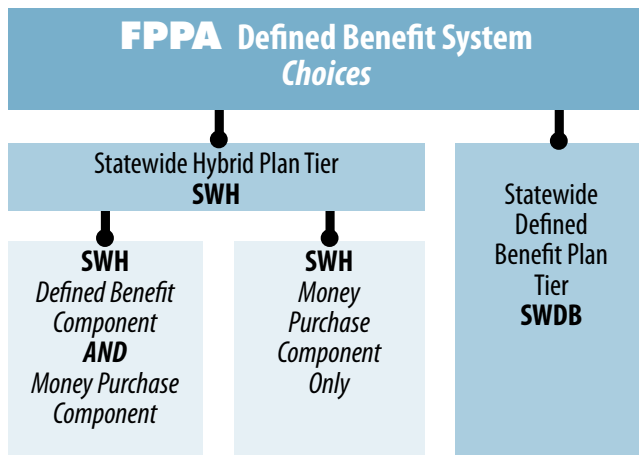


Defined Benefit System Questions & Answers

Contributions

Question 1 ■ What are the contribution rates for the Defined Benefit, Hybrid and Money Purchase Plans?

Answer ■ *Statewide Defined Benefit Plan (SWDB)* - The required contribution rate is 20% of base salary for all existing members in local money purchase plans entering the FPPA Defined Benefit System. The contribution rate is 16% of base salary for all new members hired after the entry date.



The existing members have a higher contribution rate because, on average, the group is older, closer to retirement, and more expensive to the plan. The 20% contribution rate was suggested by the actuary to establish a cost. At the time of the study, it was hard to predict the final make-up of the entering groups. As more members enter the Statewide Defined Benefit Plan, we have gained experience on average entry age, service credit purchases and actuarial experience. So in any given year, if the actuary determines that the 20% contribution rate is not required to fund the Defined Benefit, the FPPA Board may direct part of the contributions to a Separate Retirement Account (SRA).

Members in departments who re-enter the System may have a SRA account balance with two components.

- The first component is for the general benefit cost calculated annually by the actuary. If the cost to fund the SWDB Plan in any given year is less than the required contribution rate, the FPPA Board may allocate contributions to this component of the SRA. This applies to every member in the SWDB Plan.
- The second component is for the “Re-entry group” only. Based on an annual actuarial valuation, the Board may allocate contributions not needed to fund

the Statewide Defined Benefit Plan at 20% to the Re-entry SRA accounts.

Based on the results of the January 1, 2010 actuarial study, the FPPA Board voted to make a 0% contribution rate for the first component for the general benefit cost effective July 1, 2010 through June 30, 2011. The FPPA Board voted to contribute 3.66% to the second component of the Re-entry SRA accounts effective July 1, 2010 through June 30, 2011. Although the contribution rate remains at 20%, 3.66% of the contribution is allocated to the SRA.

Statewide Hybrid (SWH) Plan - Defined Benefit and Money Purchase Components - The required contribution rate is 16% of base salary. The FPPA board makes an annual determination regarding the contributions split based on the most recent actuarial study. For July 1, 2010 through June 30, 2011, 11.5% provides for a defined benefit, and 4.5% goes to the Money Purchase Component. (Some plans may have a total contribution rate above 16%. Therefore the remaining Money Purchase Component rate may be higher.)

Statewide Hybrid (SWH) Plan - Money Purchase (MP) Only Component - The required contribution rate is 16% of base salary. For plans that contribute more than 16%, excess contributions above 16% go into the Money Purchase Component.

Question 2 ■ Since contributions are made on base salary, what is FPPA's definition of base salary?

Answer ■ Generally, FPPA's definition is as follows: "Base Salary" means the total base rate of pay, including Member contributions to the Defined Benefit System that are "picked up" by the Employer. The definition of Base Salary is subject to the following conditions:

1. The definition of Base Salary shall also include longevity pay, sick leave pay taken in the normal course of employment, vacation leave pay taken in the normal course of employment, shift differential, and mandatory overtime that is part of the Member's fixed, periodic compensation.
2. Accumulated vacation leave pay shall also be included if a Member completes his/her service requirement for purposes of normal retirement while exhausting accumulated vacation leave.
3. Base salary shall not include overtime pay (except as noted in 1 above), uniform allowances, accumulated sick leave pay, accumulated vacation leave pay (except as noted in 2 above) step-up pay or other pay for

temporarily acting in a higher rank, and other forms of extra pay (including Member contributions which are paid by the Employer and not deducted from the Member's salary). A member is deemed temporarily acting in a higher rank if their appointment to the rank is anticipated to last less than six months.

4. In the event an Employer has established or does establish a deferred compensation plan in addition to the Defined Benefit System, the amount of the Member's salary that is deferred shall be included in the Member's base salary.
5. Any amounts voluntarily contributed to an Internal Revenue Code Section 125 "Cafeteria Plan" shall be included in the Member's Base Salary.

Question 3 ■ In the Hybrid Plan, can the contribution split between the Defined Benefit Component and the Money Purchase Component change?

Answer ■ Yes. The FPPA Board makes an annual determination regarding the percentage of the contribution needed to fund the Defined Benefit Component. The remainder is directed to the Money Purchase Component.

Question 4 ■ If a member selects the Statewide Defined Benefit Plan and has a balance in their Money Purchase Component what happens to it?

Answer ■ If a member has a balance in their Money Purchase account, it is housed in the member's Money Purchase Component and the member will continue to manage those funds using the Fidelity Fund options available through FPPA. If a member wanted to purchase service credit, they could use funds in that Money Purchase Component. In addition, the Money Purchase Component will be used in calculating the offset in the event benefits were payable from the Statewide Death & Disability Plan.

Question 5 ■ Can a member who selects the Statewide Defined Benefit Plan make voluntary contributions to their Money Purchase Component?

