and age.

The administrators of a DB plan establish a benefit objective for participants, such as 2% of HAS for each year of service, beginning at age 55. Then, using assumed rates of investment return (based upon the anticipated investment allocation and investment types), projected life expectancy of the population served, and other actuarial data, the amount of contributions required to fund such a promise are determined. Professionals are hired by the Plan to conduct periodic examinations of the progress, to determine if current assumptions are meeting actual results. When the actual results are better than projected the Plan is over-funded, meaning it has more than sufficient assets to pay for future promised benefits. Likewise, when actual results do not meet projected expectations the Plan becomes under-funded, meaning current assets will not pay for future promised benefits.

Generally, most under-funding results from poor investment performance (although increases in experienced versus projected life expectancy are an increasing problem.) Sustained under-funding will require the Plan to increase contributions to a level that is sufficient to meet future liabilities, or a reduce benefits that are more reasonable given the contribution structure. Benefit reductions may come in the form of suspended or reduced COLAs for retirees, increasing the retirement eligibility age, or decreasing the benefit amount.

DC plan participants, and their retirement benefits, should be subject to a similar process. Individually, or with professional assistance, a retirement income benefit objective is established, along with an investment portfolio consistent with the individual participants' time horizon and tolerance for risk/volatility. Then, using assumed investment returns, inflation projections, life expectancy, and time horizon to retirement, the contribution amount required to fund the benefit is determined. If the required contributions are greater than that currently provided for, the participant must increase contributions or adjust the objective. Adjustments may be made to investment allocation, retirement age, benefit amount, or a combination. On the other hand, if contributions required to fund the anticipated benefit are less than the current level, the participant may determine to decrease their retirement age, become more conservative with investments, expect a greater benefit at retirement, or consider the over-funded amount as a reserve to protect against greater than expected (anticipated) market volatility. Like DB plans, a periodic analysis of actual vs. projected results indicates the necessity to make any modifications.

One significant difference between DC and DB plans is that participants establish and modify their individual retirement objective in a DC plan, whereas, DB plan benefits are established and modified by the Plan. Therefore, DC plans offer much greater flexibility and control for the individual. However, this increased level of opportunity requires greater responsibility on behalf of the participant to establish and monitor objectives, contributions, and investment allocations. Consequently, DB plan participants transfer all of this responsibility to professionals retained by the Plan in exchange for giving up control and flexibility.

Regardless of Plan design, DC or DB, both methods generally utilize investments in similar asset types and use projected (assumed) investment returns to determine funding requirements. The very nature of assumptions mandates that both approaches must be subject to potential revision.

Some MPPP participants have reported that FPPA representatives and/or supporters are meeting with participants individually to provide comparisons of FPPA's retirement plans to the MPPP. While there are three plans offered through FPPA, the primary

interest expressed by MPPP participants is with the Statewide Defined Benefit Plan. The very nature of DB/DC comparisons will always create divisiveness among plan participants, because DB plans promise future benefits to *some* that are greater than the sum of their contributions and investment earnings. Consequently, this means others must receive benefits that are less than the sum of their contributions and investment return. This is an inherent component of defined benefit plans in general. Therefore, participants that stand to personally benefit from a DB plan will generally favor this option, while those understanding that failure to meet established age and service requirements will result in the subsidy of other's benefits, usually oppose the DB structure.

Specifically, a police officer that experiences higher-than-average salary increases late in their career would likely benefit from a DB plan, because contributions as a percentage of the higher salary are made for a short period of time. Yet, the DB plan benefits are based upon this higher salary, even though insufficient contributions were made to fund the same. Consequently, contributions and investment return attributable to other participants are used to pay for these promised benefits. Higher-than-average salary increases usually occur as a result of promotion in rank, and, obviously, the majority of officers cannot be higher compensated lieutenants, captains, and chiefs, so only a minority will generally benefit.

Considerations Regarding FPPA Statewide DB Plan Guarantees

Another DB Plan component that has sparked interest and enthusiasm among some participants is the promise of a "guaranteed" benefit. Much of this desire for such type of benefit is likely fueled by recent poor investment market performance experienced by DC Plan participants. MPPP participants have expressed an expectation that participation in a DB Plan would provide insulation from stock market volatility. However, few have acknowledged an understanding that current benefits provided through FPPA's Statewide Defined Benefit Plan are subject reduction, based upon the Plan's experience in meeting projected investment returns and mortality assumptions.

Unlike traditional DB plans, under which the employer assumes all risk and guarantees the necessary funding required to pay promised benefits, the FPPA plan authorizes the FPPA Board to, at its sole discretion; (1) increase the normal retirement age from 55 up to 60⁴; (2) increase the vested retirement age from 55 up to 65; (3) increase employer and

⁴ C.R.S. § 31-31-403 (1) (b)

employee contributions⁵; (4) choose to award retirees with a COLA ranging from 0% to 3%. Under this type of arrangement FPPA is essentially a plan administrator and facilitator of investment management services.

Indeed the necessity to reduce benefits or increase contributions is subject to the Plan's actual investment and mortality experience. Participants should thoroughly understand that participation in this type of DB Plan does not provide insulation from the effects of poor investment performance, and, such activity may directly result in a change of retirement age and benefits. Further, one must consider that despite current over-funding of 14%, this has rapidly declined from over-funding of 53% during the five-year period ending 2003.

Ultimately, this is a *variable defined benefit* that is subject to revision based upon the current contribution, investment return, and other actuarial assumptions against actual future results. Due to the broad authority granted to the FPPA Board of Trustees relative to benefit adjustments, it is imperative that participants understand, in advance, that the current benefit structure is subject to future revision.

Comparison of Core Features

Our analysis of the two Plans begins with a comparison of specific components of each Plan, and is followed by an examination of the specific group in question – Aurora-Police MPPP new hires. The first section compares benefits, consequences and considerations of common core features of the respective Plans.

Feature	Aurora-Police MPPP	FPPA Statewide DB
Employer Contribution	10%	10% for existing participants, 8% for future-hires
Employee Contribution	10%	10% for existing participants, 8% for future-hires

⁵ C.R.S. § 31-31-202 (1) (i) and C.R.S. 31-31-401 (3)

Feature	Aurora-Police MPPP	FPPA Statewide DB
Vesting	Immediate for employee contributions and investment return on all contributions, 100% of employer contributions after 5 years	Immediate for employee contributions, a benefit beginning at age 55 is earned after 5 years
Forfeitures prior to vesting	Participants terminating prior to 5 years of service forfeit 100% of employer contributions to the City of Aurora, and retain 100% of employee contribution and 100% of investment return from employee and employer contributions	Participants terminating prior to 5 years of service receive 100% of employee contributions and a 5% premium, as interest, not compounded. 100% of employer contributions and any excess investment return is forfeited to FPPA
Forfeitures after vesting	Participant terminating after 5 years of service are entitled to 100% of employer and employee contributions and 100% of investment return	Participants requesting a refund of contributions after completing 5 years of service receive 100% of employee contributions and a 5% premium, as interest, not compounded. 100% of employer contributions and any excess investment return is forfeited to FPPA
Investment Control during accumulation period	Participant-directed, via Trustee-selected and monitored core options, or professionally-managed Target-Date Portfolios, or Self-directed brokerage option	FPPA Board

Feature	Aurora-Police MPPP	FPPA Statewide DB
Investment control during retirement	Participant-directed, via Trustee-selected and monitored core options, or professionally-managed Target-Date Portfolios, or Self-directed brokerage option	FPPA Board
Retirement Benefits Determination	Participant	FPPA Board
Retirement Age/Eligibility	<p>Normal retirement age is 55. Eligible to receive a distribution or rollover to another eligible Plan upon termination of employment at any age. Distributions received prior to age 55 may be subject to a 10% penalty unless paid in substantially equal installments expected to last over life expectancy. Distributions received in any fashion after age 59½ are not subject to a 10% penalty. Deferred distribution: may postpone receiving distribution until April 1st of the calendar year following the year participant attains age 70½.</p>	<p>Normal retirement: at least 25 years of service and age 55, this age may be increased by the Board, up to age 60. Deferred retirement: after age 55, up to age 65, to receive an actuarially adjusted benefit. Early retirement: with 30 years of service or age 50, to receive a reduced benefit that reflects an actuarial adjustment for early receipt of the benefit that would have been received at age 55. Vested retirement: at least 5 years of service and termination at any age, to begin receiving benefits at age 55, which may be increased by the Board up to age 65.</p>

