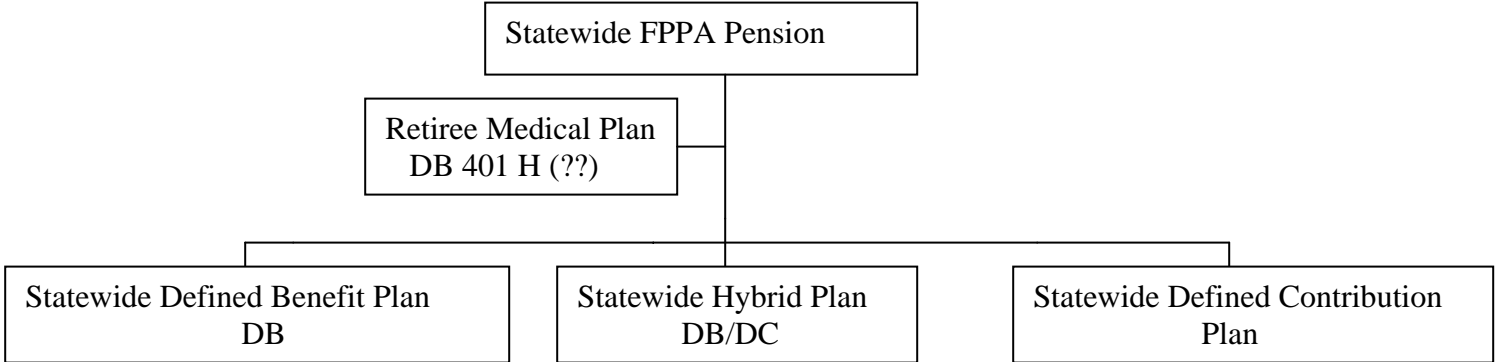


## FPPA



### General Information

Board of Directors – 9, 4-year terms, appointed by Governor and confirmed by State Senate

One hundred sixty-one (161) employers participating in the statewide DB Plan. The DB Plan became effective in 1980 and has 3,518 total members. Thirty-five (35) employers with employees covered by the DC Plan. The DC Plan became effective in 1995 and has 116 members. Firefighters constitute 61% of the membership and police officers constitute 39%. (2002)

Total funds under management were \$2,097,234,480. Administration expenses and investment expenses were \$8.9 million; this includes \$1,941,637 in salaries and benefits to FPPA employees and an expenditure of \$491,123 to consultants. The \$8.9 million is .43% when expressed as a percentage of total assets. This compares to .12% for the City of Westminster's pension plan (2002).

FPPA was not immune to the adverse world equity market conditions and in 2002 saw a total decrease in net plan assets of \$232,373,436. The rate of return was a negative (8.6) percent, which exceeded the negative (6.3) percent rate in 2001.

### Conversion Issues

If there is enough employee interest, an employee vote would be required and 65% approval required (sworn only). As a final step, City Council, as plan sponsor would have to authorize the election and conversion.

A conversion to FPPA is irrevocable but conversely there is no time limit on conversion.

Current Employees: If a conversion occurs, a current employee would have the option of selecting any of the 3 plans, DB, DC or Hybrid. Contribution rates would be as follows.

- City 10% (contribution will drop from 10.25%).
- Employee 10% (could rise to 11% if retiree medical plan implemented.)

Future Hires: Officers hired after conversion would not have the option of all 3 plans but would be required to participate in the plan selected by the City, which would be the DB Plan. Contribution rates would be as follows:

- City 8%
- Employee 8% (could rise to 9% if retiree medical plan implemented)

**FPPA Defined Contribution Plan (MP or Money Purchase Plan) - DC**

The FPPA DC plan is very similar to the current Westminster Police Pension Plan. Employees select investment options and make decisions regarding allocations and diversification. A comparison for current employees is listed below:

	<b><u>FPPA DC</u></b>	<b><u>COW Police DC</u></b>
City Contrib.	10%	10.25%
Emp. Contrib.	<u>10%</u> 20%	<u>10.00%</u> 20.25%
Fund Selection	10 Funds 10 Lifecycle Funds	15 Funds 3 Model Portfolios
Av. Net Fund Expense Ratios	.684%	.598%

Vesting:

Emp. Contrib.	100% from day 1	100% from day 1
City Contrib.	20% 1 year 40% 2 years 60% 3 years 80% 4 years 100% 5 years	100% at 22 mos. Service

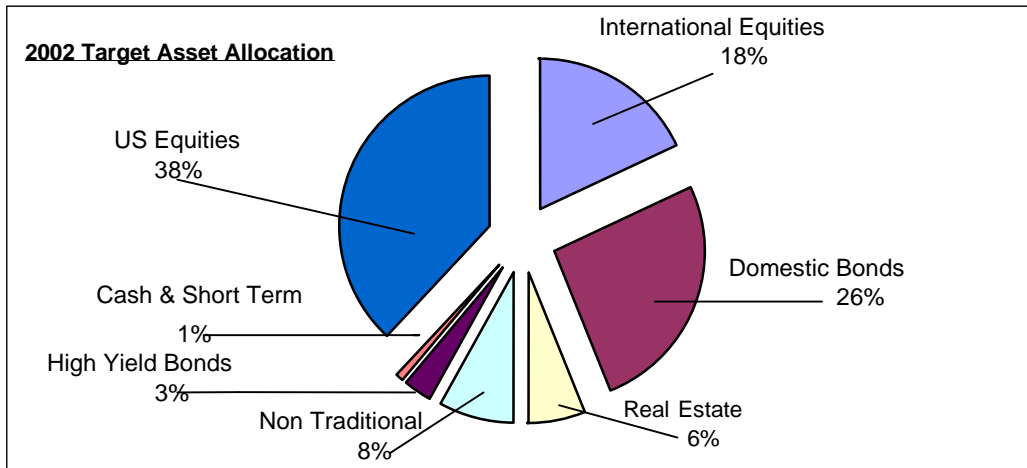
**FPPA Defined Benefit Plan – DB**

The FPPA DB plan provides a retirement benefit based on age and years of service at retirement. Contribution rates are indicated below:

	<b><u>Current Employees</u></b>	<b><u>New Hires</u></b>
City Contrib.	10%	8%
Emp. Contrib.	<u>10%</u> 20%	<u>8%</u> 16%

Note: This analysis was prepared for purposes of comparing the FPPA retirement plans to the Westminster-Police Money Purchase Pension Plan. The author has no knowledge of specific administrative features of the City of Aurora-Police MPPP.

FPPA invests employer and employee contributions and based on a number of actuarial assumptions provides benefits at retirement. FPPA has not received state funding since 1997. FPPA uses 8% return on investments in its actuarial assumptions. FPPA's 2002 asset allocation of investments is shown below:



FPPA DB benefits are calculated based on the following formula.

1-10 Yrs. Service = 2% H.A.S.\*

>10 Yrs. Service = 2.5% H.A.S.\*

(H.A.S. is highest average salary over 3-year period to include FLSA overtime.)

Under normal retirement the retiree's spouse/beneficiary receives no benefit, upon the retiree's death, should it precede the spouse/beneficiary. There are additional retirement benefit options, that do provide for spouse/beneficiary benefits, but the retiree benefit is reduced.

The FPPA DB Plan does allow for purchasing years of service. The cost is based on age and years of service and can be purchased at any time between effective date and retirement. (However, cost ratio increases with age.) Military time and some private employment time can also be purchased, up to 5 years.

Refunds of employee contributions, plus 5% interest credit, are available if you leave employment of an agency in the FPPA plan. You are not eligible to receive a refund of employer contributions.

Portability: If you move to another agency participating in the FPPA plan, your years of service will be aggregated for determining eligibility of benefits. If you leave and go to work for a non-FPPA entity and have at least 5 years of service, you may request a retirement benefit, based on your current age/years of service and current salary, payable at age 55. You may also request a refund of your contributions only, as described earlier.