Answer ■ No, a member who selects the Statewide Defined Benefit Plan cannot make voluntary contributions to their Money Purchase Component. If a member wants to

voluntarily save additional money for retirement, the 457 Deferred Compensation Plan is another avenue available for most members to make voluntary contributions to a retirement account on a pre-tax basis. 457 Deferred Compensation accounts are not subject to offset if benefits are payable from the Statewide Death & Disability Plan.

Question 6 ■ What is the fee charged to members who are enrolled in one of the FPPA defined benefit options?

Answer ■ FPPA's combined investment management and administrative costs for year ended December 31, 2009 for the Fire and Police Members' Benefit Investment Fund was 0.65% of the fund. The Fund consists of the Statewide Defined Benefit Plan, the Statewide Death and Disability Plan, the Statewide Hybrid Plan-Defined Benefit Component and numerous separate Local "Old Hire" and Volunteer Fire pension funds.

However, members enrolled in defined benefit are not charged a fee. Investment expenses and administrative expenses are netted from investment earnings, so each fund effectively gets credited with net returns (like a mutual fund). It is not accurate to apply defined contribution (separate account) concepts to a defined benefit (pooled account) plan.

The difference with defined benefit is that each member does not have an "account balance" as such. He or she has a future defined benefit.

In the FPPA defined benefit plans:

- There is no way a member can be charged any specific fee.
- At a minimum, he or she will always get back his/her member contributions upon termination plus 5% as interest, and will not have fees netted out of them.
- The member's own contributions only pay for approximately 3 years worth of their pension payments, with employer contributions and net investment earnings making up the difference.
- Since the defined benefits are already established and the plan knows what it must pay, it is contributions plus net investment earnings (the earnings after we deduct expenses) that have to equal the benefits paid. The defined benefit is not impacted by fees and expenses like a defined contribution account.
- Defined benefit is based on a pooled concept, where defined contribution/ money purchase is based on indi-

vidual accounts that do pay fees and provide only those benefits that can be afforded, based on returns and the account balance.

The only Statewide Defined Benefit related account held at FPPA in which the benefit is directly impacted by the administrative costs is the Separate Retirement Account (SRA). This is a separate account in each member's name and has an account balance. It is available to members at retirement or separation of service if they are vested. As mentioned above, this fund effectively gets credited with net returns (like a mutual fund). The 0.65% combined investment management and administrative cost is competitive and compares favorably to costs assessed to other balanced funds.

Plan Selection

Question 7 ■ Once a member chooses a retirement plan option within the FPPA Defined Benefit System, can they ever change their selection?

Answer ■ The selection is irrevocable. The member will remain in the plan they select for the duration of their employment with their current employer. The selection is not made until after the departmental election to enter the FPPA Defined Benefit System. If a member changes employers, they will be covered by whatever plan the new employer offers its new employees.

Question 8 ■ If a department enters the FPPA Defined Benefit System (either through full or partial entry), do new employees hired after the entry date get a choice of the three plan options?

Answer ■ No. New employees hired after entry into the FPPA Defined Benefit System do not get a choice of the three plan options. They will, however, participate in the pension plan option chosen by the employer, as indicated in the Resolution. The Employer may select between 1) the Statewide Defined Benefit Plan or 2) the Statewide Hybrid Plan - Defined Benefit & Money Purchase Components for new employees. This is consistent with current practices where most employees are required to be in the retirement plan chosen by the employer.

Question 9 ■ If the votes to enter are split relatively even, will FPPA take a portion of local plan participants into the Defined Benefit System? For example, will FPPA allow 45% of participants to enter the System?

Answer ■ It depends on the type of resolution the employer files with FPPA. If a department has filed a resolution for a full department entry into the Defined Benefit System an affirmative vote of at least 65% of eligible members in the local plan is required.

However, in 2006 legislation was passed to allow partial departments to enter the FPPA Defined Benefit System. An Employer could file a resolution for a partial department entry. Then they could keep their local plan open and allow active members at the time of entry to elect to stay in their local plan or enter the FPPA Defined Benefit System. All new hires after the entry date would be enrolled in either the Statewide Hybrid Plan with the Defined Benefit Component and Money Purchase Component or the Statewide Defined Benefit Plan (one plan only).

If a department pursued full department entry and it did not pass, they could later pursue partial department entry if they wanted.

Question 10 ■ If a department files a resolution for full department entry and the vote fails, will they have another opportunity at a later date? How many chances does a department have?

Answer ■ The statute does not specify the number of times that a department can pursue a full department entry into the FPPA Defined Benefit System nor does it specify a window of time in which to re-file a resolution.

If a department pursued full department entry and it did not pass, they could later pursue either a full or partial department entry if they wanted.

Question 11 ■ If a department enters the FPPA Defined Benefit System is that choice irrevocable, or can they opt out at a later date?

Answer ■ Colorado Revised Statute (CRS) 31-31-1101(4) states that FPPA shall adopt rules that contain a provision specifying that an employer that opts to participate in the FPPA Defined Benefit System shall not be permitted to opt out of such plan at any later date.

This mandate was incorporated into the Statewide Hybrid Plan Rules and Regulations 2.02 (7). As part of the Employer's Resolution to cover its members in the FPPA Defined Benefit System, the Employer acknowledges that election for coverage under the FPPA Defined Benefit System is irrevocable.

To give you a little background on this, the Hybrid Plan was designed by a task force made up of local money purchase plan employers, members, FPPA Board members and staff. FPPA's independent actuary was also present for many of the meetings.

The long-term viability of a defined benefit plan requires stability and consistency in its membership base. Allowing members or departments to enter and withdraw at will creates an unstable plan. There is also the issue of determining the appropriate amount of funding that a member or department can take upon withdrawing from a defined benefit plan, particularly if they want to withdraw after an especially good or bad period of market returns, since a defined benefit plan is funded based on a long term, not short-term, average rate of return.