Feature	Aurora-Police MPPP	FPPA Statewide DB
COLAs	Participants receiving periodic installments may determine an annually adjustable COLA. Various forms of lifetime annuities may be purchased that include a pre-determined annual COLA.	Determined annually by FPPA Board from 0% to 3%. Average COLA during the past ten years is 2.3%
Retirement Benefit Options	Lump-sum, partial lump-sum, periodic payments over a specified number of years, periodic payments of a fixed or variable amount, various forms of lifetime annuities through multiple providers, rollover to another eligible Plan or IRA	Various forms of lifetime annuity installments from FPPA
Pre-retirement Survivor Benefits	Subject to provisions of FPPA Statewide Death & Disability Plan (separate comparison below)	Subject to provisions of FPPA Statewide Death & Disability Plan (separate comparison below)
Post-retirement Survivor Benefits	Beneficiary(ies) of a participant receiving periodic installments at time of death continues to receive installments at least as rapidly as prior to death, and may increase benefit amount. Beneficiary(ies) of a participant receiving distributions from an annuity subject to the terms of the annuity contract. Beneficiary(ies) of a participant deferring distribution entitled to	Normal Option: no benefits payable to survivors, unless employee (not employer) contributions exceed amount paid in benefits, then difference is paid to estate. Option One: survivor receives same benefit for their lifetime, upon death of survivor, no benefits payable to survivors, unless employee (not employer) contributions exceed amount paid in benefits, then difference is paid to estate. Option Two: survivor receives 50% of benefit paid

Feature	Aurora-Police MPPP	FPPA Statewide DB
<p>(continued from previous page)</p> <p>Post-retirement Survivor Benefits</p>	<p>entire amount.</p> <p>(repeated from previous page)</p> <p>Beneficiary(ies) of a participant receiving periodic installments at time of death continues to receive installments at least as rapidly as prior to death, and may increase benefit amount.</p> <p>Beneficiary(ies) of a participant receiving distributions from an annuity subject to the terms of the annuity contract. Beneficiary(ies) of a participant deferring distribution entitled to entire amount.</p>	<p>to participant, for their lifetime, upon death of survivor, no benefits payable, unless employee (not employer) contributions exceed amount paid in benefits, then difference is paid to estate.</p> <p>(continued from previous page)</p> <p>Option Three: survivor receives 50% of benefit paid to participant, for their lifetime, upon death of survivor, no benefits payable, unless employee (not employer) contributions exceed amount paid in benefits, then difference is paid to estate.</p> <p>Option Four: survivor receives same benefit for their lifetime, upon death of survivor, no benefits payable, unless employee (not employer) contributions exceed amount paid in benefits, then difference is paid to estate.</p> <p>Option Five: survivor receives 50% of benefit paid to participant, for their lifetime, upon death of survivor, no benefits payable, unless employee (not employer) contributions exceed amount paid in benefits, then difference is paid to estate.</p>

Comparison of Pre-Retirement Survivor Benefits (On-Duty)

In general, pre-retirement survivor benefits are the same for both Plans because they are subject to the terms and conditions of the FPPA Statewide Death & Disability Plan. Survivor benefits paid by FPPA are offset by balances held in the participant’s local money purchase plan or SRA, based upon an actuarial calculation performed by FPPA.

	Aurora-Police MPPP	FPPA Statewide DB
Surviving spouse only	Subject to terms and conditions of FPPA Statewide Death & Disability Plan	Subject to terms and conditions of FPPA Statewide Death & Disability Plan
Spouse & dependent children living in participant’s household	Subject to terms and conditions of FPPA Statewide Death & Disability Plan	Subject to terms and conditions of FPPA Statewide Death & Disability Plan
No spouse, with dependent children living in participant’s household	Subject to terms and conditions of FPPA Statewide Death & Disability Plan	Subject to terms and conditions of FPPA Statewide Death & Disability Plan
No spouse, with dependent children not living in participant’s household	Subject to terms and conditions of FPPA Statewide Death & Disability Plan	Subject to terms and conditions of FPPA Statewide Death & Disability Plan
No spouse, no dependent children	Entire account balance paid to beneficiary, or beneficiaries, or estate (employee contributions, employer contributions, investment earnings on employee contributions, and investment earning on employer contributions)	Member contributions paid to participant’s estate (employer contributions and investment return on all contributions are forfeited to FPPA)

Comparison of Pre-Retirement Survivor Benefits (Off-Duty)

In general, pre-retirement survivor benefits are the same for both Plans because they are subject to the terms and conditions of the FPPA Statewide Death & Disability Plan. Survivor benefits are offset by balances held in the participant’s local money purchase plan or SRA, based upon an actuarial calculation performed by FPPA.

	Aurora-Police MPPP	FPPA Statewide DB
Surviving spouse only	Subject to terms and conditions of FPPA Statewide Death & Disability Plan	Subject to terms and conditions of FPPA Statewide Death & Disability Plan
Spouse & one dependent child	Subject to terms and conditions of FPPA Statewide Death & Disability Plan	Subject to terms and conditions of FPPA Statewide Death & Disability Plan
Spouse & two or more dependent children	Subject to terms and conditions of FPPA Statewide Death & Disability Plan	Subject to terms and conditions of FPPA Statewide Death & Disability Plan
No spouse, with one or two dependent children	Subject to terms and conditions of FPPA Statewide Death & Disability Plan	Subject to terms and conditions of FPPA Statewide Death & Disability Plan
No spouse, with three or more dependent children	Subject to terms and conditions of FPPA Statewide Death & Disability Plan	Subject to terms and conditions of FPPA Statewide Death & Disability Plan
No spouse, no dependent children	Entire account balance paid to beneficiary, or beneficiaries, or estate (employee contributions, employer contributions, investment earnings on employee contributions, and investment earning on employer contributions)	Member contributions paid to participant’s estate (employer contributions and investment return are forfeited to FPPA)

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Comparison of Average Demographics and Statistics

	Aurora-Police MPPP	FPPA Statewide DB
Avg. Participant Age	40	38
Avg. Years/Service	11	9
Avg. Assets Per-Participant	\$180,393	\$129,030

Comparison of Benefits

As described in the previous section “B” (FPPA Statewide Defined Benefit Plan), retirement benefits in the FPPA DB Plan are based upon a formula that considers retirement age, years of service, and HAS. Benefits accrue at a rate of 2% of HAS for the first ten years of service, and 2.5% for each year of service thereafter. These accrual rates provide for a lifetime benefit for only the participant and no benefits are payable to a beneficiary. Participants may choose a reduced benefit through five other options that provide retirement benefits for a beneficiary.

A distressing concern noted by RPD is the manner in which individual comparisons calculated by FPPA representatives and/or supporters have been presented. In our first-hand experience, we have found the calculations to be inappropriate. Specifically, the standard method of illustration compares MPPP projected benefits to the FPPA DB plan “Normal Retirement Option,” which is essentially a straight-life annuity that promises a retirement benefit relative to a percentage of Highest Average Salary (H.A.S.). Under this distribution option the *participant* receives a lifetime benefit that ends upon their death, with no benefits payable to their beneficiary (spouse and/or children). While this is the highest-paying distribution option, it is not advisable for a career public-safety employee.

The shorter-than-average life expectancy of public-safety personnel is both documented and widely acknowledged, which makes advising a single-life annuity for this group imprudent and negligent by industry standards. Such practice utilized by preparers ignores fiduciary concerns. Comparing such benefits to systematic withdrawal from a money purchase plan is less than forthright, because these two options do not provide comparable benefits to the beneficiary. Even though FPPA’s DB plan offers a distribution alternative (Option One) that pays an equivalent amount (100%) to the beneficiary upon the participant’s death, we have not seen this presented when comparing projected benefits to the MPPP.

This suspect method that is consistently employed may be designed to produce the most favorable results for FPPA’s DB plan when compared to MPPP, because selecting any other FPPA distribution option results in a dynamic reduction of benefits. For example, consider the following comparison of benefits for a participant retiring at age 57 with 25 years of service:

FPPA Distribution Option	Age of Beneficiary	Retirement Benefit (% of H.A.S.)
Normal Retirement Option	N/A	57.5%
Option One	57	48.6%
Option One	55	47.8%
Option One	50	46.1%
Option One	45	4.4%

The table above illustrates how the participant’s benefits are reduced when providing for a beneficiary, and the significant effect of providing for younger beneficiaries. The latter is an example of penalties suffered by un-married retirees who wish to include children as beneficiaries. Consequently, a retiree naming beneficiaries age 25 or 30 would have to choose between significantly reduced retirement benefits, or leaving the children out of the equation entirely to survive financially during retirement.

While there are significant considerations regarding post-retirement survivor benefits, there would be a relatively modest revision of pre-retirement survivor benefits, because participants are covered by the Statewide Death & Disability (D&D) Plan as well as a retirement plan, regardless of whether the City of Aurora New-Hires re-affiliate with FPPA. In both cases, survivors receive benefits based upon a percentage of the participant’s final annual salary. MPPP survivor benefits are reduced by an amount reflective of the actuarial equivalent of their money purchase plan balance. However, MPPP survivors have immediate access to all amounts held in the MPPP account, in addition to monthly survivor benefits from the FPPA D&D plan. Whereas, FPPA DB plan participants generally only receive a monthly benefit from the D&D plan, unless an amount exists in the participant’s SRA.

Purchasing Service Credits

The majority of MPPP participants that have met with representatives of our firm report being encouraged, by FPPA representatives and/or supporters, to consider purchasing past service credits in the DB plan with balances currently held in their MPPP account. The FPPA DB Plan provides benefits that are computed and paid as a percentage of Highest Average Salary (H.A.S.). These benefits are determined by age at retirement and years of service under the Plan (i.e. “normal” benefit @ age 55 with 20 years is 45%).