Note: This analysis was prepared for purposes of comparing the FPPA retirement plans to the Westminster-Police Money Purchase Pension Plan. The author has no knowledge of specific administrative features of the City of Aurora-Police MPPP.

Cost of Living Adjustments

Most FPPA DB retirees are eligible for an annual COLA. The Board of Directors may award a COLA from 0-3% annually. The historical COLA's for the last 5 years is:

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
2.2%	3.0%	2.7%	1.4%	0.0%

**Separate Retirement Account (SRA)**

Under the DB Plan, should contributions exceed the cost of funding the Plan, the Board of Directors may allocate all or any of the excess to each member's SRA on a proportional basis, as a percentage of pay, should the cost of funding the Plan exceed contributions, the additional dollars needed would first be drawn from the SRA before FPPA would consider an increase in contribution rates or raising the retirement age. Upon retirement, funds existing in your SRA are available as an additional retirement benefit (lump sum, monthly payments or combination). The historical funding for SRA's over the last 5 years is:

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
7.0%	3.0%	1.5%	0.5%	0.0%

**Deferred Retirement Option Plan (DROP)**

The FPPA DB Plan can operate a DROP plan. If you are eligible for retirement and are 55 and you wish to continue working and the City elects to offer a DROP Plan, you may be able to participate in a DROP Plan. A written irrevocable agreement between you and your employer (City) is required. The decision to offer a drop plan is a policy decision for the City and they are under no obligation to do so. Furthermore, they can offer a DROP Plan to select individuals and are not required to offer it to all in a group or classification. At this point the City is not considering a DROP Plan.

The following pages contain the FPPA DB retirement calculations, a description of payout options, projected retirement benefits for a top pay SPO retiring under the FPPA DB plan, and cost of purchasing years of service in the plan:

Note: This analysis was prepared for purposes of comparing the FPPA retirement plans to the Westminster-Police Money Purchase Pension Plan. The author has no knowledge of specific administrative features of the City of Aurora-Police MPPP.

## Payout Options

All Statewide Defined Benefit Plan retirement benefits are calculated using the average of the highest 3 years' salary (base salary and FSLA overtime).

### **Normal Option**

The retiree receives a full, unreduced pension benefit for his/her life. No spousal or dependent benefits are paid following the retiree's death.

### **Option 1 – 100% Survivor Benefits**

The retiree receives a reduced pension for life. Upon the retiree's death, the same benefit continues and is paid to the retiree's designated beneficiary for life.

### **Option 2 – 50% Survivor Benefits**

The retiree receives a reduced pension for life. Upon the retiree's death, one-half of the same pension is paid to the designated beneficiary for life.

### **Option 3 – 50% Last Survivor Benefits**

The retiree and his/her designated beneficiary jointly receive a reduced pension for life. Upon the death of either the retiree or the designated beneficiary, one-half of the same pension is paid to the survivor for life.

### **Option 4 – 100% Survivor Benefits with the “Pop-Up” Provision**

The retiree receives a reduced pension for life. Upon the retiree's death, the same benefit continues and is paid to the retiree's designated beneficiary for life. However, if the retiree's beneficiary dies before the retiree, this reduced benefit “pops-up” or reverts to the normal option effective with the first day of the month following the date of death of the beneficiary.

### **Option 5 – 50% Survivor Benefits with the “Pop-Up” Provision**

The retiree receives a reduced pension for life. Upon the retiree's death, one-half of the same pension is paid to the designated beneficiary for life. However, if the retiree's beneficiary dies before the retiree, this reduced benefit “pops-up” or reverts to the normal option effective with the first day of the month following the date of death of the beneficiary.

Option payout benefits are calculated separately for each option category. They are calculated starting with the “Normal Option” benefit amount and are reduced by applying an option factor, which is determined by referencing a chart which values the retiree's age and beneficiary age. Chart available at FPPA website ([www.fppaco.org](http://www.fppaco.org)) or member handbook.