There was little, if any, discussion on the part of the task force for allowing free entry into and exit from the FPPA Defined Benefit System. One over-riding concern was to in no way harm the plan for its existing members by allowing new members to join. Some of the members and employers who were part of the task force have already voted to re-join the FPPA Defined Benefit System, and the lack of a disaffiliation option was not an issue.

At this point in time it would take legislation to allow for withdrawal from the FPPA Defined Benefit System. If members are unsure as to whether or not they want a defined benefit plan, current, existing members will be given an individual choice to stay in the Money Purchase Component only of the Plan. Currently, Fidelity Investments is the service provider and record keeper. FPPA Board may change providers if Fidelity is not providing the quality of funds and services expected for the membership.

Benefits and Benefit Payments

Question 12 ■ Is "converting an account to a monthly lifetime benefit" at retirement like buying an annuity?

Answer ■ Yes, except FPPA does not charge commissions or fees. FPPA calculates a monthly lifetime benefit based on a member's account balance, their age, FPPA's actuarial assumption rate of return (8%), and a maximum 3% Cost of Living Adjustment. Members also have the option of choosing one of the FPPA's survivor options if they have a Money

Purchase Component only. If a member also has a Defined Benefit Component, this monthly benefit will be added to that component, and the member will chose one survivor option. The conversion to a monthly lifetime benefit is also a distribution option for DROP and SRA accounts.

Question 13 ■ Is there a maximum benefit that can be accrued in the Defined Benefit Plan?

Answer ■ Yes, 100%. The 2010 dollar maximum is \$195,000/year per the IRS code 415(b) Limits. Accumulated DROP balances are not included in this maximum amount.

Question 14 ■ Explain the COLA provisions and how the COLA's are determined under the DB Plans.

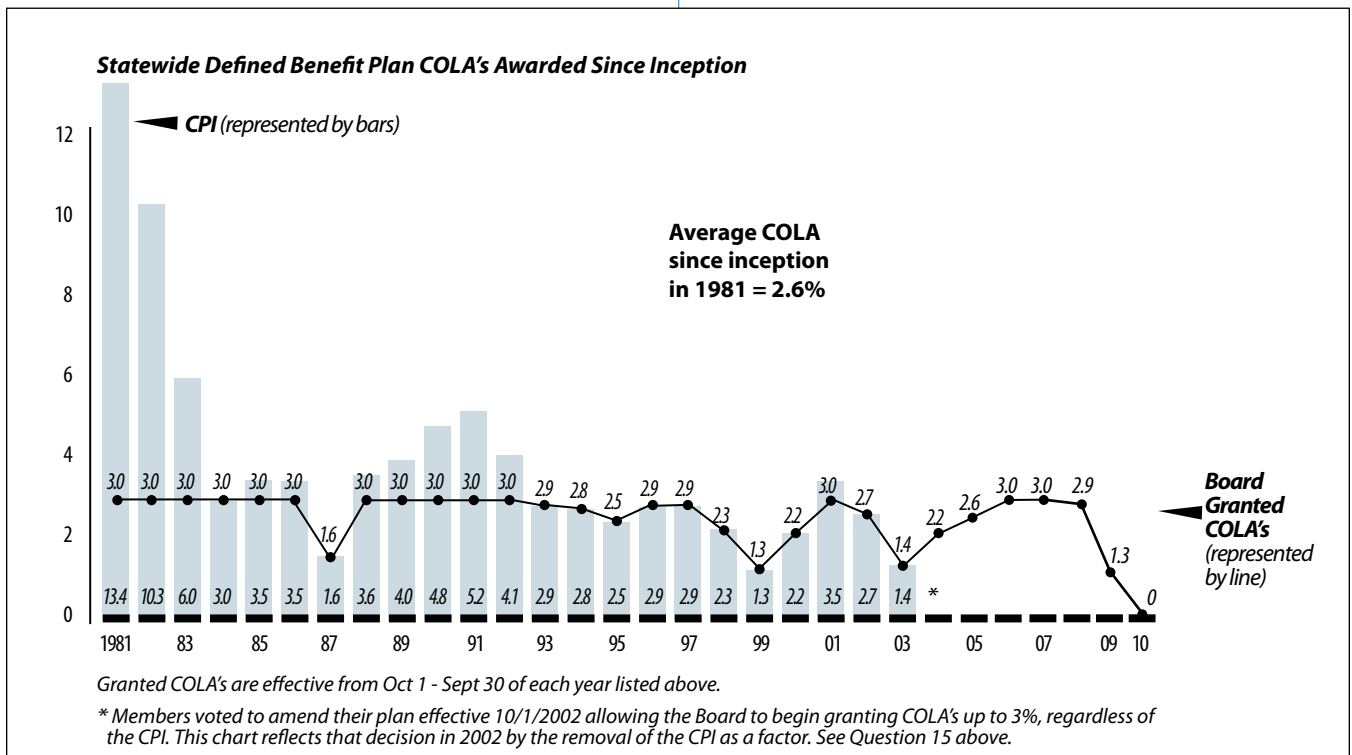
Answer ■ There are no guaranteed COLA's under the SWDB and SWH Plans. COLA's are ad hoc, meaning that they are awarded annually at the discretion of the FPPA Board. In determining whether to grant a COLA and the amount of a COLA, in addition to the most recent Consumer-Price Index, the Board considers the plan's ability to pay the current cost of awarding a COLA and the plan's ability to pay future COLA's.

Question 15 ■ What has been the track record of the Cost of Living Adjustment (COLA) for the Statewide Defined Benefit plan granted by the FPPA Board since the plan's inception?