Increasing years of service increases benefits (i.e. “normal” benefit @ age 55 with 25 years = 57.5%). In addition to accruing service through FPPA covered employment, the FPPA DB Plan permits participants to “purchase” *eligible* past service with other employers. Basically, by paying money to the FPPA DB Plan, a participant can receive a benefit from FPPA as though they participated in and contributed to the DB Plan during employment by others not offering such FPPA Plan. Generally, it appears that a MPPP participant may be eligible to purchase all previous years of service with Aurora and other public employment, along with some military and private employment. While this is an option, there are some restrictions defining eligible past service and when it may be purchased.

Eligible Service. The ability to purchase service credits is available only to governmental defined benefit plans⁶, and is not available to those in private sector defined benefit plans.

Federal Limitations. The Tax Code only permits such purchase if certain requirements are met. First, the Code distinguishes between different types of previous employment to determine the amount of service that can be purchased. All service for governments, educational organizations, and military service is considered “qualified service” and therefore is subject to only one limitation – that if recognition of such service would cause a participant to receive a retirement benefit for the same service under more than one plan, such service will be considered “nonqualified”.⁷ The Board of Trustees of the MPPP has requested the Plan’s legal counsel to determine if retirement benefits provided MPPP for employment by Aurora would preclude past service for Aurora from being considered “qualified” service eligible for purchase of past service credits in that employees would receive benefits provided under MPPP, and then later, under FPPA’s DB Plan.

All other past service (non-government, non-military, non-educational) is considered to be “non-qualified service”, and subject to additional limitations. The first is that only five years of “non-qualified service” may be purchased,⁸ and the second is that such “non-qualified service” may only be purchased after the “employee has at least 5 years of participation under the” new plan.⁹

State Statute Limitations. Similar limitations as to the purchase of past service credits are expressed in Colorado laws at C.R.S. § 31-31-410. That section distinguishes between three types of past service, and establishes rules for each. C.R.S. § 31-31-410(1) addresses the purchase of service credit for *public employment* without expressing any limit as to how many years may be purchased, but requires “one year of continuous

⁶ Internal Revenue Code section 415(n)(1).

⁷ Flush language of I.R.C. section 415(n)(3)(C).

⁸ I.R.C. section 415(n)(3)(B)(i)

⁹ I.R.C. section 415(n)(3)(B)(ii)

service credit with the same employer covered by the statewide defined benefit plan.” C.R.S. § 31-31-410(2) provides rules for the purchase of past service credits for *military service*, limiting such purchase to five years of prior military service, and also requiring “one year of continuous service credit with the same employer covered by the statewide defined benefit plan.” Lastly, C.R.S. § 31-31-410(2.5) provides for the purchase of service credit for *private employment*. Subsection (2.5) is very similar to 415(n)(3)(B) in that it limits recognition of private employment to five years, and requires that the member have “at least five years of continuous service credit with the same employer covered by the statewide defined benefit plan.”

The Board of Trustees of the MPPP has requested Plan’s legal counsel to determine if language requiring “continuous service credit with the same employer” is the same as actual participation in the FPPA Defined Benefit Plan, because FPPA employees are representing that Aurora Police employees can purchase past service credits to satisfy codified eligibility requirements allowing for the purchase of such service credits. In summary, they are representing that their employment with the Aurora Police Department satisfies the “continuous service credit” to be eligible to purchase FPPA DB Plan past service credits. However, it is the opinion of RPD that at the very least, actual FPPA DB Plan participation is required under I.R.C. § 415 for those seeking to purchase past service credits for private employment.

The cost of past service credits varies based upon the “actuarial equivalent” (the cost of providing purchased benefits at retirement) at the time of purchase, which makes the cost greater for an older participant than for a younger participant.¹⁰ Ultimately, the cost is determined by a factor that is a percentage of current H.A.S. and the participant’s age at the time of purchase. Participants considering this option should understand that purchasing service credits at a cost that is the “actuarial equivalent” does not mean they are sold at a discount. Specifically, the cost of past service credits are determined by the current lump-sum amount required to pay for the future promised benefit, considering time for growth and life expectancy.

During the course of researching the cost of purchasing past service credits we found some inconsistencies that have created an additional source of confusion for participants attempting an evaluation. The *FPPA 2004 Member Handbook* (Member Handbook) contains a table referencing the current cost-factor (percentage of present H.A.S.) at various ages. Also, FPPA’s web site offers an online calculator to determine the cost of purchasing past credits. The results of several random scenarios conducted with the online calculator were different from the factors published in the Member Handbook and the FPPA Statewide *Defined Benefit Plan Purchase Service Credit* packet. The

¹⁰ C.R.S. § 31-31-410(1)(d)

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discrepancy in these results appears to be due to a different rate of benefit accrual for the first ten years of service compared to subsequent years. FPPA DB participants earn benefits equal to 2% of H.A.S. for the first ten years of service and 2.5% for each year thereafter. Therefore, the cost of purchasing service credits for each year for the first ten years is less than the cost of years greater than 10.

This is problematic because some participants have reported calculating the number of years they could purchase by using the online calculator to determine the cost of *one year*, and then dividing their MPPP balance by that figure. Their ending results are less expensive than those produced when purchasing multiple years, which leads to expectations that are inaccurate and unavailable. Because of the lack of information and direction, FPPA's online calculator essentially provides a tool for participants to produce misleading results for themselves and others.

For example, an Aurora MPPP participant used the online calculator to determine the cost of one year of service based upon his current age (48) and \$75,000 annual salary, which resulted in a cost of \$15,682. He then divided his current MPPP balance of \$370,000 by this amount and determined that he could purchase 23 years of service credit for a total of over \$361,000. However, when properly entering a purchase of 23 years (rather than one year) in the online calculator it produces a total cost of \$438,771 – nearly \$80,000 more than he assumed.

However, this cost estimate still isn't entirely accurate. Even under the best circumstances, re-affiliation would not occur until January 2006, when the Participant would be age 49. Also, state statute indicates a prerequisite of one-year continuous FPPA-covered employment prior to purchasing past service credits, which makes him age 50 at the time of purchase. Therefore, the cost of 23 years of service purchased at age 50 would be \$469,513 – more than \$100,000 greater than originally anticipated. Ultimately, he calculated an expected FPPA benefit based upon years of service that he cannot afford to purchase. The experience of this actual participant conveys exactly how a comparison of FPPA and MPPP benefits are easily skewed and misunderstood.

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Expenses

According to FPPA's Comprehensive Annual Financial Report for the period ending December 31, 2003, the 2003 administrative and investment expenses for the Statewide DB plan alone were \$2,048,676.¹¹ This covers the 3,677¹² active and inactive participants, which makes average per-participant annual cost \$557 in 2003, compared to MPPP's 2005 budgeted average annual cost of \$461 per-participant.

Comparison of Benefits: Three Scenarios

Our comparison considered three participant scenarios:

1. The Average MPPP Participant: based upon actual group's average age, tenure, salary, account balance, and retirement age.
2. Typical New Hire: based upon younger starting age and longer career.
3. Typical Lateral Participant: based upon a later starting age and shorter career.

1. The Average MPPP Participant¹³

Age: 40
Years of Service: 11
Salary: \$62,415
Current MPPP Balance: \$180,393

2. Typical Basic New-Hire (Young) MPPP Participant

Age: 25
Years of Service: 0
Salary: \$47,572 (Patrol Officer III – Grade 802)
Current MPPP Balance: \$0

3. Typical Lateral Transfer MPPP Participant

Age: 35
Years of Service: 0 (Aurora-Police)
Salary: \$59,393 (Patrol Officer I – Grade 804)
Current MPPP Balance: \$0

¹¹ FPPA Comprehensive Annual Financial Report Year Ending December 31, 2003 – Statement of Changes in Net Plan Assets Available for Pension Benefits (page 30) – Statewide Defined Benefit Plan: Investment Counsel Fees \$36,754 + Investment Management Fees \$1,085,026 + Alternative Investment Legal Fees \$5,577 + Bank Fees \$74,052 + Borrower Rebates \$194,490 + Agent Fees \$30,374 + Administrative Costs \$622,403 = \$2,048,676.

¹² FPPA Comprehensive Annual Financial Report Year Ending December 31, 2003 – page 36

¹³ Based upon demographic data for Aurora-Police MPPP as of January 31, 2005.

Global Assumptions for Retirement Projection Comparisons

Retirement Age: 55
 Annual Salary Increases: 3%
 COLA During Retirement: 2%¹⁴
 Combined Contributions (Percentage of Salary): 20%
 Assumed Investment Return: 8%
 Life Expectancy: 84¹⁵
 Beneficiary Age: Same as Participant

Scenario 1: Retirement Benefit Comparisons

	Aurora-Police MPPP	FPPA Statewide DB
Current MPPP Balance	\$180,393	n/a
H.A.S. when purchasing public service	n/a	\$62,415
Years of service credit purchased	n/a	15 ¹⁶
Age when purchasing past svc. credits	n/a	40
Cost to purchase service credits	n/a	\$178,426 ¹⁷
Surplus after max service purchase	n/a	\$1,967
Value of surplus at retirement	n/a	\$6,240
MPPP Balance at Retirement (age 55)	\$975,239 ¹⁸	n/a
Years/service considered for benefit	26	30
H.A.S. at retirement (age 55)	\$91,659	\$91,659

¹⁴ Annual historic average of FPPA COLAs for 3, 5 and 10-year periods ending 2004.

