



Retirement Report

CITY OF AURORA-POLICE
MONEY PURCHASE PENSION PLAN

Summer 2004

Protecting and Serving Your Retirement Security

Plan Enhancements Now In Progress

The Board of Trustees is nearing completion of a Plan improvement project that will offer additional new features and services, including personalized professional planning and counseling. The revisions were prompted by employee suggestions and requests, along with an analysis of Plan utilization and participant behavior. After considerable research and analysis the Trustees have developed solutions for Plan enhancements without increasing administrative expenses.

The Board recently mailed a letter providing notification of the Plan's recordkeeping conversion. It included a brief description of some of the new programs and providers. In conjunction with a series of employee meetings to be conducted during the next month, this Retirement Report is intended to provide you with more information regarding the Plan changes and considerations:

▶ NAVIGATION GUIDE

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Fast Facts

Not interested in all the details?

The Board continually reviews the Plan's programs and its utilization. That review and participant input prompted changes effective August 2, 2004. Here's a quick reference guide for the upcoming improvements.

- Participants require personalized assistance with investment allocations
- Current educational efforts have not been well-received and have proven ineffective
- Plan administration and management has become increasingly demanding and complicated
- Local custom-designed programs for law enforcement are necessary
- New providers have been retained to address Plan demands to benefit our participants
- Plan administration and management will begin with a professional presence in the MPPP office
- New recordkeeper for accounts, statements, and web-site access
- Custom-designed education and individual counseling will be provided
- New MPPP printed material and web-site will be developed for account access, information and forms
- All current investment funds will remain, with one new conservative option added for preservation of principal
- Schwab will continue as trading partner
- Schwab PCRA's will continue as brokerage option
- Investment portfolios will be modified to better serve participants now and in the future
- Plan administrative expenses will be maintained and reduced over time

► Plan Structure, Vision and Objectives

Plan Structure

The Aurora-Police Money Purchase Pension Plan (APMPPP) is operated and managed by a five-member Board of Trustees. The Trustees are non-compensated volunteers that embrace an acute interest in the continued success of your retirement plan. Four of the five Trustees are sworn officers with a vested interest in the Plan, as it will provide the majority of their personal retirement income.

As Plan fiduciaries, the Trustees are responsible for continual oversight and regulatory compliance. Their fiduciary duties include,

Loyalty - to act in the best interest of all participants

Prudence - to be careful, diligent and scrupulous in all decision-making, including the way they delegate duties to others.



Laws governing pension plans recognize that Trustees cannot personally perform every function, and encourage delegation to qualified professionals. However, in accordance with the Trustee's due diligence policies, professionals selected by the Trustees must be continually monitored, evaluated, and replaced when necessary.

Current Organizational Structure

Participants - Plan Owners

Board of Trustees

Administration	Recordkeeping	Custody-Trading	Investment Consultant	Legal
Schwab/Trustees Administration Management Counseling Education	Schwab Statements Internet Access 800 Access Investment Reconciliation	Schwab Custodian Investment Trading SBO Provider	Innovest Portfolio Solutions Investment Selection Investment Monitoring Portfolio Construction	McNally & Bowers Plan Compliance Plan Counsel

Vision, Objectives

Firms are retained by the Plan to assist in achieving specific objectives. The most recent Plan objectives developed by the Trustees include:

- Ensuring that Participants are making informed decisions regarding required funding and appropriate investment allocation
- Professional, local Plan administration
- Ensuring continual fiduciary compliance
- Maintaining or reducing administrative expenses

An evaluation of existing programs and procedures, along with analysis of available alternatives, dictated the necessity, and prompted the decision of the Trustees to initiate proactive changes on behalf of the Plan. With those objectives in mind, the following sections will help you understand the review and determination processes that produced the upcoming improvements. The organizational chart shown above illustrates the various functions required to operate the Plan, and the companies currently contracted to provide these services.

► Today's Situation

Under the existing arrangement, Schwab Retirement Services is responsible for many of the operational roles, including participant education & counseling, record-keeping, and custody/trading services. These duties are critical to the success of the Plan, and represent the greatest portion of operating costs. The Board scrutinizes the efficiency, progress and effectiveness in these areas.

