

# FPPA Glossary Of Terms



*Terms defined in this glossary are defined for quick reference and convenience. Definitions or benefits described in this glossary do not supercede the meaning of terms of the benefits as they are used and defined in plan documents or in other documents.*

## **457 Plan**

457 Deferred Compensation Plan - is governed by the provisions of Internal Revenue Code Section 457, and is therefore often called a "457 plan". Nearly any employer throughout the state may adopt this plan for its police officers, firefighters, and support staff. The plan is funded entirely through voluntary contributions by those members who wish to participate. It offers a convenient way for members to set aside money for future needs since deferrals are not subject to federal and state income tax withholding.

## **Actuarial Accrued Liability**

Total accumulated cost to fund pension benefits arising from service in all prior years.

## **Actuarial Cost Method**

Technique used to assign or allocate, in a systematic and consistent manner, the expected cost of a pension plan for a group of participants to the years of service that give rise to that cost.

## **Actuarial Present Value of Future Benefits**

Amount which, together with future interest, is expected to be sufficient to pay all future benefits.

## **Actuarial Valuation**

Study of probable amounts of future pension benefits and the necessary amount of contributions to fund those benefits.

## **Actuarial Value of Assets**

The value of assets considered in the actuarial valuation of a pension plan and used to determine the required annual contribution and funded ratio. (is not equal to market value when smoothing methodology is used)

## **Actuary**

Person who performs mathematical calculations pertaining to pension and insurance benefits based on specific procedures and assumptions.

## **Alternate Exempt Plan**

These employers are not covered at all by FPPA for pension benefits or for death and disability coverage. There are eight exempt plans in Colorado: Gunnison Police, Lakewood Police,

Meeker Police, Mount Crested Butte Police, Silverthorne Police, Westminster Police, Craig Police, and Eaton Police.

## **Annual Required Contribution**

Disclosure measure of annual pension cost.

**CAFR** Comprehensive Annual Financial Report

## **Cost-Of-Living Adjustment (COLA)**

A COLA may begin once the retired member has been receiving retirement benefits for at least 12 calendar months. The amount of the COLA is at Board discretion and cannot exceed 3% per year, except for totally disabled members who are guaranteed a 3% COLA.

## **County**

In 2003, legislation was passed that allows Colorado counties to affiliate and be included in the definition of Employer. Any covered employee of the county shall be included in the definition of member. This legislation allows county's with law enforcement officers and/or firefighters to affiliate with the Statewide Defined Benefit Plan and/or the Statewide Death and Disability Plan for supplemental benefits.

## **Defined Benefit (DB) Plan**

DB Plans are traditional retirement plans. The plan promises a retirement benefit based on age and total years of service. The member gets a flat monthly benefit upon retirement. Under this type of plan, the employers make the contributions and FPPA (or the local plan) is entirely responsible for ensuring that assets are available to provide the pension that each member is promised. (Statewide Defined Benefit Plan, Old Hires, and Exempt Plans are DB Plans.)

## **Defined Contribution (DC) Plan**

Under this type of plan, the member would not be promised a set benefit or pension at retirement. Rather, an individual account would be established in the member's name, and his or her final benefits would depend on how much is contributed and the rate of return earned by the account's investments. Members typically direct the investment of the account. (Statewide Money Purchase Plan and Withdrawn Plans are DC plans.)

## **Deferred Retirement**

Under the Statewide Defined Benefit Plan, when a member meets the age and service requirements for a normal retirement, he/she may defer receiving the retirement benefit until age 65.

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**Domestic Relations Orders (DRO)**

A written court agreement to divide retirement benefits from the members/spouse's qualified public employee retirement plan.

**Deferred Retirement Option Plan (DROP)**

Under the Statewide Defined Benefit Plan, a member may elect to participate in the DROP after reaching eligibility for normal, early, disability, or vested retirement (at age 55). A member can continue to work while participating in the DROP, but must terminate employment within 5 years of entry into the DROP. The member's percentage of retirement benefit is frozen at the time of entry into the DROP. The monthly payments that begin at entry into the DROP are accumulated until the member terminates service, at which time the DROP accumulated benefits can be paid as a lump sum, if desired. In the Statewide Defined Benefit Plan, the member continues contributing employee contributions, which are credited to the DROP.

**Early Retirement**

Under the Statewide Defined Benefit Plan, when a member completes at least 30 years of credited service, or is at least age 50, he/she is eligible for an early retirement. The benefits will be the normal retirement pension the member would have received at age 55, reduced by an actuarial equivalent amount to reflect the early receipt of the benefit.

**Earned Income Offset**

If a member earns any income from services rendered during the time he/she receive benefits for disability retirement and the total income from all sources exceeds the salary paid to someone of the same rank and from the same department from which you retired, the member's disability benefits will be reduced by 25 percent of his/her additional "earned income."