Note: This analysis was prepared for purposes of comparing the FPPA retirement plans to the Westminster-Police Money Purchase Pension Plan. The author has no knowledge of specific administrative features of the City of Aurora-Police MPPP.

**FPPA DB Retirement Benefits**

Retirement Age	55	59
Service Years	25	36
Retirement Salary Top Pay	\$58,524	\$58,524
SPO		
<u>Normal</u>	57.50%	85%
Retiree	\$33,651	\$49,745
Beneficiary	-0-	-0-
<u>Option 1</u>		
Retiree	\$28,805	\$41,388
Beneficiary	\$28,805	\$41,388
<u>Option 2</u>		
Retiree	\$31,060	\$45,218
Beneficiary	\$15,530	\$22,609
<u>Option 3</u>		
Retiree	\$32,339	\$47,457
Beneficiary	\$16,169	\$23,729
<u>Option 4</u>		
Retiree	\$28,435	\$40,592
Beneficiary	\$28,435	\$40,592
<u>Option 5</u>		
Retiree	\$30,824	\$44,721
Beneficiary	\$15,412	\$22,361

Assumptions:

- Beneficiary and Retiree same age
- Based on 2004 Pay plan
- Pre-Tax Dollars

Note: This analysis was prepared for purposes of comparing the FPPA retirement plans to the Westminster-Police Money Purchase Pension Plan. The author has no knowledge of specific administrative features of the City of Aurora-Police MPPP.

**FPPA DB Plan**  
**Purchasing Years of Service**

**Service Credit Purchase Factors:**

Multiply annual salary at time of purchase by the factor by the number of years purchased.  
The factors change for each month you age.

Sample Service Purchase Calculation

Annual salary x age factor x years of service you want to purchase = cost.

<u>Age</u> <u>(at time of purchase)</u>	<u>Factor</u>
20	8.81
25	10.67
30	12.93
35	15.67
40	19.00
45	23.08
50	28.11
55	34.44
60	31.14

For example: A top pay SPO, currently earning \$58,524 annually, who is 35 and wants to purchase 10 years of service credit, would be calculated as follows:

$$58,524 \times .1567 \times 10 = \$91,710$$

**Cost of Purchasing One Year of Service**  
**WPD Example**

<u>Age</u>	<u>Factor</u>	<u>\$50,643 (Max P.O.)</u>	<u>\$58,524 (Max, SPO)</u>
20	8.81	\$4,462	\$5,168
25	10.67	\$5,404	\$6,245
30	12.93	\$6,548	\$7,567
35	15.67	\$7,936	\$9,171
40	19.00	\$9,622	\$11,120
45	23.08	\$11,688	\$13,507
50	28.11	\$14,236	\$16,451
55	34.44	\$17,441	\$20,156

Per IRS regulations money in your City of Westminster 401(h) retirement medical saving account (RMSA) cannot be used for purchasing service credits nor transferred to the FPPA DB Plan. Funds in your City of Westminster deferred comp (457 Plan) may be used to purchase years of service.

Note: This analysis was prepared for purposes of comparing the FPPA retirement plans to the Westminster-Police Money Purchase Pension Plan. The author has no knowledge of specific administrative features of the City of Aurora-Police MPPP.

**FPPA Hybrid Plan DB/DC**

The Hybrid Plan is a combination of the FPPA DB and DC Plans. Retirement eligibility, vesting, refunds and other plan provisions are generally the same as found under the respective DB and DC Plan. There are several distinctions however. The benefit formula of the DB component of the Hybrid Plan is less than the stand alone DB Plan.

**FPPA DB Benefit Formula**

1-10 Yrs = 2% of H.A.S.  
 >10 Yrs. = 2.5% of H.A.S.

**FPPA Hybrid DB Benefit Formula**

All Yrs. of Service = 1.5% of H.A.S.

**Contribution and Allocation Rates**

Current Employee

City	10%
Employee	<u>10%</u>
	20%

DB Funding	14%*
DC Funding	<u>6%</u>
	20%

\*Based on actuarial analysis the DB funding can change annually. To ensure viability of DB component, thus theoretically, the Board of Directors could change the funding for current employees to DB = 16% and DC = 4%.