¹⁵ IRS Life Expectancy - IRS Publication 590, Appendix E, Table 1, December 12, 1999.

¹⁶ Assumes participant would qualify to purchase 4 years of service from employment with a previous employer, along with 11 years at Aurora-Police, for a total of 15 years.

¹⁷ FPPA online service credit purchase calculator (www.fppaco.org)

¹⁸ Assumes: Annual contributions = 20% of salary (3% annual salary increase), Annual investment return = 8.00% compounded annually

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First-Year Retirement Benefits		
Annual Retirement Benefit (1st year)	\$66,391¹⁹	\$54,922²⁰
Percentage of H.A.S. replaced	72.43%	59.92%
Future Benefits with 2% COLA		
Annual retirement income at age 65	\$80,930	\$66,950
Annual retirement income at age 75	\$98,654	\$81,611

Scenario 1: Beginning Retirement Benefit Distribution Option Comparisons

	Participant	Beneficiary
MPPP Systematic Withdrawal	\$66,391²¹	\$66,391
FPPA “Normal” Option	\$64,161	\$0
FPPA Option One (factor 0.856)	\$54,922	\$54,922
FPPA Option Two (factor 0.923)	\$59,221	\$29,610
FPPA Option Three (factor 0.961)	\$61,659	\$30,830
FPPA Option Four (factor 0.845)	\$54,216 ²²	\$54,216
FPPA Option Five (factor 0.916)	\$58,772 ²²	\$29,386

¹⁹ Paid over 29 years remaining life expectancy (age 84), assumes 8% annual investment return and 2% annual COLA

²⁰ FPPA 2004 Member Handbook “Age at Retirement Benefit Percentages – Statewide Defined Benefit Plan” page 17 (Age 55, 30 years of service = 70.00%), “Option 1 Factors – Statewide Defined Benefit Plan” page 24 (Age of retiree 55, age of beneficiary 55 = 70.00% x 0.856 = 59.92%). COLAs are only provided with FPPA Board discretion, and may not exceed 3% per year.

²¹ MPPP systematic withdrawal calculations build in for annual 2% COLAs.

²² “Pops-Up” to “Normal” option benefit if beneficiary pre-deceases participant.

Scenario 1: Post-Retirement Survivor Benefit Comparisons if Participant Elects Normal Retirement Option

	Aurora-Police MPPP	FPPA Normal Option
Participant Balance at Retirement	\$975,239	\$294,511 ²³
Deceased at age 58	\$994,513	\$68,144
Deceased at age 60	\$997,013	\$0
Deceased at age 65	\$973,387	\$0
Deceased at age 70	\$887,511	\$0
Deceased at age 75	\$704,846	\$0
Deceased at age 80	\$374,085	\$0
Deceased at age 85	\$0	\$0

Scenario 2: Retirement Benefit Comparisons

	Aurora-Police MPPP	FPPA Statewide DB
Current MPPP Balance	\$0	n/a
MPPP Balance at Retirement (age 55)	\$1,452,924 ¹⁸	n/a
Years/service considered for benefit	30	30
H.A.S. at retirement (age 55)	\$108,841	\$108,841
First-Year Retirement Benefits		
Annual Retirement Benefit (1st year)	\$99,714¹⁹	\$65,218²⁴
Percentage of H.A.S. replaced	91.61%	59.92%
Future Benefits with 2% COLA		
Retirement income at age 65	\$121,551	\$79,500
Retirement income at age 75	\$148,170	\$96,911

²³ Accumulated Participant Contributions = cost of past service credits purchased and employee contributions.

²⁴ FPPA 2004 Member Handbook “Age at Retirement Benefit Percentages – Statewide Defined Benefit Plan” page 17 (Age 55, 30 years of service = 70.00%), “Option 1 Factors – Statewide Defined Benefit Plan” page 24 (Age of retiree 55, age of beneficiary 55 = 70.00% x 0.856 = 59.92%)

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Scenario 2: Comparison of Lump-Sum Amount Available to Participant at Various Ages (for distribution or transfer to another retirement plan)²⁵

	Total Contributions	Aurora-Police MPPP	FPPA Statewide DB
Age 30	\$50,513	\$59,000	\$26,519
Age 35	\$109,072	\$155,086	\$57,263
Age 40	\$176,958	\$307,163	\$92,903
Age 45	\$255,655	\$543,243	\$134,219
Age 50	\$346,888	\$904,762	\$182,116

Scenario 2: Beginning Retirement Benefit Distribution Option Comparisons

	Participant	Beneficiary
MPPP Systematic Withdrawal	\$99,714²⁶	\$99,714
FPPA “Normal” Option	\$76,189	\$0
FPPA Option One (factor 0.856)	\$65,218	\$65,218
FPPA Option Two (factor 0.923)	\$70,322	\$35,161
FPPA Option Three (factor 0.961)	\$73,217	\$36,609
FPPA Option Four (factor 0.845)	\$64,379 ²²	\$64,379
FPPA Option Five (factor 0.916)	\$69,789 ²²	\$34,894

²⁵ Total Contributions (employer and employee) are 20% of annual salary, increasing by 3% per annum. Aurora-Police MPPP = accumulated contributions and 8% assumed investment return. FPPA Statewide DB = accumulated employee contributions and 5% premium, employer contributions are forfeited.

²⁶ MPPP systematic withdrawal calculations build in for annual 2% COLAs.

Scenario 2: Post-Retirement Survivor Benefit Comparisons if Participant Elects Normal Retirement Option

	Aurora-Police MPPP	FPPA Normal Option
Participant Balance at Retirement	\$1,452,924	\$226,326 ²⁷
Deceased at age 58	\$1,477,616	\$0
Deceased at age 60	\$1,478,698	\$0
Deceased at age 65	\$1,434,420	\$0
Deceased at age 70	\$1,292,521	\$0
Deceased at age 75	\$999,188	\$0
Deceased at age 80	\$474,518	\$0
Deceased at age 85	\$0	\$0

Scenario 3: Retirement Benefit Comparisons

	Aurora-Police MPPP	FPPA Statewide DB
Current MPPP Balance	\$0	n/a
MPPP Balance at Retirement (age 55)	\$678,231 ¹⁸	n/a
Years/service considered for benefit	20	20
H.A.S. at retirement (age 55)	\$101,113	\$101,113
First-Year Retirement Benefits		
Annual Retirement Benefit (1st year)	\$46,547¹⁹	\$38,949²⁸
Percentage of H.A.S. replaced	46.03%	38.52%
Future Benefits with 2% COLA		
Retirement income at age 65	\$56,741	\$47,479
Retirement income at age 75	\$69,166	\$57,876

²⁷ Accumulated Participant Contributions = cost of past service credits purchased and employee contributions.

²⁸ FPPA 2004 Member Handbook “Age at Retirement Benefit Percentages – Statewide Defined Benefit Plan” page 17 (Age 55, 20 years of service = 45.00%), “Option 1 Factors – Statewide Defined Benefit Plan” page 24 (Age of retiree 55, age of beneficiary 55 = 70.00% x 0.856 = 38.52%)

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Scenario 3: Comparison of Lump-Sum Amount Available to Participant at Various Ages (for distribution or transfer to another retirement plan)²⁵

	Total Contributions	Aurora-Police MPPP	FPPA Statewide DB
Age 40	\$63,065	\$73,660	\$33,109
Age 45	\$136,175	\$193,623	\$71,492
Age 50	\$220,929	\$383,489	\$115,988
Age 55	\$319,182	\$678,231	\$167,571

Scenario 3: Beginning Retirement Benefit Distribution Option Comparisons

	Participant	Beneficiary
MPPP Systematic Withdrawal	\$46,547²⁹	\$46,547
FPPA “Normal” Option	\$45,501	\$0
FPPA Option One (factor 0.856)	\$38,949	\$38,949
FPPA Option Two (factor 0.923)	\$41,997	\$20,999
FPPA Option Three (factor 0.961)	\$43,726	\$21,863
FPPA Option Four (factor 0.845)	\$38,448 ²²	\$38,448
FPPA Option Five (factor 0.916)	\$41,679 ²²	\$20,839

²⁹ MPPP systematic withdrawal calculations build in for annual 2% COLAs.

Scenario 3: Post-Retirement Survivor Benefit Comparisons if Participant Elects Normal Retirement Option

	Aurora-Police MPPP	FPPA Normal Option
Participant Balance at Retirement	\$678,231	\$159,591 ³⁰
Deceased at age 58	\$689,758	\$0
Deceased at age 60	\$690,262	\$0
Deceased at age 65	\$669,593	\$0
Deceased at age 70	\$603,353	\$0
Deceased at age 75	\$466,422	\$0
Deceased at age 80	\$221,501	\$0
Deceased at age 85	\$0	\$0

Conclusion: Comparative Analysis of FPPA’s Statewide Defined Benefit Plan and City of Aurora-Police Money Purchase Pension Plan

Our analysis did not produce any compelling factual or objective results that favor participation in FPPA’s Statewide Defined Benefit Plan over participation in the City of Aurora-Police MPPP. However, we acknowledge that participants’ interest in a DB Plan may be fueled primarily by subjective criteria, such as promised benefits, automatic professional money management, and Trustee-defined benefit eligibility and benefit amounts.