Answer ■ Please see the chart below SWDB COLA's Awarded Since Inception. Prior to 2002 the FPPA Board could not award a COLA higher than the Consumer Price Index (CPI). From 1981-2002, the Board had always awarded at least the CPI. Members voted to amend their plan effective 10/1/2002 and the Board was then able to begin granting COLA's up to 3%, regardless of the CPI. Legislation was passed in 2008 allowing the Board to provide COLA's not to exceed the greater of 3% or the CPI for the Statewide Defined Benefit Plan. All COLA increases are effective October 1 of each year. The first COLA was granted in 1981 for those retiring in 1980.

Question 16 ■ Pension benefits for members choosing the "normal" option are not reduced. Why are benefits reduced if a member chooses one of the other payout options (Options 1-5) in the Defined Benefit Plan and the Hybrid Plan? How much is the reduction?

Answer ■ If a member selects the Statewide Defined Benefit Plan or the Statewide Hybrid Plan, at retirement or at the time the member enters the DROP he/she will select a payment option for the Defined Benefit. Options available include: Normal, Option 1, Option 2, Option 3, Option 4 or



Option 5. These are discussed in the Statewide Defined Benefit Plan and Statewide Hybrid Plan Brochures.

Benefits are reduced for options that cover a beneficiary because the pension benefit is now providing a lifetime benefit, not only for the member, but also for the member's beneficiary. The reduction is based on the combined life expectancy of the member and beneficiary. There are charts on the FPPA Website at www.FPPAco.org that disclose the factors used to calculate the reduction. Go to Benefits, select either Statewide Defined Benefit Plan or Statewide Hybrid Plan and click on Defined Benefit Option Chart or Defined Benefit Component Benefit Option Chart. These charts are also available in the FPPA Member Handbook.

Question 17 ■ What happens if an active member in the Statewide Defined Benefit Plan dies?

Answer ■ If benefits are payable from the Statewide Death & Disability Plan, those benefits are payable in lieu of the members pension (Statewide Defined Benefit Plan).

If benefits are not payable from the Statewide Death & Disability Plan because the member leaves no surviving spouse and/or dependent children who are eligible for survivor's benefits under that plan; or, if the member is not eligible for normal retirement benefits under the Statewide Defined Benefit Plan, the deceased member's pension contributions to the Statewide Defined Benefit Plan plus 5% as interest, may be refunded to the member's designated beneficiary. In this instance the SRA balance is also payable if the member was vested at the time of death.

If the member has not designated a beneficiary and the member leaves no surviving spouse and/or dependent children who are eligible for survivor's benefits under the Statewide Death & Disability Plan or if the member is not eligible for normal retirement benefits under the Statewide Defined Benefit Plan, the deceased member's pension contributions, plus 5% as interest, may be refunded to the member's estate. Any contributions rolled into the pension plan from a member's current plan, (regardless if they were member or employer contributions), and any funds paid/rolled in to purchase service credit are considered member contributions and included in the calculation of the refund.

Question 18 ■ What happens if a member dies as an active member in the Statewide Hybrid Plan - Money Purchase Component only?

Answer ■ If benefits are payable from the Statewide Death & Disability Plan, those benefits are paid, but are reduced

or offset by the value of the member's Money Purchase Component. In addition, the funds in the Money Purchase Component are payable to the beneficiary listed.

Question 19 ■ What happens if a member dies during retirement if they are covered by the Statewide Defined Benefit Plan or the Statewide Hybrid Plan - Defined Benefit & Money Purchase Components?

Answer ■ If a member dies during retirement in either plan and has chosen a payment option that includes survivor benefits (Options 1-5) the member's designated beneficiary will receive the survivor benefit payable for their lifetime according to the option selected.

If a member selects the Normal Option and dies during retirement before being paid the full amount of member contributions, the remainder, plus 5% as interest, will be paid out to the member's estate.

If a member has an account balance in the Money Purchase Component, those are payable to the member's beneficiary.

If the member has funds remaining in the SRA it is paid to the member's beneficiary or estate.

If a member chose an option with survivor benefits and both the member and a designated beneficiary died before the full amount of the member's contributions had been paid out, the remainder of a member's contributions, plus 5% as interest, will be paid out to the member's or beneficiary's estate.

In either case, any contributions rolled into the plan from a member's current plan, (regardless if they were member or employer contributions), and any funds paid/rolled in to purchase service credit are considered member contributions and included in the calculation of the refund.

Question 20 ■ How long can a member defer starting a member withdrawal?

Answer ■ *Defined Benefit Component* - If a member has reached eligibility for a normal or vested retirement (age 55 with at least 5 years of service), and has separated from service, he/she may choose to defer receiving his/her retirement benefits as late as age 65. If a member chooses to defer receiving their retirement benefits they will receive the actuarial equivalent of the normal or vested retirement benefit.

Money Purchase Component - A member may defer taking distribution of his/her account until age 70½. This is an IRS regulation.

Question 21 ■ Can a member with an account balance in a money purchase plan component, who separates from service prior to age 55, begin taking distributions from the money purchase plan immediately?

Answer ■ While age 55 is considered the normal retirement age under the plans, the plan does not prohibit distributions prior to age 55 on or after separation from service. However, depending on the circumstances, the distributions may be subject to a 10% IRS penalty for early distribution.

Question 22 ■ How can a money purchase distribution be structured to avoid the 10% early distribution penalty?

Answer ■ There are several exceptions which allow a member to take a distribution prior to age 55 without incurring an early distribution penalty. They include:

- Distributions made in Substantially Equal Periodic Payments (SEPP) which begin prior to the member reaching age 55 and following separation from service. A member must continue the SEPP program for five years or until he/she reaches age of 59.5, whichever comes last.
- A member may take distributions at age 55 or later without penalty, unless they have previously elected to participate in a Substantially Equal Periodic Payments. Because FPPA plans are for qualified public safety employees, the plans normal retirement age of 55 falls with the safe harbor for distributions.
- A Member found to be permanently occupationally disabled or totally disabled or a beneficiary of a deceased member may take a distribution without penalty.
- There may be certain limited circumstance under which medical expenses may be paid with distributions prior to age 55.