**COW Police DC Plan (Current)**

The following projections show what an officer might realistically expect in retirement benefits, if he were to retire at top SPO pay and was under our current plan during his career, and it provides comparisons to FPPA benefits.

Retirement Age	55	59
# of Service Yrs.	25	36
Salary at Retirement	\$58,524	\$58,524

Example 1: This example assumes an officer starts at entry-level PO (currently \$39,562) and works through the scheduled step increases to top pay SPO (currently \$58,524). Top pay SPO represents a 48% salary increase (\$18,962) over entry level. This example reflects no other pay increases of any kind during their entire career.

Acct. Balance	\$796,244	\$2,069,603
Retiree Benefit	\$ 43,906	\$ 139,911
Spouse/Beneficiary Benefit	\$ 43,906	\$ 139,911

Note: This analysis was prepared for purposes of comparing the FPPA retirement plans to the Westminster-Police Money Purchase Pension Plan. The author has no knowledge of specific administrative features of the City of Aurora-Police MPPP.

Example 2: Assumes an officer starts at entry level and progresses through the scheduled step increases but receives no additional pay increases during years 1-6. Beginning with year 7 this officer receives an average annual salary increase of 1% (COLA, promotions, etc.)

Acct. Balance	\$833,975	\$2,213,134
Retiree Benefit	\$ 45,987	\$ 149,614
Spouse/Beneficiary Benefit	\$ 45,987	\$ 149,614

Example 3: Same assumptions as #2, except that beginning with year 7 this officer receives an average annual salary increase of 2% (COLA, promotions, etc.)

Acct. Balance	\$875,624	\$2,379,835
Retiree Benefit	\$ 48,283	\$ 160,884
Spouse/Beneficiary Benefit	\$ 48,283	\$ 160,884

Example 4: Same assumptions as #2, except that beginning with year 7 this officer receives an average annual salary increase of 3% (COLA, promotions, etc.)

Acct. Balance	\$921,646	\$2,574,207
Retiree Benefit	\$ 50,821	\$ 174,024
Spouse/Beneficiary Benefit	\$ 50,821	\$ 174,024

Assumptions

- Based on 2004 Pay Plan
- All examples reflect only merit increases for years 1-6, no COLA.
- Retirement benefits are pre-tax dollars.
- Life expectancy is 75.
- 8% average annual investment return (FPPA actuarial assumption).
- 4% Post retirement investment return.
- 3% Inflation.

Police pension board members are available to run retirement projections, similar to the above examples, taking into account your unique and specific situation (i.e.; account balance, age, years of service, years to retirement, etc.)

COW PD Plan – DC Vesting

0-22 months = 100% of employee contribution and investment return  
 >22 months = 100% employee, employer contributions and investment return

COW PD Plan – DC Portability

If the employee stays in law enforcement, the employee can take their funds with them, regardless if the other agency is FPPA affiliated or not. The employee can purchase FPPA years of service, if the agency participates in FPPA or the funds can be rolled over into a DC Plan if the agency has a money purchase/DC Plan, similar to Westminster’s. The employee

Note: This analysis was prepared for purposes of comparing the FPPA retirement plans to the Westminster-Police Money Purchase Pension Plan. The author has no knowledge of specific administrative features of the City of Aurora-Police MPPP.

can also leave their money in the City plan and defer benefits to a later date or request a lump sum withdrawal. If an employee leaves L.E. and goes to work in the private sector, they can roll over their pension account into a company 401(K), an IRA, take a lump sum disbursement or leave their money in the City plan and defer benefits to a later date.

### COW PD Plan – History

When evaluating the current Westminster Police Department Pension Plan, officers should be cautious when looking at the status of long-term employees or their pension balance assets. This is particularly true if they are using this information to project their own long-term pension balances. The plan benefits and options are significantly enhanced for a new employee starting today than they are for an employee who started 20-30 years ago.