Today's Situation: Participant Investment Allocation

Approximately 70% of all Plan assets are invested in the default investment option - the Moderate Portfolio. A large number of participants in every age-group have high allocations to that default option (shown in the charts below). While the Moderate Portfolio provides diversification into several different types of investments, the overall allocation is designed for an investor in the 56-65 age-group. This indicates that many participants are investing far too conservatively, while others are investing too aggressively, given their age and investment time horizons.

The Plan's investment consultant created five different portfolios (including the Moderate Portfolio) with varying risk and investment objectives. These were intended to provide an easy diversification solution for any participant in the Plan. However, participant initiative is required to determine the appropriate portfolio to start with, as well as when to change to more conservative portfolios over time. The statistics shown here indicate the majority of participants are not in the proper portfolios.



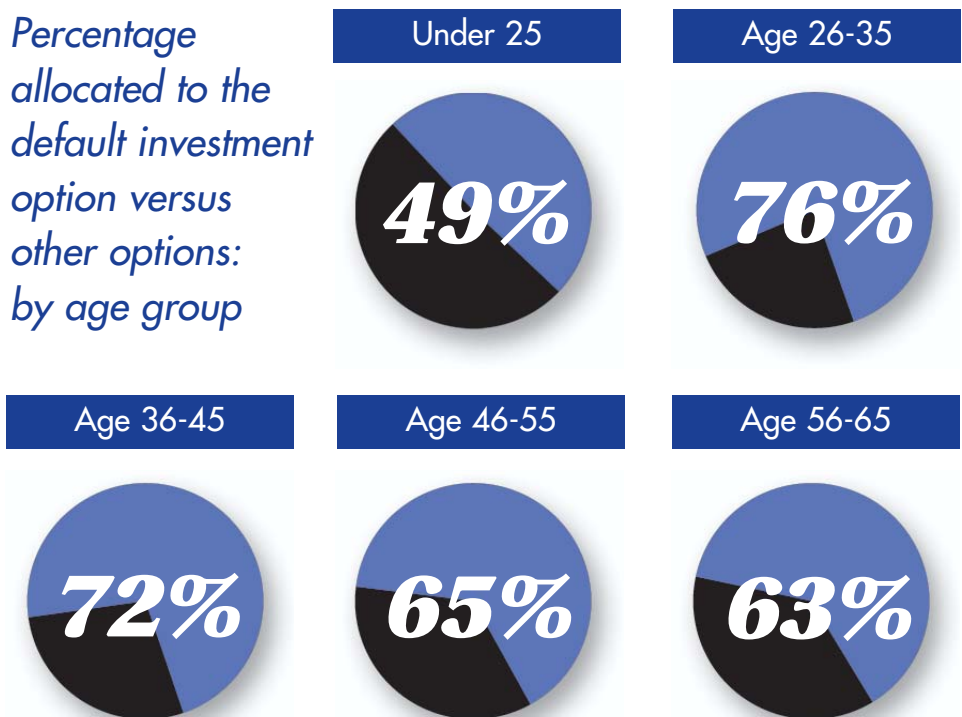
Today's Situation: Plan Management and Administration

The majority of administration and management duties were handled by an out-of-state Schwab representative, the Trustees, and one local Plan employee. The demands placed upon Plans have increased significantly as assets have grown, Plan options increased, and the laws governing retirement plans have evolved. Satisfying these increasing responsibilities requires professional on-site management and administration, along with individual participant counseling and assistance.

Today's Situation: Education, Planning and Counseling

Schwab provides 80 hours of annual on-site educational meetings, along with Internet-based planning tools and assistance via telephone. Because the Schwab staff that's responsible for providing educational meetings is from out-of-state, and the representatives are different for each meeting, this has resulted in a lack of consistency and personalization. Historically, only a small fraction of participants have utilized any of these available services. The bottom line is that the majority of participants are not investing efficiently, nor are they calculating their funding requirements and progress on a periodic basis. Although this is not unusual, compared to other plans nationally, it is unacceptable, to this Board, to continue offering services that are not reaching the majority of participants.