Upon completion of our analysis of the comparison of benefits for the participant and their survivor(s), the results clearly indicate that the benefits under the Aurora-Police MPPP’s current structure are greater. These comparisons were performed using consistent assumptions for the “Average Aurora-Police MPPP Participant,” based upon current demographic data that included average age, salary, contributions, account balance, years of service and retirement age, specific to the members of this group. Therefore, in our opinion, it would be quite difficult for the Plan Trustees, or the average

³⁰ Accumulated Participant Contributions = cost of past service credits purchased and employee contributions.

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participant in this group, to justify the consequences of a subjective-based preference for DB, given the significance of the comparative results that support the current DC structure.

Additionally, using consistent assumptions, we performed projected benefit comparisons for a “Typical New-Hire Participant,” based upon a starting age of 25, and a “Typical Lateral Participant,” based upon an average starting age of 35, which was the actual average of the 2004 Lateral Academy. These results also significantly favored continued participation in the Aurora-Police MPPP over the FPPA Statewide Defined Benefit Plan.

In each of the three benefit projection comparison scenarios presented above, the results for both the Aurora-Police MPPP participant and their survivor(s) are greater under the existing Plan. This is the case with numerous different circumstances within these scenarios, including:

- Retirement benefits at age 55
- Lump-sum distributions or transfers prior to retirement at all ages
- Post-retirement survivor benefits

As stated in previous sections, we do not believe that purchasing past service credits from previous eligible employment represents any significant opportunity. Unlike the State of Colorado’s Public Employees Retirement Association (PERA), in which participants had an opportunity to purchase past service credits at a discount of their actuarial cost, past service credits of FPPA’s Statewide DB Plan are sold at the actual actuarial cost to the Plan.

Regarding calculation of the retirement benefit comparisons, we add the following additional considerations:

- The comparisons shown above represent the current benefit structure of FPPA’s Statewide DB Plan, which are subject to revision by the Trustees.
- In addition to retirement benefits provided under the FPPA Statewide DB Plan, participants may also be entitled to benefits payable through a Stabilization Reserve Account (SRA); however, these benefits, if any, are not guaranteed, and, therefore, were not included in the comparisons provided herein. Further, we considered the recent sharp decline (to zero, during the last two years) in funding allocated to the SRA.
- An assumed level investment return of 8% was utilized to calculate projected benefits for Aurora-Police MPPP comparisons. Historic long-term performance of the MPPP’s professionally-managed portfolios is greater than the assumed investment return utilized in these comparative calculations.

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- Comparative calculations conducted herein were structured to provide the Trustees comparative data for the average current MPPP participant and the typical new and lateral hires in the future.
- Comparisons that consider individual circumstances will vary, and, therefore, we strongly encourage every participant seek an individual comparison of projected benefits.

Also, we did not create a benefit projection comparison scenario that utilized the DROP provision offered through FPPA's Statewide Defined Benefit Plan, due to several considerations, including:

- Participation in the DROP is not a guaranteed option for every participant. If re-affiliation occurs, the City's administration will maintain the sole discretion to honor a participant's request to elect the DROP and may decline or accept any and all such requests.
- We observed the average retirement age for City of Aurora-Police at 55.1; therefore, this option would likely benefit a relatively small minority, which is an inappropriate consideration for Plan fiduciaries such as the MPPP Board of Trustees.

Finally, we believe the most compelling considerations are that of flexibility and opportunity to customize retirement benefits for the individual. Participants in the FPPA DB Plan are virtually forced to choose one of the six life-annuity options, due to the severe forfeiture consequences associated with any other alternative. Unfortunately, this means the retiree's lifestyle, relative to benefit income, is dictated entirely by the Plan. This includes, but is not limited to, any annual COLA. While some may find this type of arrangement very agreeable, many others will certainly perceive such conditions far too restrictive.

The DC Plan participant may choose to invest a portion of their retirement savings in various forms of annuities, such as one that guarantees lifetime income for themselves and a beneficiary. The remainder could be withdrawn in periodic or partial-sum installments, based upon the ever changing, and unpredictable, financial conditions of the individual. Additionally, a participant may choose to accelerate benefits early in retirement to pay for a more active lifestyle, and reduce retirement income in the later years. Lastly, the public-safety-officer DC Plan participant may customize a distribution plan that is tailored to their unique life expectancy considerations.

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G. Comparative Analysis: FPPA's Statewide Money Purchase Plan and City of Aurora-Police Money Purchase Pension Plan

Two Different Approaches to Money Purchase Pension Plans

Both FPPA's Money Purchase Plan and the City of Aurora-Police MPPP are money purchase pension plans, also referred to as defined contribution (DC) plans, established and maintained pursuant to Internal Revenue Code § 401(a). However, the Plan control, design, services, features, and administration are handled entirely differently. The primary difference is distinguished by the entity/body that controls the respective Plans, and all other differences are a result of the decisions of that controlling entity/body.

Local Control versus Control by Statewide Association

The Board of Trustees for each of these Plans is granted the authority to establish and modify certain Plan provisions, features, and services; and shoulder the responsibilities to act in a fiduciary capacity that requires decision-making and evaluation processes always performed in the interest of all participating employees. Further, these Boards are not expected to possess all of the necessary knowledge skills to competently operate such a Plan, and, are therefore, encouraged to retain, monitor, and evaluate industry professionals to assist the Trustees in fulfilling their fiduciary obligations to the Plan.

DC Plans define a contribution structure for the participant and employer. FPPA's Board establishes a minimum contribution for each, which is currently 8%. However, at the employer's discretion, this may be increased, within limitations established by the governing Internal Revenue Code. The contribution rates for the City of Aurora-Police MPPP are established, and subject to modification, by the City of Aurora. Additionally, the FPPA Board and the City of Aurora established eligibility requirements and a vesting schedule for Plan participants.

Most other provisions and operations are controlled solely by the respective Board of Trustees. FPPA's Board of Trustees is comprised of 9 members, serving four-year terms. Board members are appointed by the Governor and confirmed by State Senate. Powers, duties and authority of the Board are granted and defined by state statute (C.R.S. § 31-31-202), and are described in Section A of this document. The Aurora-Police MPPP Board is composed of five individuals, four of whom are employees of the Police Department, with the fifth being selected by the other four. Board members serve staggering 3-year terms. The FPPA Board must manage its Plan in accordance with the interests and desires of all participants from multiple departments. In contrast, the Aurora-Police MPPP Board is focused on operating pursuant to the members of the Aurora Police Department; thereby, localizing the control and management.

Plan Design, Services, Features and Management

The respective Board's of Trustees establish certain components of the Plan design, service and features provided, and method of Plan management. These components include the following:

- Plan Administration
 - Daily operations, plan management, customer service
- Recordkeeping
 - Contributions, investment transactions, distributions
 - Statements, reporting
 - Web transactions, Voice Response Unit (VRU)
- Investment Services
 - Investment options/managers/funds
 - Menu design
 - Investment manager selection, monitoring, modification
- Participant Education
 - Collateral and electronic Plan and investment education material
 - Educational workshops, periodic communications
 - Individual counseling and retirement planning assistance
- Trust and Custody
 - Custodian, trustee, investment trading platform
- Legal and Compliance
 - Plan document, regulatory compliance
 - Legal defense, guidance, QDROs

FPPA's MPP is administered by Fidelity Investments and serviced primarily through Fidelity's web site and toll-free telephone service, along with FPPA's local customer service representatives. This type of approach is referred to as "bundled" – meaning that the majority of the core components (listed above) are provided by a single vendor (Fidelity Investments). The primary benefit of a bundled approach is the ability to offer a Plan that appears to have very low administrative expenses. However, this style generally has its own distinguishable limitations. This is evidenced by the composition of the plan's investment menu and approach to service.

Specifically, Plans that are administered by an investment manager, tend to include investment options (funds) managed by the same provider – often, the majority of the Plan's investment options are the administrator's own proprietary funds. In the case of FPPA's MPP, 17 of the 21 investment options (81%) are managed by the plan administrator (Fidelity Investments). This approach brings into question objectivity, flexibility and control by underscoring performance with price.

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Indeed, one approach to reducing administrative expenses is hiring a mutual fund company as plan administrator that offers an investment menu limited primarily to that administrator's own proprietary funds. In our experience with other plans, we have found that these types of arrangements generally offer more favorable pricing for administrative expenses when a required number of the administrator's funds are included. While funds from other investment providers may be available, the options are limited, and the acceptability of inclusion of non-administrator managed investments is generally based upon profitability to the administrator (i.e. Fidelity). We also noted that Aurora-Police MPPP retains an independent, objective investment consultant to conduct mutual fund/manager searches for the Plan. The absence of any Fidelity funds from the MPPP menu causes one to wonder – “why?” – considering that these searches are primarily based upon top-performance in relative peer groups.