**EGTRRA**

Economic Growth & Tax Relief Reconciliation Act of 2001- Includes significant changes to the tax rules governing retirement plans, IRA's, and other benefit arrangements. EGTRRA provides for substantially increased contribution limits, simplified distribution rules, and eased administrative burdens for retirement plans.

**Exempt Plans**

For a limited time, an employer, with approval by its old hire members, could establish an exempt plan that would include all of its old hires and new hires. (There are only two exempt plans that apply only to new hires, Colorado Springs Police and Fire.) These plans are generally exempt from all state statutory provisions. (There are a few exceptions.)

**Expendable Trust Fund**

A deferred compensation plan created under IRC Section 457. This Fund collects amounts deferred by participants of affiliated plans. The assets are held in trust for the exclusive benefit of participants.

**Fire and Police Members' Self-directed Investments Fund**

The fund consists of the assets of member self-direct DROP funds administered and managed by the Board, both for new hire and old hire DROP members. Old hire plans must be amended to allow self-direction.

**GASB25 and GASB27**

Governmental Accounting Standards Board Statement Numbers 25 and 27 which specify how the Net Pension Obligation and Annual Required Contribution are to be calculated.

**GFOA** Government Finance Officers Association

**Health Care Defined Benefit Plan**

This is a statewide defined benefit plan that provides a benefit to assist in paying for the costs of health care for each retired eligible member. Payments to and distributions from the account would not be taxable to member/retiree. Eligible members make a 1% contribution to the plan throughout their careers and upon retirement receive a monthly subsidy for a 10-year period to pay for qualified health insurance premiums. Definition is also described under "SWHC".

**Hybrid Plan**

This is a statewide plan that has features of a defined contribution plan, as described under DC Plan, above, and a defined benefit plan, as described under DB Plan above. For example, the total contribution is 16% of payroll. Of that contribution, 14% provides a 1.5% defined benefit for each year of service, while the remaining 2% contribution goes into a DC portion of the plan. Definition is also described under "SWH".

**Local Plans**

Another term used to describe locally administered old hire plans, exempt plans, and withdrawn money purchase plans.

**Members' Benefit Fund**

Consists of the Statewide Defined Benefit Plan, the Statewide Death and Disability Plan, the Statewide Money Purchase Plan Benefit Fund, plus 57 local defined benefit funds, four local money purchase funds and 154 affiliated volunteer firefighter pension funds. Also known as the Common Fund or the Total Fund.

**Members' Money Purchase Plan Benefit Fund**

Administers defined contribution plans for firefighters and police officers, providing that the plans have affiliated with FPPA. This is a defined contribution plan.

**Members' Statewide Money Purchase Plan Benefit Fund**

A defined contribution plan covering firefighters and police officers in the Statewide Money Purchase Pension Plan.

**Money Purchase Plan Offset**

A member's FPPA benefits for disability retirement will be reduced by the actuarial equivalent of his/her total vested money



purchase account balance at the time of retirement, excluding any voluntary contributions or any mandatory contributions above 16 percent.

**Net Pension Obligation**

Disclosure measure of difference between cumulative annual pension costs and employer contributions made to the plan since transition to reporting standard.

**New Hires**

Statewide Defined Benefit Plan members hired on or after April 8, 1978.

**Normal Cost**

That portion of the actuarial present value of benefits assigned to a particular year in respect to an individual participant or the plan as a whole.

**Normal Retirement**

Under the Statewide Defined Benefit Plan, when a member completes at least 25 years of credited service and has reached age 55, he/she is eligible for normal retirement.

**Occupational Disability**

A disability resulting in an incapacity to perform assigned duties and expected, within reasonable medical probability, to exist for at least one year. "Assigned duties" means those specific tasks or jobs designated by the employer for a particular position within a job classification. The term does not include the duties of a member's rank or grade that the member is not actually required to regularly perform in the position that he/she occupies.

**Old Hires**

Police officers and firefighters hired prior to April 8, 1978. Basic plan provisions are set forth in state statute, but the plans are administered locally, and may be amended pursuant to local action, with the permission of FPPA. These plans may receive state assistance, which is distributed by FPPA, but the bulk of their funding comes from employer and member contributions.

**Permanent Occupational Disability**

A subcategory of Occupational Disability. If a member is granted a permanent occupational disability, he/she will be retired for as long as the permanent occupational disability continues and will receive an annual benefit of 50% of his/her annual base salary regardless of family status.

**Social Security Offset**

If a member is employed by an affiliated Social Security employer and receives Social Security payments attributable to his/her work as a full-time police officer, the member's FPPA benefits will be reduced by a prorated amount of any such Social Security payment.

**Social Security Towns**

A few, smaller municipalities cover their police officers (both old and new hires) under the social security system. They may affiliate with the Statewide Defined Benefit Plan and/or the Statewide Death and Disability Plan for supplemental benefits.