Percentage allocated to the default investment option versus other options: by age group



▶ How Did We Get Here?



During the past decade our Plan has evolved significantly - from investments that were entirely Trustee-directed, to participant (self)-directed investments, including access to un-screened mutual funds and individual stocks via brokerage accounts. At the same time, the U.S. Department of Labor has revised, multiple times, its direction to retirement plans regarding advice and counseling.

Industry solutions for participant education and counseling have not proved effective. This is due,

in large part, because participant initiative is required - to attend meetings, make a phone call, or perform self-service planning via the Internet. Even though countless studies indicate that participants are uncomfortable working with representatives over the phone and/or using web-based planning tools, most industry providers continue to search for methods of educating participants that don't require putting representatives in the field for face-to-face counseling.

▶ Necessary Changes • Available Options

What Changes Are Necessary?

1. Professional on-site Plan administration and management
2. Participant education program customized for Aurora-Police MPPP
3. On-site individual retirement planning and counseling
4. User-friendly professionally-managed investment portfolios

The increasing Plan size and sophistication requires greater oversight and management that should be provided by professionals with significant expertise in these areas. A firm offering a Denver-metro-based staff is preferred, for purposes of continuity and participant access.

Substantial changes must be made to the methodology and delivery techniques currently exercised for participant education and counseling. This requires a program and material be custom designed for public-sector law



enforcement participants, rather than out-of-the-box offerings that were developed for private-sector 401(k) plans. Participant investment allocation and retirement planning must improve. Participants have communicated their preference to work with professionals that will meet them face-to-face. Therefore, the most significant change will be more meetings at more locations, supported by local individual counseling with qualified professionals. Finally, revising the managed-portfolios to make them more user-friendly, will help improve appropriate investment allocations.

Available Options Considered

Clearly the participant education and counseling solutions offered through Schwab have not been effective, and their newest service is provided through yet another 800 telephone number. This is impersonal and likely to be ineffective. Unfortunately, most other bundled providers (those offering education, recordkeeping, and custody/trading services in one package) also offer similar solutions for education and counseling. Additionally, the option of the Plan hiring investment counselors appears to be frowned upon by the U.S. Dept. of Labor at this time. Therefore, the most promising alternative is to retain a firm that specializes in providing custom-designed educational programs that include individual counseling with local professionals, along with a separate firm to handle record-keeping services.

► Determination/Result of Plan Analysis

The Trustees evaluated available alternatives, with the assistance of an independent search firm, and concluded that dividing education/counseling/plan administration and recordkeeping between two firms specializing in these areas would be the most effective and efficient solutions. Therefore, the Plan has contracted Retirement Plan Design, Inc. (RPD) to provide plan administration and management services, along with participant education and counseling, and Lawrence Johnson & Associates (LJ&A) will take over recordkeeping responsibilities. The custody and trading duties will continue to be conducted through Schwab, which allows the Plan to keep all existing investment options, including the Personal Choice Retirement Accounts (PCRA's).

Both firms were selected based upon their ability to help the Plan achieve its stated objectives. RPD

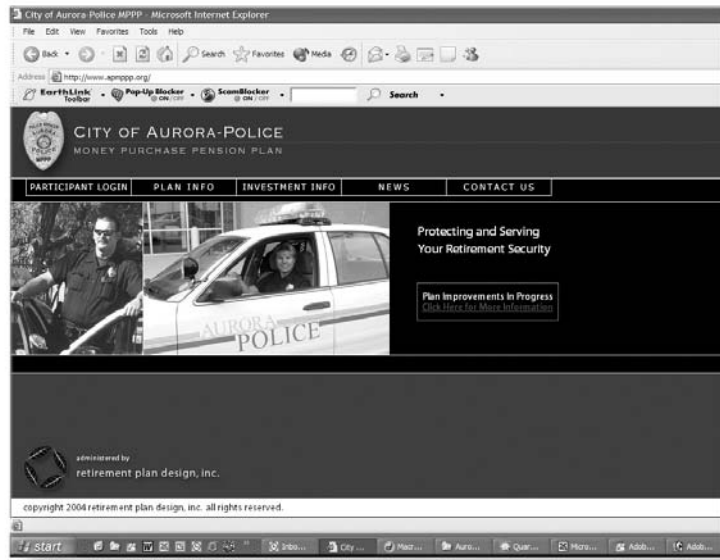
has a proven successful track record in the education/counseling arena that has been recognized with numerous awards and invitations to speak as experts on the subject to industry peers. RPD's background is almost exclusively in the public sector, and its experience in working with much larger assets is the kind of expertise the Trustees sought to take the Plan into the future. RPD's Principals have developed proprietary technology to efficiently present participants with personalized planning