Comparison of Investment Options

Both plans have designed their investment options, from a Participant's perspective, in a similar fashion. Both plans' default investment option directs contributions to pre-arranged portfolios of investments, rather than a single investment fund or option. These portfolios are designed to change over time, to become more conservative (i.e. increase allocations to fixed income) as the participants age, rather than allocating the participants' accounts to a static mix of investments. For others, a variety of investment options, mostly publicly traded mutual funds, are available to trade in any proportion or allocation mix the participant prefers. Lastly, a brokerage window is made available for those desiring an even greater universe of mutual funds and/or individual investment securities such as stocks and bonds.

Internally, however, the Plans operate in a different fashion. FPPA has determined to utilize a bundled provider, wherein all recordkeeping and investment functions are handled by one vendor. This provides the Plan some efficiencies and economies, but from a current industry perspective, it is generally utilized primarily by smaller plans. The savings that are provided do come at a cost. It is common knowledge that Fidelity will provide such recordkeeping and participant servicing arrangements only when a certain proportion of plan assets are invested in Fidelity funds, those funds' investment management fees subsidizing the recordkeeping and servicing expenses of the plan. From a fiduciary perspective, this arrangement can create problems when the investment performance of a Fidelity-managed fund comes under scrutiny. Depending upon the individual investment option, another Fidelity replacement alternative may not be available. That could put FPPA in a quandary when contractual limitations affect their ability to provide appropriate investments from the standpoint of a fiduciary. Additionally, RPD is unable to determine whether the investments that are provided are

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chosen based upon any written investment policy statement, nor whether or how their subsequent performance is monitored, and by whom. Presumably, there are some FPPA personnel (or other independent consultant), other than Fidelity itself, that are responsible for this required charge. The Aurora Police MPPP employs an independent investment consultant that has assisted the Board of Trustees in the creation of a written investment policy statement which provides a framework as to how investments are provided, and the criteria for subsequent monitoring. Additionally, the MPPP has hired a professional Plan Administrator which provides another layer of investment review. MPPP utilizes an unbundled approach where the record-keeper is separate and independent from the Plan's investment custodian. MPPP has employed the Charles Schwab Trust Company as its custodian, operating in an open architecture format where every investment manager on the Schwab trading platform is available for consideration by the Board of Trustees based upon the investment consultant's recommendation. In summary, the choice of investments is separate and autonomous from the administration and recordkeeping of the MPPP.

In reviewing the core options for both plans, at this time, the available investments cover a sufficient number of asset classes and investment styles to provide opportunity for diversification, and all of the investment options' long-term performance is adequate relative to investment peers. Many defined contribution providers follow a "more is better" approach, but there is little redundancy in both plans' investment options, other than FPPA's offering of both the Fidelity U.S. Bond Index Fund, and PIMCO's Total Return Fund which have a .99 correlation.

We have also reviewed each plan's provision of pre-arranged investment portfolios. At the outset, we state that these portfolios, where allocations are based upon a stated retirement date or investment time horizon, are very much preferable to other static allocations that are based upon stated investment objectives, such as "moderate" or "aggressive," (commonly referred to as "lifestyle funds.") The latter investment arrangement requires participants to initially determine which portfolios are acceptable for investment allocation, and then to subsequently determine when it is appropriate to move to another more conservative portfolio. The current target-date portfolios offered by each plan provide a simple managed investment alternative for participants. The FPPA plan offers ten investment portfolios through the provision of Fidelity's Freedom Funds, each fund differentiated by five-year increments. This compares to the MPPP plan which provides for seven alternatives, differentiated by 10-year increments. At first blush, the FPPA arrangement seems easier from a participant's perspective because there are more choices which would better target an individual's retirement horizon. However, MPPP's communication of these arrangements is superior in conveying the appropriate investment option than FPPA's, because every MPPP piece, whether printed information, electronic (internet provided), and even performance results, clearly provides the age

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range for the offered portfolios. Much of Fidelity's/FPPA's "boilerplate" communication approach lacks appropriate direction as to which portfolio is appropriate for a given participant's age.

MPPP's target-date portfolios have been constructed specifically for that Plan's participant population employing a normal retirement age of 55, commonly considered appropriate for public safety personnel. The Fidelity Freedom Funds offered by FPPA are the same available at the retail level, and the portfolio's applicability is stated in terms of date of retirement, which is different for each participant, rather than stating the age of the participant. The Freedom Fund's stated target retirement periods are presumably designed for a normal retirement age appropriate for the private sector. Accordingly, the allocation to the Freedom Funds may be too conservative for someone retiring at age 55, and not an older age, such as 62 or 65. For example, a 50-year old at Aurora Police may be looking today to retire in five years in the year 2009. Should that participant select Freedom Fund 2010, or Freedom Fund 2020?

An additional problem exists with Fidelity's Freedom Funds, and that is the ability of the FPPA Plan to conduct review of those investments. Although certain asset class guidelines are provided by Fidelity, the allocation to definable investment managers and any subsequent change is within the sole discretion of Fidelity, and may be difficult to determine except at times when Fidelity determines to report after-the-fact such allocation information. Accordingly, the methodology of how these allocations are made by Fidelity is difficult to ascertain and therefore review. Likewise, any attempt to monitor the investment performance of these options becomes complicated at best, and may be impossible, due to the ever-changing and unknown allocations determined and made solely by Fidelity. MPPP's target-date portfolios' structure is clearly defined and therefore more ascertainable. Allocations are determined each year in advance by the Plan's independent investment consultant, utilizing well-known efficient frontier modeling, based upon stated investment return expectations and statistical correlations among the investment classes. This efficient frontier modeling provides direction for each portfolio as to specific asset classes, which are then matched to the Plan's correlating (available) core investment options. This allocation modeling is process-driven and easily reviewable as to its methodology. Investment performance review of each target-date portfolio is not necessary because the consultant and MPPP Board review each underlying core option as part of their regular due diligence activities.

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Investment Performance of Core Options – as of 01/31/05

Asset Class	Fund Name	Ticker	1- Year/Rank	3- Year/Rank	5- Year/Rank	10- Year/Rank	Risk Stan.Dev.	Expense Ratio
International Growth								
FPPA	Fidelity Diversified International	FDIVX	15.60%/13	16.22%/1	5.19%/1	13.33%/1	15.87	1.12
MPPP	Artisan International	ARTIX	11.77%/34	7.82%/54	-1.81%/17	N/A	19.00	1.22
International Value								
FPPA	None							
MPPP	Brandes International	BIIEEX	18.63%/36	16.54%/33	8.61%/24	N/A	21.50	1.14
Small/Mid- Cap Growth								
FPPA	Artisan Mid-Cap Fund	ARTMX	6.60%/52	5.64%/30	5.92%/12	N/A	18.61	1.19
MPPP	Calamos Growth	CVGRX	9.69%/30	10.69%/4	10.16%/3	23.31%/1	17.05	1.31
Small/Mid- Cap Blend								
FPPA	T.Rowe Price Small- Cap Stock Fund	OTCFX	11.39%/51	9.18%/74	10.77%/60	14.12%/39	17.37	0.96
MPPP	None							
Small/Mid Cap Value								
FPPA	Janus Mid- Cap Value	JMCVX	12.07%/55	11.55%/36	17.28%/15	N/A	16.66	1.08
MPPP	Janus Small-Cap Value	JSIVX	8.71%/91	8.21%/96	15.25%/63	16.77%/12	17.94	0.81
Large-cap Growth								
FPPA	Fidelity Growth	FDGRX	3.95%/31	1.66%/24	-7.46%/50	12.17%/7	21.44	0.83
MPPP	PIMCO RCM Larg- Cap Growth Instutional	DRLCX	3.93%/31	-0.05%/41	-6.77%/43	N/A	12.91	0.76
Large-Cap Blend								
FPPA	Fidelity Spartan	FUSEX	6.10%/42	3.11%/37	-1.90%/52	11.31%/21	15.58	0.19
MPPP	Vanguard Inst'l Index	VINIX	6.22%/40	3.26%/34	-1.74%/48	11.57%/16	15.58	0.05

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Asset Class	Fund Name	Ticker	1- Year/Rank	3- Year/Rank	5- Year/Rank	10- Year/Rank	Risk Stan.Dev.	Expense Ratio
Large-Cap Value								
FPPA	Fidelity Equity Income	FEQIX	7.51%/66	5.81%/44	4.82%/45	11.60%/34	16.52	0.70
MPPP	Davis NY Venture	NYVVTX	9.39%/9	8.34%/4	3.88%/9	14.00%/3	14.97	0.92
Fixed Income								
FPPA	Fidelity U.S. Bond Index	FBIDX	4.15%/28	6.42%/16	7.95%/14	7.54%/15	4.58	0.32
MPPP/FPPA	PIMCO Total Return	PTTRX	4.76%/11	6.61%/13	8.64\$/5	8.38%/2	4.58	0.43
Stable Value								
FPPA	Fidelity Managed Income	N/A	4.02%	4.51%	5.05%	N/A	N/A	N/A
MPPP	Galliard Stable Income	WFSTZ	3.76%	4.38%	5.01%	5.44%		0.55