A member must be careful to adhere to the IRS rules or the early distribution penalty will be applicable. Members are advised to seek the advice of a tax professional regarding early distributions and the exceptions to the penalty. FPPA does not provide tax or legal advice.

Funding/Unfunded Liabilities

Question 23 ■ What steps would FPPA take to secure the SWDB plan, the SWH Plan and the Money Purchase Component if, at some point in the future, the plans had an unfunded liability?

Answer ■ *Statewide Defined Benefit Plan* - The Colorado Revised Statutes provide certain safeguards but do not identify a specific order for their implementation in the event that the SWDB plan is determined to not meet the definition of "actuarially sound". "Actuarially sound" is defined as when the contribution rate meets or exceeds the normal annual cost of benefits plus the annual cost of the unfunded liability (if any) amortized over forty years.

- The excess funding which is held in reserve to pre-fund future discretionary cost-of-living adjustments (COLA's) would be eliminated.
- The Board may reduce benefits provided by non-statutory plan modifications and may reduce or eliminate the accumulated Separate Retirement Accounts (SRA).
- The Board would be required to increase the age of normal retirement incrementally up to age 60 (for active members) in order to contain the costs of the benefits within the statutory contribution rates of 8% employer and 8% member.
- After the elimination of the pre-funding for COLAs, the three remaining options may be implemented incrementally and in combination at the discretion of the FPPA Board. Reductions may be reinstated when plan funding recovers.
- Under current law the Board can pursue an increase in contribution rates, but only after eliminating the non-statutory benefits, eliminating all of the SRA for all active members, and increasing the normal retirement age incrementally to age 60.
- In addition, contribution rates could be changed through legislation.

Statewide Hybrid Plan - Defined Benefit Component - The FPPA Board will determine on an annual basis the allocation of mandatory contributions between the Money Purchase Component and the Defined Benefit Component in the Fund. The allocation to the Defined Benefit Component shall be based upon the rate of contribution necessary to fund the liabilities for defined benefits based on an actuarial study. The excess, if any, between the 16% contribution rate and the rate necessary to fund the defined benefits from the

Defined Benefit Component shall be deposited in the Member Account in the Money Purchase Component. Amortization of any defined benefit liability over a 40 year period shall be deemed adequate to maintain actuarial stability. (To be more conservative, FPPA uses a 30 year period.)

Statewide Hybrid Plan - Money Purchase Component - Under this type of plan, a member is not promised a set benefit or pension at retirement, therefore, unfunded liability status is not an issue.

Question 24 ■ How did so many local old hire plans get unfunded and the FPPA Plan remain fully funded?

Answer ■ The origin of these unfunded liabilities predates FPPA. (Employees hired prior to April 8, 1978 are considered as Old Hires. Employees hired after that date are New Hires.) In fact, FPPA was created in large part because so many of the local old hire plans had not been adequately funded. At FPPA's inception in 1980, there were 104 plans with unfunded liabilities receiving state assistance. In 1980, FPPA gave each Employer a contribution schedule and Employers were, for the first time, required to adequately fund their plans. The legislation that mandated proper funding did not require the full actuarially required contribution right away though. There were hardship provisions that gradually stepped up the contribution requirements so that the plans were being funded appropriately by 1988. Due to the hardship provisions, unfunded liabilities were legally allowed to continue to grow until 1988.

Through a combination of increased contributions, state assistance and better than expected investment returns produced by FPPA, unfunded liabilities in most of these plans have been eliminated. On the other hand, the Statewide Defined Benefit Plan set appropriate contribution rates to cover members since inception. At no time were contributions ever less than needed to cover each and every member from his/her first day on the job. The plan conducts an annual actuarial study to make sure that the funding level is on track.

This plan has no unfunded liability nor has it ever had an unfunded liability. Since inception of the plan in 1980, there has never been an increase in the 8% employer and member contribution rate, and the benefits under the plan have improved significantly during that time.

There are several plan provisions worth mentioning that contribute to keeping the Statewide Defined Benefit Plan properly funded. First, when members purchase service credit, they must pay the full actuarial cost, not an "average, bargain, or subsidized" cost that creates an unfunded

liability for the plan. Second, when the normal cost of the plan is less than the full 16% in any given year, rather than lower the contribution rate, the Board first uses the "excess" funding to pre-fund future COLA's, then allocates any remaining funding to the members' SRA accounts. All of the "excess contributions" stay in the plan and are available to fund the base benefits should there be adverse investment experience for an extended period of time. The consistent required contributions are also easier for the employer to budget for each year, rather than an amount that fluctuates according to the current financial requirements of the plan.

Employers with local money purchase plans have expressed their concerns about the possibility that the cost of the defined benefit plan could increase at some time in the future. For the past 30 years, FPPA has never had to increase the contribution rate, yet has been able to improve benefits a number of times. Many local money purchase plans are already funding their plans well over the FPPA required rate. For example, if a local plan is currently contributing at 20%, that contribution rate is already 25% above 16% required for the Statewide Defined Benefit Plan. This was all done locally, and not required by FPPA.

Finally, the plan's definitions of base salary and HAS minimize the likely-hood of salary spiking, a practice that can have a negative impact on DB Plans.

Question 25 ■ If FPPA had to increase contribution rates or decrease benefits as discussed in Q23, how would this work?