assistance, including specific objective advice, in terms that participants can understand. Additionally, RPD is an insured co-fiduciary and a registered investment advisor.

Lawrence Johnson & Associates possesses the experience and technological capabilities that our Plan now demands, along with an impressive list of very satisfied clients, including Summit County, Boulder County, and Adobe Systems (software).

Service	Current Provider	New Provider
Administration	Schwab/Trustees	RPD/Trustees
Education	Schwab	RPD
Record-keeping	Schwab	LJ&A
Custody/Trading	Schwab	Schwab
Investment Consultant	Innovest	Innovest
Legal	McNally & Bowers	McNally & Bowers

► New Services: www.apmppp.org



What's New?

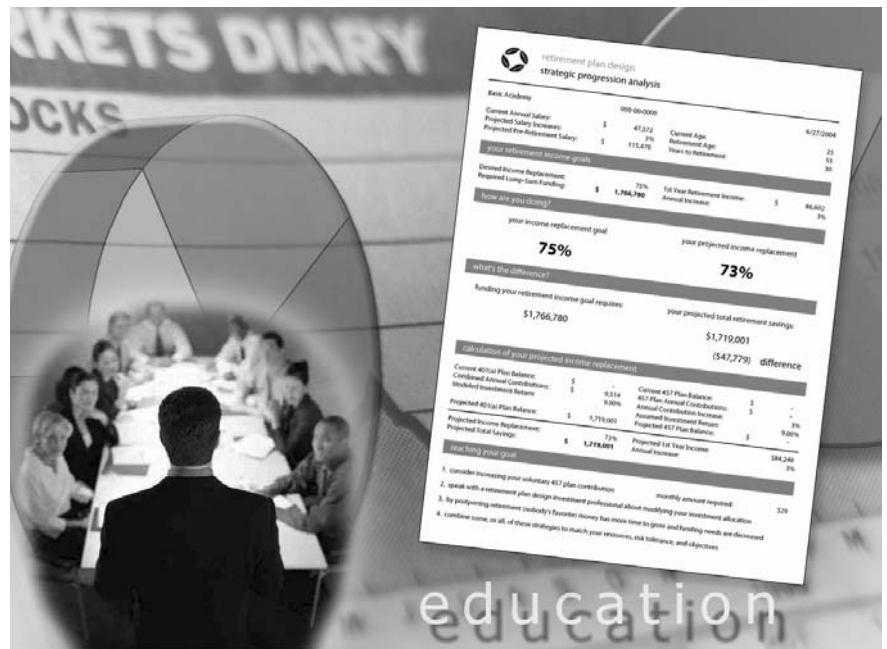
Aurora-Police MPPP Web Site

RPD is developing a custom-tailored education and counseling program that is designed specifically for the City of Aurora-Police MPPP. This will include all new printed materials and our own web site (www.apmppp.org). Participants will use this website to access their accounts by entering their Social Security number and a new Personal Identification Number (PIN), which will be mailed to all participants the week of August 9th, 2004.

► New Services: Education and Counseling

The delivery method for meetings and counseling will be designed to reach all participants by offering substantially more meetings in more locations, at times convenient for everyone. This will require a much greater commitment of time to these services - 100 hours of annual group presentations and workshops, plus over 300 hours for individual counseling.

RPD's individual counseling program is designed to meet with *every* participant during the first year, and bi-annually thereafter. During these sessions participants will receive a personal income replacement analysis that includes specific recommendations to help reach your retirement income goals. This analysis considers your current balance(s), future contributions to your retirement and 457 plan(s), inflation, and realistic investment returns based upon properly diversified investment mixes. RPD counselors will identify your current condition and help you periodically track your progress.