- 1974      **Effective January 1974, Qualified Deferred Money Purchase Plan established.**
- 1975      **Social Security Coverage Terminated.** After December 31, 1975, the City terminated Social Security coverage. **Employee mandatory contribution rate is 3%.** City contribution determined by a formula.
- 1979      **One fixed and one variable option** available to participants.
- 1986      **City contribution rate set at 10.25%** rather than amount set by formula. **Employees hired after March 31, 1986 have Medicare** deducted from their check. This amount is matched by the City. **Employee mandatory contribution rate increased to 4%.**
- 1987      **Employee mandatory contribution rate raised to 5%.**
- 1988      **Employee mandatory contribution rate raised to 6%.**
- 1989      Investment options expanded.
- 1992      Seven new investment options selected.
- 1993      Two new investment options added.
- 1994      **Eleven variable fund options selected.**
- 1997      **Employee mandatory contribution rate increased to 8%.**
- 1998      **Employee mandatory contribution rate increased to 10%.**
- 1999      **Implementation of Retirement Medical Savings Account, 401(h)**
- 2000      **Model Portfolios added to Pension Line-up**

Note: This analysis was prepared for purposes of comparing the FPPA retirement plans to the Westminster-Police Money Purchase Pension Plan. The author has no knowledge of specific administrative features of the City of Aurora-Police MPPP.

## FPPA Statewide Health Care Benefit Plan – 401(h)

A proposal to add a medical retirement benefit is scheduled to be voted on in June 2004 by current FPPA participants. If this passes it is anticipated that it would become effective January 1, 2005. Key provisions of this proposed plan are:

Employee contribution of an additional 1%

(If adopted and FPPA conversion occurs, employee contributions will increase from 10-11%).

Maximum benefit = \$235 month (requires 25 years of service)

- Can only be used for medical insurance premiums. Cannot be used for prescriptions, dental, vision or other medical expenses.
- Members with less than 25 years of service will receive a pro-rated benefit (i.e. – 20 years of service is 80% x \$235 = \$188 month).
- Benefit is payable a maximum of 10 years.
- No spouse/beneficiary survival benefits.
- Benefit available at age 55 and must have minimum of 5 years service credit.
- If employee is Medicare eligible the benefit is reduced to the lesser of the Medicare B premium or 50% of the maximum benefit.
- No refund of contributions is provided

The current City of Westminster police pension DC Plan provides a 401(h) retirement medical savings account option. The employee has the flexibility of designating between 1% and 25% of their pension contributions to RMSA 401(h) account. (This is not an addition to the current employee 10% contribution but a sub-percentage of that contribution.) Key provisions of the City 401(h) include:

- Can be used for prescriptions, dental, vision and other qualified medical expenses in addition to medical insurance premiums.
- No minimum years of service required for eligibility.
- No limit to number of years benefit available.
- In the event of retiree death, funds pass to spouse/beneficiary. In the event of both retiree and spouse death funds pass on to children/estate.
- No Medicare offset.

### COW Police DC Plan Projection

Assumptions:

- Employee 30 years old      Top SPO Salary = \$58,524
- Planning retirement at 55 (25 more working years).
- RMSA 401(h) current balance = 0%.
- Allocates 1% of salary to RMSA for next 25 years.
- Receives 0% pay increases for next 25 years.
- 8% investment return (FPPA actuarial assumption).
- 3% inflation.
- 4% post retirement investment return.

Note: This analysis was prepared for purposes of comparing the FPPA retirement plans to the Westminster-Police Money Purchase Pension Plan. The author has no knowledge of specific administrative features of the City of Aurora-Police MPPP.