Answer ■ The FPPA Board is required to increase contribution rates in the event that the normal cost of benefits plus the amortization payment for the unfunded liability of the plan, if any, exceeds the contribution rate of 16%. Prior to increasing the contribution rate, the Board must eliminate any benefit improvements approved by a vote of the members, must increase the retirement age to age 60 and must eliminate the SRA accounts. There is the possibility of increased contribution rates in the future if investment earnings fall below the actuarial assumed rate of return for an extended period of time.

This provision of the plan is not automatically triggered just because the funding level of the pension plan drops below 100% of the accrued liabilities of the plan. The unfunded liability of the plan must grow to the point that it plus the normal cost of service credit cannot be paid over a 30 year amortization period with a 16% contribution rate.

In such an event, an effective date would be established

after which the benefits would accrue at an adjusted lower rate, a later normal age for retirement would be established, and the SRA would be eliminated. If even with these adjustments, a contribution rate higher than 16% is still required, the Board would then establish a higher contribution rate. However, benefits which a member had earned and accrued, or purchased, prior to the effective date cannot be reduced. A benefit reduction would only apply to service credits not yet earned as described in Question 23. Benefits cannot be reduced for a member who is retired or for a member who has separated from service and has applied for a vested retirement and is waiting for age 55.

Question 26 ■ Can the FPPA Board reduce percentages of retirement benefits due to unfunded liability on their own or does that take a membership vote?

Answer ■ The Board could only reduce retirement benefits provided by non-statutory plan modifications (amendments voted in by the membership not legislative changes) if the normal cost of the pension benefits plus the amortized cost of the unfunded liability exceeds sixteen percent of the contributions. The benefits which a member has earned and accrued cannot be reduced. The reduction would only apply to future service credits.

Question 27 ■ The Defined Benefit is a “promise to pay”. What guarantee is there that a member will receive the retirement benefit they are eligible for?

Answer ■ A member has a contractual and a statutory right to the benefit that he or she is promised under the terms of the plan. The contractual right is similar to the right that a person has with a private pension provider, that is to enforce the benefit of the bargain to be received by the member. The statutory right is more significant because FPPA, municipalities and districts that participate in these plans, and the state are governmental entities. The member has a property interest in his or her accrued benefit. The U.S. Constitution provides that government cannot deprive citizens of their property without just compensation or due process.

Besides these basic legal protections, the plan contains a number of safeguards that are in place to make sure the funds are available to pay the benefits. Historic management of the plan has maintained a fully funded plan, with surpluses available to balance the cycles in the investment markets. Although never used previously, there are also

controls in the plan in the event that the plan is not fully funded. Investment of the fund by nine independent Board members, oversight of the fund by the legislature, the fund's independent auditor, and the fund's actuary, as well as periodic review by the participating local governments, the State Auditor and the Governor's office also offer protection to the member that the fund is operating legitimately and in an actuarially sound manner.

Question 28 ■ Are payments from the Defined Benefit Plan guaranteed or can they be reduced by the next recession?

Answer ■ Retirement benefits earned and accrued cannot be reduced. Retiree benefits cannot be reduced. The rate at which future benefits are paid can be adjusted as described in Question 23.

Question 29 ■ What is the difference between participating in the Statewide Defined Benefit Plan and purchasing an annuity with a Money Purchase account balance?

Answer ■ While it is possible to receive a lifetime benefit with either option, there are a few key differences.

In the Statewide Defined Benefit Plan:

- A member can easily project what percentage of pay he or she will receive when at retirement based on the formula in the plan. Even as a young firefighter or police officer, there is some certainty when planning for retirement and projecting your retirement income. Knowing this early on helps individuals determine how much they may need to save in other retirement vehicles in order to meet their retirement goals.
- The investment risk in the defined benefit plan is pooled, and is spread over a long (30 year) investment horizon. While market losses impact the plan, in a pooled investment there is much less risk of an impact on the individual member's retirement.
- There is an ad hoc cost of living adjustment provision in the Statewide Defined Benefit Plan.
- FPPA's investments are directed by investment professionals.
- There are no added fees or commissions charged to ensure a lifetime benefit. FPPA does not pay its employees

any type of sales commission.

- FPPA is a governmental entity which does not earn profits and does not have shareholders. Any gain in a plan directly benefits the members of that plan.

If participating in a Money Purchase Plan:

- A participant in a Money Purchase plan will not know until retirement what account balance they have available to purchase an annuity. This makes planning more difficult. If the Money Purchase balance is not sufficient to pay an adequate monthly benefit, it is difficult to correct the problem at this late stage.
- While retirement projections may be run throughout one's career, individual money purchase plan accounts are more sensitive to market downturns since this is an individual account rather than a pooled investment. If losses occur shortly before retirement, the member's "buying power" for purposes of purchasing an annuity or paying themselves a monthly benefit is reduced.
- The police officer or firefighter assumes the investment risk leading up to retirement.
- There are often fees or sales commissions paid by the individual when he or she converts an account balance to a lifetime annuity. This fee or commission can be substantial. There may be an added premium to purchase a lifetime annuity. There also may be an added premium to build in a cost of living adjustment.
- Annuities are most often sold by for-profit organizations which are organized to pay a profit to shareholders.

It is possible that a member in a Money Purchase Plan may be able to purchase an annuity that pays a monthly benefit that is higher or equal to that provided by a defined benefit plan; however the uncertainty of the market and the timing of the purchase can make planning very difficult.

Question 30 ■ If the State of Colorado oversees this plan through the legislature, how does that preclude the State from using or claiming the FPPA monies as an asset?

Answer ■ Oversight of the plan is not the equivalent of control of the plan. In fact, C.R.S. 31-31-201, in part, states that the Fire and Police Pension Association "shall be a body corporate and a political subdivision of the state and shall not be an agency of state government and shall not be subject to administrative direction by any department, commission, board, or agency of the state." (emphasis added)

Oversight of the statewide plans, the old hire plans, and all other activities of the FPPA is provided by the Colorado Legislature.