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Investment Performance of Fidelity's Freedom Funds - as of 01/31/05

Fund Name	1 Year	3 Year	5 Year	10 Year	Risk Stan Dev
Fidelity Freedom 2000	3.29%	3.75%	3.24%	N/A	3.68%
Fidelity Freedom 2005	4.63%	N/A	N/A	N/A	N/A
Fidelity Freedom 2010	4.84%	5.20%	2.62%	N/A	6.94%
Fidelity Freedom 2015	5.49%	N/A	N/A	N/A	N/A
Fidelity Freedom 2020	6.04%	5.50%	1.01%	N/A	10.94%
Fidelity Freedom 2025	6.13%	N/A	N/A	N/A	N/A
Fidelity Freedom 2030	6.45%	5.29%	-0.14%	N/A	12.98%
Fidelity Freedom 2035	6.82%	N/A	N/A	N/A	N/A
Fidelity Freedom 2040	6.77%	5.26%	N/A	N/A	14.57%
Fidelity Freedom Income	2.87%	3.48%	3.91%	N/A	2.88%

Investment Performance of MPPP's Target Date Portfolios – as of 12/31/04**

Age Group	Portfolio Name	1-Year	3-Year	5-Year	10-Year	Risk Std. Dev.
Over 75	Target-Date 1980 - Retirement Plus 20 Target Retirement Years: 1975 - 1984	5.80%	5.57%	5.48%	9.09%	2.67%
66-75	Target-Date 1990 - Retirement Plus 10 Target Retirement Years: 1985 - 1994	7.40%	6.14%	5.20%	10.24%	5.40%
56-65	Target-Date 2000 - Retirement Income Target Retirement Years: 1995 - 2004	8.99%	6.65%	4.84%	11.55%	8.19%
46-55	Target-Date 2010 Target Retirement Years: 2005 - 2014	10.48%	7.04%	4.49%	12.66%	10.96%
36-45	Target-Date 2020 Target Retirement Years: 2015 - 2024	11.50%	7.28%	4.23%	13.40%	12.80%
26-35	Target-Date 2030 Target Retirement Years: 2025 - 2034	12.99%	7.48%	3.62%	14.41%	15.62%
Under 25	Target Date 2040 Target Retirement Years: 2035-2044	14.53%	7.45%	2.70%	15.21%	18.75%

** Not all underlying mutual funds have ten-years of historical performance . Therefore, in order to provide long-term (10-Year) performance information, the figures shown in the "10-Year" column represent annualized returns that include the actual performance for each mutual fund in the portfolios for each year the fund was available, and average returns for the fund's respective index are substituted for years prior to a fund's inception. For example, Artisan International Fund opened 12/1995 and has only eight years of historical performance. In this instance, the performance of the Artisan International Fund's relative index, MSCI EAFE Growth, is substituted for the first two years of the fund's performance to provide a 10-year history .

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Lastly, we have reviewed the third “tier” of each plans’ structure, that of the brokerage window. Both plans are fairly reasonable in the opportunity to utilize this investment option. FPPA utilizes Fidelity’s “*Brokerage Link*”. A minimum investment of \$2,500 is required by Fidelity, and \$500 must be maintained in the standard plan option at all times. Ongoing, the minimum amount that can be exchanged from standard plan options is \$1,000. Fidelity does not impose any Plan-level fees. MPPP provides a brokerage arrangement through Charles Schwab’s “*Personal Choice Retirement Account*.” MPPP has no minimum investment amount, but provides that no more than 99% of the participant’s account, at the time of the transfer, and at all time subsequent to that, can go to the PCRA. MPPP’s recordkeeper charges an annual fee of \$225 per year, charging \$56.25 per quarter. Comparative investment access and trading costs are provided in the table below.

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Comparison of Self-Directed Brokerage Options

	SCHWAB PCRA	Fidelity's BrokerageLink		
		BRONZE	SILVER	GOLD
Eligibility		Available to all customers	Households meeting any of the following criteria: <ul style="list-style-type: none"> • \$100,000+ in assets • \$30,000+ in assets and 36+ trades per year • No asset minimum and 72+ trades per year 	Households ¹ meeting either of the following criteria: <ul style="list-style-type: none"> • \$1,000,000+ in assets • \$30,000 in assets and 120+ trades per year
STOCKS				
Online	\$19.95 for up to the first 1,000 shares, plus \$0.015 per share thereafter \$9.95 per trade for 30 or more trades per quarter	\$10.95 for up to the first 1,000 shares plus \$0.015 for each additional share	\$10.95 for up to the first 1,000 shares plus \$0.015 for each additional share	\$8 flat for all online stock trades except stocks trading under \$1, Directed Trading orders, and Extended Hour Session orders, which are subject to the \$8 base commission up to 1,000 shares, and \$0.005 per share thereafter
Telephone Trades	\$19.95 for the 1st 1,000 shares plus \$0.014 for each additional For 30 or more trades per qtr \$9.95 regardless of # of shares \$0-2.4K - \$30 + 1.70%	\$45 for up to the first 500 shares plus \$0.045 for each additional share	\$25 for up to the first 1,000 shares plus \$0.025 for each additional share	\$20 for up to the first 1,000 shares plus \$0.02 for each additional share
Representative-Assisted	\$2.5K-6.250 - \$56 + .66% \$6,250-\$20K - \$76 + .34% \$20K-\$50K - \$100 + .22% \$50K-\$500K - \$155 + .22% \$500K + - \$255 + .09% Min-\$39; Max-\$55 for 1st 100 plus \$0.55 per share thereafter	\$55 for up to the first 100 shares plus \$0.14 for each additional share	\$45 for up to the first 500 shares plus \$0.045 for each additional share	\$35 for up to the first 1,000 shares plus \$0.035 for each additional share
Maximum Charge		5% of principal or subject to the minimum	5% of principal or subject to the minimum	5% of principal or subject to the minimum
OPTIONS				
Online	\$9.95 plus \$1.40 per contract	\$25 plus \$2.25/contract	\$20 plus \$1.75/contract	\$8 + \$1.50 per contract for orders of 1-99 contracts; \$8 + \$1 per contract for orders of 100+ contracts
Telephone Trades	\$9.95 plus \$1.40 per contract	\$45 plus \$2.25/contract	\$25 plus \$1.75/contract	\$20 plus \$1.75/contract
(Continued on next page)				

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	SCHWAB PCRA	Fidelity's BrokerageLink		
Representative-Assisted Assisted	\$39.95 plus \$1.40 per contract	\$55 plus \$2.25/contract	\$45 plus \$1.75/contract	\$35 plus \$1.75/contract
Maximum Charge		5% of principal or subject to the minimum	5% of principal or subject to the minimum	5% of principal or subject to the minimum

Comparison of Participant Services

Comparing the FPPA Money Purchase Plan to Aurora-Police MPPP based upon expense and *some selected features* is not rational. Despite a long-time industry trend to focus improvement efforts on *efficiency* (cheap), rather than *effectiveness*, our experience with participants confirms their desire for personalized counseling and planning assistance – not solely a reduction of fees. In recognition of this new trend, the MPPP now operates a plan that is truly customized for Aurora-Police (rather than off-the-shelf) that offers a level of personal assistance unmatched by any other known provider(s).

The MPPP Board recognizes individual Officer counseling as a component critical to the success of the plan and its participants. This is demonstrated by their approach to acquiring and monitoring these services. The current participant service arrangement contractually provides for 400 hours of annual participant education and counseling, along with a 40-hour weekly presence either on-site or in the local MPPP offices. This is quite different from the standard quarterly educational workshops conducted by many industry providers, and the bi-annual visitations conducted by FPPA.

All of MPPP’s administrators and service providers, including participant service providers, are selected and continually measured by performance, much like the plan’s investment providers. The resulting benefits of this methodology must not be overlooked when evaluating DC plans.

Conclusion: Comparative Analysis of FPPA’s Statewide Money Purchase Plan and City of Aurora-Police Money Purchase Pension Plan

Our analysis, which included a side-by-side comparison of features, benefits, services, structure, and control offered through these defined contribution plans, did not produce results that substantiate conversion from the existing locally-controlled Plan to FPPA’s Statewide Money Purchase Plan. The current structure seems to provide plan participants the most opportunity for diversification without provider constraints; fiduciary protection from a local Board; and superior service both at the plan and participant level.

H. Comparative Analysis: FPPA's Statewide Defined Hybrid Plan and City of Aurora-Police Money Purchase Pension Plan

The Hybrid Plan contains a DB plan component, with lower benefits than the Statewide DB plan, which consumes the majority of contributions (14% of compensation); along with a money purchase plan component that receives a small portion of contributions (2%).³¹ Assuming that the City of Aurora maintained its current contribution structure of 20%, the excess 4% would be directed to the money purchase plan component. Should the DB portion become under-funded, the FPPA Board maintains authority to unilaterally mandate a greater allocation of contributions to the DB portion by reducing the amount allocated to the money purchase component.