**Separate Retirement Account (SRA)**

The amounts set aside in the Stabilization Reserve Account (see next definition) are allocated to an individual account for each new hire member available at the time of taking a normal, early or vested retirement, a permanent or total disability retirement, or if his/her beneficiaries are granted survivor benefits.

**Stabilization Reserve Account (SRA)**

Annually, at the discretion of the Board, the difference between the combined member/employer contributions and the actuarially determined contribution rate may be allocated to the stabilization reserve account. Amounts set aside in the SRA are allocated to individual accounts for each new hire member. A member may receive the amounts in his individual account only upon election of normal, early, or vested retirement, a permanent or total disability retirement, or if his/her beneficiaries are granted survivor benefits. If the cost of the defined benefit plan exceeds the combined member/employer contribution rate, funds from the SRA will make up the shortfall.

**SRA Offset**

A member's FPPA benefits for disability retirement will be reduced by the actuarial equivalent of his/her total FPPA SRA account balance at the time of retirement. The balance in the SRA account may be distributed to the member upon retirement for disability or to the member's survivors upon his/her death.

**Statewide Death & Disability Fund**

A defined benefit plan. This is a cost sharing multiple-employer plan, administered by FPPA's Board of Directors.

**Statewide Death & Disability (SWD&D) Plan**

Provides 24-hour coverage, both on and off-duty duty. Death and disability benefits are available for members not eligible for normal retirement under a defined benefit plan, or members who have not met 25 years of service and age 55 under a money purchase plan. In the case of an on-duty death, benefits may be payable to the surviving spouse and/or dependent children of active members who were eligible to retire, but were still working. SWD&D Plan benefits are state funded for members hired prior to January 1, 1997. Local revenue sources are responsible for funding of the benefits for members hired on or after January 1, 1997.



**Statewide Defined Benefit Plan Fund**

A defined benefit plan for fire and police employees hired in the State of Colorado on or after April 8, 1978. This is a cost sharing multiple-employer plan.

**Statewide Defined Benefit (SWDB) Plan**

Covers all full-time police officers and firefighters of participating fire or police departments in Colorado hired on or after April 8, 1978 for normal retirement benefits. This plan is administered by FPPA and is funded entirely through employer and member contributions.

**Statewide Health Care Defined Benefit Plan (SWHC)**

In 2003, legislation authorized FPPA to create the SWHC Plan. It is a defined benefit plan that provides a benefit to assist in paying for the costs of health care for each retired eligible member. Payments to and distributions from the account would not be taxable to member/retiree. Eligible members make a 1% contribution to the plan throughout their careers and upon retirement receive a monthly subsidy for a 10-year period to pay for qualified health insurance premiums.

**Statewide Hybrid (SWH) Plan**

In 2003, legislation authorized FPPA to create the Statewide Hybrid Plan. It has features of a defined contribution plan, as described under DC Plan, above, and a defined benefit plan, as described under DB Plan above. For example, the total contribution is 16% of payroll. Of that contribution, 14% provides a 1.5% defined benefit for each year of service, while the remaining 2% contribution goes into a DC portion of the plan.

**Statewide Money Purchase (SWMP) Plan**

In 1995, legislature authorized FPPA to create the SWMP Plan. It is a defined contribution plan, as described under DC Plan, above. Under certain conditions, an employer may withdraw its members from the Statewide Defined Benefit Plan in order to cover them under the SWMP Plan. In addition, an employer having a withdrawn local money purchase plan may also elect to dissolve that plan and cover its members under the SWMP Plan.

**Temporary Occupational Disability**

A subcategory of Occupational Disability. If a member is granted a temporary occupational disability, he/she will be retired for up to five years and will receive an annual benefit of 40% of his/her annual base salary regardless of family status.

**Total Disability**

An inability to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a period of not less

than 12 months. If declared totally disabled a member will receive an annual pension of 70% of his/her current annual base salary for life, regardless of family status.

**Unfunded Actuarial Accrued Liability**

The portion of the actuarial accrued liability not offset by plan assets.

**Vested Benefits**

Benefits which are unconditionally guaranteed regardless of employment status.

**Vested Retirement**

Under the Statewide Defined Benefit Plan, regardless of the member's age, when he/she has at least 10 years of credited service upon termination, the member may choose a vested retirement instead of requesting a refund of contributions. The member may begin receiving his/her vested retirement benefit at age 55.

**Withdrawn Plans**

Up until 1988, an employer could withdraw its new hire police officers and firefighters from the Statewide Defined Benefit Plan and establish its own local pension plan. All of the plans which withdrew from the Statewide Defined Benefit Plan established money purchase plans. Although covered by their money purchase plan for pension benefits, members of those withdrawn plans remain covered by the Statewide Death and Disability Plan.