In fact, no state funds have ever been contributed to the Statewide Defined Benefit Plan or the Statewide Hybrid Plan. It is difficult to imagine any legal argument that these funds are "assets of the state." These funds have been accumulated entirely from member and employer contributions and the earnings thereon. In fact the statute creating the trust fund provides, among other protections, that "the funds shall be held and distributed for the purpose of [the provision of pension benefits] and for no other purpose whatsoever." C.R.S. 31-31-203. This language is a required element of the plan under the Internal Revenue Code, which grants the "qualified plan" status and allows the contributions going into the plans to be non-taxable. This section cannot be removed legislatively without dire tax consequences to the municipalities who have contributed to the plan. There is no statutory or constitutional authority that provides for the state to use or claim the funds held under these plans.

The FPPA Board acts as the trustee of these funds and the funds are held in trust for the benefit for the members of the plan. The Board, and the individual members of the Board, are fiduciaries to the plan. It would be a breach of the Board's fiduciary duty to allow the state to gain control over the assets of the plan.

In summary, any attempt of the state to use or claim the assets of the plan would require legislative changes that are 1.) approved by a majority of both houses of the legislature and 2.) approved by the Governor. These approvals would have to be made over the objections of the FPPA Board, the firefighters and police officers that are members of the plan, the municipalities that participate throughout the state, and the Internal Revenue Service. Even if legislation was passed, given the structure of the plans and the body of law governing trusts and qualified plans, in FPPA's legal opinion it is extremely unlikely that such legislation would be sustained in the subsequent court challenge.

Question 31 ■ If there is a shortfall in the Statewide Defined Benefit fund, could money be transferred from the Money Purchase Component to the Statewide Defined Benefit fund?

Answer ■ No, FPPA could not take money from the Money Purchase Component if there is a shortfall in the Statewide Defined Benefit fund. There is no provision in the plan document to take money from the Money Purchase

Component for any reason. All employee dollars, and all employer dollars, if the member is vested, are vested in the employee's Money Purchase Component from the day they are contributed in the account. FPPA could not conceivably touch these vested dollars. FPPA could not touch the non-vested dollars either. The non-vested dollars are held there in trust, in anticipation of the member vesting.

Service Credit Purchase

Question 32 ■ If a member elects the Statewide Defined Benefit Plan and has a balance in the Money Purchase Component because they have chosen not to purchase service credit; or, if a member does purchase service credit but the purchase will not completely deplete their Money Purchase Component, what are the options with that money?

Answer ■ The "left-over funds" after the purchase are housed in the member's Money Purchase Component and the member will continue to manage those funds using the Fidelity fund options available through FPPA.

In this case, the member has selected the Statewide Defined Benefit Plan, but because there are extra funds, he/she also has a Money Purchase Component to manage which will be available for distribution at retirement or separation of service. A member could choose to use the "left-over" funds to purchase additional defined benefit service credit if he/she is eligible based on other employment (i.e. he/she had military time, other public employment, or private employment).

Question 33 ■ Regarding vesting, do the years of service start accruing from the time the group enters the FPPA Defined Benefit System or do the years carry over?

Answer ■ *Money Purchase Component* - Years of service are based on combined years of service in local plan and the FPPA Defined Benefit System. Members retain their original hire date with their employer. Regarding the member's current Money Purchase Account, all members (vested and non-vested) will be fully vested in the Employer Transfer Account upon entry into the Defined Benefit System.

Defined Benefit Component - Years of service credit must be worked or purchased. In other words, service begins accruing toward the Defined Benefit Plan at entry date into the plan. However, members may purchase service credit for past service worked (many members use their Money Purchase Component assets to purchase service credit in

Statewide Defined Benefit Plan or Defined Benefit Component of the Statewide Hybrid Plan). For instance, a member could immediately purchase 5 years of service credit and be vested immediately, or he/she could work the 5 years to become vested, or any combination thereof. In any case the defined benefit percentage will be determined based on a member's combined service credit worked and purchased.

Question 34 ■ What type of funds can be used to purchase service credits?

Answer ■ Tax-deferred money from any the following plans can be used to purchase service credit: 401(a) plans, 401(k) plans, 401(c) Keogh plans, 457 Governmental Deferred Compensation plans, 403(b) Tax Sheltered Annuities, Traditional IRA's and Roth IRA's. A member may also use after-tax money (for instance, money in a savings account) to purchase service credit. If a member uses after-tax money to purchase service, FPPA will track that money as after-tax dollars and those funds will not be taxed when they are paid out in retirement.

Question 35 ■ When would members entering the Defined Benefit System be eligible to purchase service credit?

Answer ■ Generally, members are eligible to begin purchasing local plan service credit, service credit for other public sector employment, and military time one month after the entry date. However, members with less than 1 year at the department will have to wait until their first anniversary.

Members must be in the Statewide Plan 5 years before they can purchase private sector employment. (Certain IRS restrictions apply.)

FPPA & Fidelity Services and Investments

Question 36 ■ Is Fidelity the permanent mutual fund provider for the Money Purchase Component or could it change at a future date?

Answer ■ The FPPA Board has the discretion of changing the recordkeeper/service provider at any time if they feel the services are not meeting the needs of the membership.

Question 37 ■ What extra fees are in the BrokerageLink Account offered by FPPA/Fidelity?

Answer ■ There are no plan level fees charged to participants. There are trade fees. Please refer to the Fidelity BrokerageLink Commission and Fee Schedule (Silver level) on FPPA's website at www.FPPAco.org for a complete listing of brokerage fees.

Question 38 ■ Can the Fidelity BrokerageLink Account be continued into retirement?

Answer ■ Yes, a member can continue their BrokerageLink Account into retirement and maintain all of the account features. If a distribution is taken, all assets would flow through the retirement plan, and the money would come directly from Fidelity.