Distribution options for each component (defined benefit, money purchase) are nearly identical to those described for the respective individual Plans, described in Sections B and C of this document. Additionally, investment options, features and services for the money purchase component are the same as those offered in the Statewide Money Purchase Plan, described in section C, along with our analysis of the same, provided in section G of this document.

Benefits in the Statewide DB Plan accrue at 2% of salary for the first 10 years of service and 2.5%, thereafter. Hybrid plan benefits accrue at a flat rate of 1.5% for each year of service. A 30-year participant in the Statewide DB plan would accrue an average benefit equivalent to 2.3% of HAS, while a Hybrid plan participant with 30 years of service would accrue an average benefit of only 1.5% of HAS. This results in a 35% reduction in benefits, with a dissimilar reduction in contributions. For existing participants, contribution rates to the Statewide DB Plan are 20%, while contribution rates to the Statewide Hybrid Plan are currently 14% (or, 30% less). For new participants hired in the future, contribution rates to the Statewide DB Plan are 16%, while contribution rates to the Statewide Hybrid Plan are still currently 14% (or, 12.5% less).

Conclusion: Comparative Analysis of FPPA's Statewide Hybrid Plan and City of Aurora-Police Money Purchase Pension Plan

Based upon the considerations referenced above, it seems reasonable to assume that few, if any, would find the Statewide Hybrid Plan an attractive option. Although the concept of combining both DC and DB components appears to be a viable and attractive option, we believe the required contributions outweigh the potential benefits.

³¹ FPPA 2004 Member Handbook – page 43

I. Comparative Analysis: Conclusion

The most prominent consideration factored in our conclusion is that of the irrevocable commitment required to participate in the FPPA Plans. It would be virtually impossible for any objective consultant to quantify a recommendation of this magnitude, absent significant compelling benefits resulting from such action. Specifically, the presence of certain benefits and conditions would have to exist in order to justify an irrevocable commitment, such as greater benefits for the average participant and their survivor(s), guaranteed future benefits without the possibility of reductions, guaranteed additional funding (if necessary) provided by the employer or state, and exceptional historic investment performance, among others.

Contrary to our preferences stated above, the results of our analysis indicate that existing and projected benefits of continued participation in the current Plan outweigh those provided for through FPPA's Plans. Further, the benefits offered through the Statewide DB and Hybrid Plans are adjustable, and future funding assistance from the employer and/or state is not guaranteed. The following additional elements were also considered in our evaluation:

- The FPPA Statewide DB and Hybrid plans (although titled “defined benefit plans”) do not operate like traditional DB plans.
 - The Board may recommend a legislative mandate to increase employer and employee contributions.³²
 - Benefits are also dependent upon investment performance – FPPA's trailing 5-year performance ranks in the bottom quartile (86%).³³
 - The FPPA board may, at its sole discretion, increase the vested retirement (less than 25 years of service) age from 55 up to 65, and the normal retirement (over 25 years of service) age from 55 up to 60, and determine the annual COLA, if any, ranging from 0% to 3%.³⁴

³² C.R.S. § 31-31-202 (1) (i) and C.R.S. 31-31-401 (3)

³³ Investment performance 5 years ending 09/30/2003 Callan Defined Benefit Universe of Plans over \$1 billion.

³⁴ FPPA 2004 Member Handbook (pages 18 and 20) and C.R.S. § 31-31-407 (2) (a)

- Survivor benefits implications to Officers that divorce or re-marry.
- Purchasing service credit can be quite costly, especially if you're in your 50's. A participant age 55, with HAS of \$75,000, would pay \$647,794 for 25 years of service,³⁵ which would provide 49% Option 1 income replacement.³⁶
- Past service credits are sold at the actuarial cost to the plan – they are not offered at a discount.
 - This purchase is advance payment for a monthly benefit guaranteed by FPPA.
 - MPPP participants also have the option of pre-funding guaranteed lifetime monthly benefits by purchasing an annuity. However, FPPA participants are limited to benefit options and amounts offered by FPPA; whereas, MPPP participants can purchase their guaranteed benefits from numerous different insurance companies, which offer a greater number of options, and participants can shop for the largest benefit from multiple issuers, rather than just accept FPPA's benefit.
- Only existing participants have a choice among plans, the City will choose for new-hires.
 - Back to old-hire/new-hire divisiveness.
- Participation in the DROP option requires attainment of age 55 and is subject to discriminatory approval and conditions established by the City.
- Will re-affiliation improve or harm recruiting and retention efforts? That depends upon which FPPA retirement plan the City chooses.
 - Under the DB plan provisions, employees wishing to receive a lump-sum distribution must surrender all of the employer contributions and most of the investment return, regardless of years of service. FPPA adds 5% to the balance – not compounded – just 5%.

³⁵ FPPA 2004 Member Handbook – page 35: Annual Salary (\$75,000) x Age Factor (age 55 = 34.549%) x Years of Service Purchased (25 years) = \$647,794.

³⁶ FPPA 2004 Member Handbook – pages 17 and 24, assumes beneficiary is also age 55.

- Assuming the following: starting salary of \$50,000, annual increases of 3%, and 10% employee contribution rate – total contributions over 5 years are \$53,091. FPPA would refund \$55,746 (contributions + flat 5%); whereas, 5% interest compounded annually would have resulted in \$58,504.
- Additionally, all matching employer contributions (\$53,091) and investment earnings in excess of the flat 5% paid to you the participant, is surrendered to FPPA for other participants' retirement benefits.
- Employers surrender all forfeitures to FPPA, which pay benefits of others, including those in different public safety departments. The City should consider that they cannot be used to defray future pension expenses, as with the current MPPP.
- Investment *education* through Fidelity Investments is not a benefit for the MPPP. It is a giant step backwards. Participants do not want boiler-plate *education* like that provided through Schwab and Fidelity – they seek *individual counseling and advice*.
 - The majority of participants are not asking money purchase plan trustees to focus on expense reduction – they are asking for individual investment education, counseling, and retirement planning assistance.
- The proposed Health Care Defined Benefit Plan is also controlled by the FPPA board, which maintains sole discretion to decrease benefits if necessary.
 - Participants are promised benefits for every year of *past* service under the FPPA DB or Hybrid plan, even though the Health Care DB plan has no assets, and no contributions to the Health plan were ever made by these participants for past years of service.
 - There are currently 420+ participants with over 20 years of service credits that would immediately qualify for benefits in excess of \$2,000 annually for each participant.
 - Who/how will FPPA pay for these benefits? This is an excellent opportunity for a limited few – free benefits for which they never made contributions. How long can that last?

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Although current participants may choose to participate in any of the three plans, the employer must select only one of the three for new participants hired after re-affiliating with FPPA. Re-affiliation is marketed to *employers* as a method of reducing future benefit costs. The contribution structure for all current participants is 10% employee, plus 10% employer. Employees hired *after* the conversion are subject to a different structure, which is 8% employee, and 8% employer. Both groups are eligible for the same benefits, despite higher contributions for existing participants.

However, the City may have authority to restructure contributions in a manner that would decrease the employer contribution to 8% and increase employee contributions to 12% for existing participants, which would ultimately result in a more costly benefits for the majority of participants. Additionally, employers should consider the potential impact of FPPA Board-mandated contribution increases to a retirement plan that requires irrevocable participation. Even though current contribution rates are lower for future-hires, there is no guarantee that these will not increase in the future.

Local Control vs. Membership in Statewide Association

Affiliating with a statewide retirement association relieves the employer of the majority of its fiduciary (responsible party) responsibilities by transferring the same to a common Board of Trustees, which is responsible for all employer groups in the Plan. As such, the Board must act in the interest of all participants in the group and consider requests from this larger group, which may differ from those within the City of Aurora-Police MPPP. Transferring responsibility also requires surrendering local control. The City of Aurora-Police new-hires terminated affiliation with FPPA specifically for the purpose of obtaining local control, and the Plan has evolved over time as a result of participant requests and guidance.

Re-affiliation with FPPA is irrevocable as a result of legislative revisions; therefore, participants should thoroughly consider their preference for local control versus membership in a larger organization. As FPPA acquires additional member employers the relative representation of Aurora-Police new-hires will continue to decline. Irrevocable re-affiliation that can not even be reversed by a vote of the members is questionable. Employers are being asked to sign a lifetime contract with an investment manager performing in the bottom quartile³⁷ of its peers, and transfer control to a statewide board with no past or current Aurora representation, or even new-hire participant representation, the authority to change the retirement ages and determine benefit increases. Denver Police and Fire, the largest FPPA members, would have most influence, not Aurora Police.

³⁷ Investment performance 5 years ending 09/30/2003 Callan Defined Benefit Universe of Plans over \$1 billion.

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Conclusion

Our comparative analysis of the City of Aurora-Police MPPP and FPPA's Statewide Defined Benefit Plan, Statewide Money Purchase Plan, and Statewide Hybrid Plan produced a conclusion to recommend continued participation in the City of Aurora-Police MPPP. As described above, this analysis, and resulting conclusion, is based upon existing benefits, features, services, control, and projected future benefits, along with examination and consideration of contractual consequences and potential future reduction in benefits provided by FPPA's Statewide Defined Plan and Statewide Hybrid Plan.