- Est. monthly benefit for 10 years = \$404
- Est. monthly benefit for 20 years = \$212

#### Issues for Consideration in Evaluating Conversion to FPPA

- Local control vs. State control. Board of Directors appointed by governor vs. elected coworkers.
- Familiarity and knowledge of current plan vs. unfamiliarity with new plan design, options and nuances.
- Would the FPPA DB Plan look as attractive, in a bull market, as experienced in the 1990's? History has shown that bull markets are followed by bear markets and bear markets are followed by bull markets.
- Reduced City contribution in FPPA Plan, 10%, down from 10.25%.
- Decision is irrevocable and should not be made hastily or emotionally.
- Uncertainty of some plan benefits. The FPPA medical retirement option will not be decided or announced until late June/early July 2004.
- Increased employee contribution cost requirements from 10% to 11%, if FPPA medical retirement implemented.
- Survivability and beneficiary provisions. Some FPPA options have no or reduced spouse/beneficiary options. Even where spouse/beneficiary options exist, in most cases if retiree and spouse/beneficiary both die, there are no survivor benefits for subsequent beneficiaries/children or estate. The COW Police Department DC plan provides 100% survivability of all assets ensuring that in the case of retiree death, the funds will pass on to subsequent levels of beneficiaries or your estate.
- Vesting, portability and refunding provisions.
- Impact on future recruiting for new hires.
- For employees who don't want the responsibility of managing their own retirement account or making on-going investment allocation decisions, the COW Police Department DC Plan model portfolios offer managed asset allocation and automatic re-balancing.
- Neither the COW Police Department DC Plan and FPPA DB Plan are immune to divorce proceedings and are subject to QDRO's.

Note: This analysis was prepared for purposes of comparing the FPPA retirement plans to the Westminster-Police Money Purchase Pension Plan. The author has no knowledge of specific administrative features of the City of Aurora-Police MPPP.

**Estimated Salary Comparisons**

<p style="text-align: center;">Retirement Age 55 Service Years 25 Top Pay SPO \$58,524</p>	<p style="text-align: center;">Retirement Age 59 Service Years 36 Top Pay SPO \$58,524</p>																																																																												
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Beneficiary -0-	\$43,906																																																																												
 <u>Option 1</u>	 <u>Example 2</u>																																																																												
Retiree \$28,805	\$45,987																																																																												
Beneficiary \$28,805	\$45,987																																																																												
 <u>Option 2</u>	 <u>Example 3</u>																																																																												
Retiree \$31,060	\$48,283																																																																												
Beneficiary \$15,530	\$48,283																																																																												
 <u>Option 3</u>	 <u>Example 4</u>																																																																												
Retiree \$32,339	\$50,821																																																																												
Beneficiary \$16,169	\$50,821																																																																												
 <u>Option 4</u>																																																																													
Retiree \$28,435																																																																													
Beneficiary \$28,435																																																																													
 <u>Option 5</u>																																																																													
Retiree \$30,824																																																																													
Beneficiary \$15,412																																																																													
<b><u>FPPA DB</u></b>	<b><u>COW DC</u></b>																																																																												
<u>Normal</u>	<u>Example 1</u>																																																																												
\$49,745	\$139,911																																																																												
-0-	\$139,911																																																																												
 <u>Option 1</u>	 <u>Example 2</u>																																																																												
\$41,388	\$149,614																																																																												
\$41,388	\$149,614																																																																												
 <u>Option 2</u>	 <u>Example 3</u>																																																																												
\$45,218	\$160,884																																																																												
\$22,609	\$160,884																																																																												
 <u>Option 3</u>	 <u>Example 4</u>																																																																												
\$47,457	\$174,024																																																																												
\$23,729	\$174,024																																																																												
 <u>Option 4</u>																																																																													
\$40,592																																																																													
\$40,592																																																																													
 <u>Option 5</u>																																																																													
\$44,721																																																																													
\$22,361																																																																													

**Note:** If a retiree, under the FPPA DB Plan, was drawing a normal retirement of \$33,651 and received the maximum 3% COLA each year, in thirteen (13) years, the \$33,651 will grow to \$49,418.

Note: This analysis was prepared for purposes of comparing the FPPA retirement plans to the Westminster-Police Money Purchase Pension Plan. The author has no knowledge of specific administrative features of the City of Aurora-Police MPPP.