Question 39 ■ What retirement planning services do FPPA and Fidelity offer to affiliated members?

Answer ■ For Defined Benefit Plans - The FPPA Visitation Team visits every department in the state every other year, and is also available to attend academy classes. FPPA staff members are the experts in the Statewide Defined Benefit Plan & Statewide Hybrid Plan and have the knowledge to cover all details of the plans, including Statewide Death and Disability benefits. FPPA staff also includes a review of asset allocation issues and fund lineup changes for 457 plan assets. Staff runs retirement projections for all members.

For Money Purchase Plans - The FPPA Visitation Team visits every department annually, or more upon request. This visit includes education on the importance of asset allocation, fund line-up changes, distribution options, and other information that members need to make an informed decision on their plan assets. Staff also runs retirement projections for all members.

In addition, Fidelity Retirement Services Specialists can give members more information about the investment options available, provide information to determine an investment strategy to help members reach their retirement goals and answer most questions about the plan. They are available Monday through Friday, 6:00 am – 10:00 pm by telephone.

Fidelity Investor Centers - There are three Fidelity Centers in the Denver Metro area where investment specialists can provide members with financial assistance. There is no charge to FPPA members for these services.

Their Financial Representatives are experienced investment professionals who will look at a members investments from a fresh perspective. They help members:

- Create a comprehensive income plan that will help make sure that member's assets last their lifetime;
- Conduct a portfolio review so that members can identify gaps in their portfolio in light of their investing goals; and,
- Explore potential tax-advantaged strategies for lifetime income and estate planning needs

Fidelity Seminars - Through the Fidelity Investor Centers, Fidelity offers many seminars at which they share their money management expertise on a wide range of financial and investing topics. These are held metro-wide and FPPA members are invited to attend. These could also be held for a department, depending on interest level and group size.

Topics include;

- Quarterly Market Update
- Build a Portfolio for Any Weather
- Build Your Financial Future
- Charting Your Course: Managing Your Portfolio in Today's Market
- 7 Strategies for a Successful Retirement
- Changing Employment? Rollover Solutions for Your Retirement Plan
- Fundamentals of Retirement Income Planning

Fidelity's Web Based Retirement Planning Tools - Fidelity has a vast array of retirement planning tools. Fidelity NetBenefits is a link for FPPA members so they can access:

- calculators to help determine how much is needed in retirement,
- tools to help members set goals and create investment strategies,
- worksheets to see if members are on track for the retirement lifestyle they hope to enjoy, and
- ways to make sure members are taking full advantage of the savings at their workplace.

Fidelity Retirement Services Specialists can give more information about the investment options available, provide information to determine an investment strategy to help

you reach retirement goals and answer most questions about the plan. They are available Monday through Friday, 6:00 am – 10:00 pm.

FPPA Seminars - The annual Pre-retirement Seminar is held each Spring. This is designed for those members who are within 10 – 15 years from retirement. Another popular seminar held each Fall is the Wills & Estate Planning Seminar which offers practical information on developing financial strategies while planning for the future. It includes information on estate planning, wills, taxes, powers of attorney, etc.

Question 40 ■ Does the FPPA Board of Directors have the ability to offer a broader range of investments than currently exists in the Money Purchase plan?

Answer ■ The Board can offer additional investment options in its discretion. The issue of adding/replacing investment options is reviewed each year by FPPA staff in consultation with Fidelity and recommendations are made to the Board. FPPA offers a menu of options which broadly covers the large publicly traded asset classes (domestic equities, fixed income and international equities) and includes a series of target date funds. FPPA strives to balance the members needs/demands by providing a meaningful list of fund options, without overwhelming members with too many choices. This also ensures that members receive the appropriate education on the fund options offered. If a fund is not meeting performance and/or operational standards set by the FPPA Investment Policy, the fund may be replaced.

FPPA also offers a BrokerageLink account for more sophisticated investors willing to take additional risks with their investments. It allows members to invest their Money Purchase Component or DROP account balances in a broad range of Fidelity and non-Fidelity mutual funds plus a wide range of individual securities not offered within the standard plan account options.

Loans

Question 41 ■ Does FPPA accept the outstanding loans from Money Purchase Plan accounts?

Answer ■ Yes. However, no new loans are permitted after entry date. Existing loans can be transferred to Fidelity. The member will be able to continue to repay that loan through

Fidelity via automatic withdrawal from an account designated by the member.

Divorce

Question 42 ■ How does FPPA handle Domestic Relations Orders (DRO's)?

Answer ■ FPPA must comply with the agreement set forth in the Domestic Relations Order. In the case of a Defined Benefit Plan, the alternate payee cannot receive payment until the member is eligible. In the case of a Money Purchase Plan, the alternate payee may receive distributions while the member is still active.

Taxes

Question 43 ■ If a member is awarded an on-duty disability benefit or spouse/dependents receive an on-duty survivor benefit, is the FPPA Money Purchase Component also tax free?

Answer ■ Yes, FPPA has an opinion from its outside tax counsel which opines that members who are awarded an on-duty disability benefit or spouses/dependents who receive an on-duty survivor benefit, will receive their FPPA Money Purchase Component tax free. However, Fidelity will report the distribution as fully taxable. It is the member's responsibility to claim the tax exemption when he/she files his/her tax return.

Question 44 ■ Would a member's local Money Purchase Plan account be tax free in the case of an on-duty death or disability?

Answer ■ A member should check with their department to see if they have a Private Letter Ruling or an opinion from tax counsel to allow for tax-free payments. Without either, Money Purchase Plan distributions are taxable. FPPA does not advise local plans regarding tax consequences of distributions. Local plans should seek tax counsel regarding this issue.

*This plain language document is intended for informational purposes only.
Official interpretations or determinations are based upon the plan document
and rules and regulations that govern this plan.*