Plan Administration and Management

RPD will also provide a regular presence in our MPPP local office (1010 S. Joliet St.) to handle daily operations, including plan management and administration. Marie Anderson, the Plan's only previous employee, will continue to work in the local MPPP office as an employee of Retirement Plan Design (RPD).

► What's the Same? And, What About Plan Expenses?

Schwab will continue to provide custody and trading services, which means that all of the same investment funds previously offered will remain available, in addition to the Personal Choice Retirement Accounts (PCRA's). Participants with PCRA's will access their accounts through the new web site (www.apmppp.org). Additionally, the Plan's investment consultant and legal counsel will remain the same. Therefore, the only real change in providers are the new firms handling education/counseling/administration and record-keeping, as shown in the chart on the previous page.

While one might expect expenses to increase with all of these new personalized services, the plan enhancements will result in a reduction of administrative expenses. A comparison of the *existing* and *new* expense structure (based upon Plan assets as of 12/31/2003) is shown at right.

Service	Existing	New
Bundled Administrator	\$278,819	n/a
Plan Admin/E&C	n/a	\$ 181,468
Record-keeping	included	75,000
Custody/Trading	included	28,218
MPPP Staff	\$51,000	0
Education/Counseling	included	included
Plan Management	not included	included
Sub-Total	329,819	284,686
Revenue (Mutual Funds)	(154,184)	(154,184)
Net Total	\$ 175,635	\$ 130,502
Percentage Assets	0.19%	0.14%
Difference		\$ (45,133)

► New Investment Options

Stable Value Investment Option

The first revision to the investment menu is the addition of a conservative option from the *Stable Value* asset class. Historically, funds in this asset class have produced higher returns than money market funds, with similar (very low) risk. Stable Value managers invest primarily in fixed income (interest bearing) investments, where the value of the investment is guaranteed by a third party. Past performance and risk indicators (standard deviation) for the new option, Wells Fargo Stable Return Fund, are compared to the money market fund (see chart below). Additional information regarding the stable value asset class, including a recent article from the *Wall Street Journal*, is available on the new MPPP web site.

This option will be especially attractive to participants with more conservative investment objectives, such as those nearing or in retirement. Also, the addition of this asset class makes the investment menu even more appealing to participants that intend to leave their account invested in the Plan during retirement.

Fund Name	1-Year	3-Year Avg.	5-Year Avg.	10-Year Avg.	Risk
Wells Fargo Stable Return Fund	3.98%	4.81%	5.25%	5.59%	0.37
Schwab Value Adv. Money Market	0.68%	not available	3.09%	4.20%	1.02

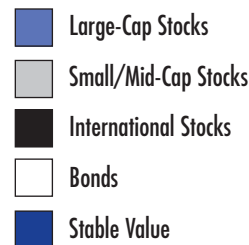
Target-Date Portfolios

RPD worked with our investment consultant to transform the existing static portfolios to dynamic target-date portfolios (shown at right), to make the Trustee-directed options more user-friendly. The investment allocations within these options change as the participant ages. This means participants can choose *one* portfolio, based upon a target retirement year that is five years either side of the portfolio's target year, and remain invested there during an entire career and retirement. This precludes the necessity of starting with one portfolio, then moving to different, more conservative portfolios over a lifetime. These portfolios will be professionally managed and are designed for average life expectancy.

Choosing one of these portfolios is voluntary. Therefore, if you are currently investing in one of the existing portfolios (i.e. Moderate Portfolio), you will not automatically

be transferred into a Target-Date Portfolio. Your current investment allocation will remain unchanged after the conversion. However, your allocation will not be adjusted and rebalanced each year as it was in the past. RPD representatives will be meeting with participants *individually* to help you determine the appropriate portfolio or other investment allocation. See the new MPPP web site for additional information.

New Target-Date Portfolios



Retirement Plus 20
Age 76-85



Retirement Plus 10
Age 66-75



Retirement Income
Portfolio: Age 56-65



Target 2010
Age 46-55



Target 2020
Age 36-45



Target 2030
Age 26-35



Target 2040
Age Under 25

