



**CITY OF AURORA-POLICE
MONEY PURCHASE PENSION PLAN**

4643 SOUTH ULSTER STREET, SUITE 800 | DENVER, CO 80237 303.221.5900 WWW.APMPPP.ORG

Retiree	Age/Years of Service	Balance at Retirement	MPPP Income Replacement %	FPPA SWDB Income Replacement %
Off. Tom Cramer	Age 52/30 yrs.	\$808,181	70%	44%
Sgt. Steven Patrick	Age 51/29 yrs.	n/a	59%	38%
Off. Darrell Nash	Age 54/30 yrs.	\$794,878	71%	53%

Assumptions – Salaries: 7-year Sgt. and Patrol Officer I; MPPP calculations include 7% assumed interest rate, 2% annual increase (COLA), life expectancy 82; FPPA calculation performed using tables provided at www.fppaco.org with Option 1 benefit factors, age 55 retirees (younger ages not available) and beneficiaries ages 51, 52 and 54. Note: actual FPPA Income Replacement % may be lower than figures shown above when based upon actual retiree ages 51, 52 and 54.

The last two retirees (above) of the MPPP provided permission to utilize their actual, respective retirement calculations vs. the projected FPPA calculations.

The first step in the process is to recognize that as there is no “Perfect” financial instrument that has absolutely no risk for the relative returns. How could there be a “perfect” pension system or retirement plan? All schemes have trade-offs, positives with the negatives.

In the continuing debate between Defined Benefit vs. Defined Contribution schemes, not addressed in earlier emails, several prominent issues facing Defined Benefit schemes.

An issue with Defined Benefit plans is the purchasing of service credits. One could argue either, the service credits are priced too high, to save the actuarial basis for the plan, or the MPPP did not provide enough money to purchase the properly priced service credits. In either case, a “guarantee” is that you will have to extend your career in purchasing the service credits, especially after providing for your ***beneficiary***. When the board did a sample population test a few years ago from the various ranks – not 1 officer was better off in a Defined Benefit scheme, as reflected in a percentage of pay.

The Board did the math and had FPPA come in and calculate the figures – none of us would be ahead of our existing plan. Most of us would have taken substantial losses in reduced benefits, and would have extended our careers for many years.

We know a few officers have gone on the FPPA site and plugged in the numbers and ***added their beneficiary***. The officers came back and related they will not participate in the DB plan. It simply didn’t make sense after plugging in the numbers. In contrast, there is no penalty for a designated beneficiary under the Defined Contribution (MPPP) scheme.

Additionally, it has been suggested that the FPPA plan allows for the possibility of receiving a Disability Retirement after a member has reached age 55. This is incorrect. From the *FPPA Employee Handbook*:

“There are some instances that would restrict a member from applying for disability retirement.



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You are not eligible to apply for disability retirement if:...

You are eligible for normal retirement benefits either under the Statewide Defined Benefit Plan (age 55 with 25 years of service), Statewide Hybrid Plan (age 55 with 25 years of service), a local defined benefit plan, your old hire defined benefit retirement plan, or have reached age 55 with 25 years of accumulated service and you are a participant under the Statewide Money Purchase Plan or under a local money purchase plan.”

A significant blow to Defined Benefit schemes is the ability of these boards to arbitrarily vote – no Cost of Living Adjustments, as the FPPA did for 2011 (and other defined benefit plans across the country). It was learned that United has not had a COLA in 10 years!

This is a fatal blow for that style of plan. Probably not so much now as inflation is low, but when inflation takes off in the coming months/years. This is critical in maintaining purchasing power – in retirement years!

There are certainly critical issues with Defined Contribution (MPPP) schemes – the most prominent is the systemic risk we bear in the downside swings of the capital markets.

Another is the education & training of the participants can be critically vague and unprofessional. I truly believe we have the best program in the country. We would tell you, we have won numerous awards from National organizations recognizing our program.

- 2010 **National Association of Government Defined Contribution Administrators (NAGDCA)** Leadership recognition Award – Effective Communication: Avoiding Common Investor Mistakes
- 2009 **NAGDCA** Leadership recognition Award – Effective Communication: Understanding and Navigating Volatile Markets
- 2009 **NAGDCA** Leadership Recognition Award – Plan Design & Administration: Retirement Class Custom Target Date Portfolios
- 2008 **NAGDCA** Leadership Recognition Award – Effective Communication: Retirement Ready Program
- 2006 **Pensions & Investments** First Place Investment Education “Eddy” Award
- 2005 **NAGDCA** Leadership Recognition Award – Effective Communication

What is sad is, some of the officers that are advocating a change – have not participated in these programs – or have just recently inquired about this plan.

If you go to a used car lot, talk to a used car salesman, you probably will buy a used car.....without doing appropriate research is crazy.

Lastly, a fiduciary assessment by an individual has been published that the Defined Benefit scheme is professionally managed.



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Some fairly sophisticated investors believed Madoff was a professional too! The common thought of “If it sounds too good to be true, it probably is” – seemed to be lost in the Madoff scam.

Several of the participants wished to have the prior two emails addressing several aspects of the DB vs. DC debate posted and linked to the MPPP website. www.apmPPP.org

On January 26th at 6pm, the board will be hosting a New Hire MPPP meeting to discuss the current issues in this debate. Please attend to learn additional information.

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John Sopranuk
President

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Chris Carleton
Secretary

A handwritten signature in black ink, appearing to be "CP", written over a horizontal line.

Craig Piel
Treasurer