FPPA PensionCHECK

A review of your retirement benefits. *Spring 1999*

Increasing Concerns About Mandatory Social Security

An important topic of discussion in Washington, D.C. is reform of the federal Social Security system. It's been discussed before, but this time both Congress and the White House are serious about it.

Many changes to the system are being considered, but one of particular importance to FPPA, its members and employers is the mandatory inclusion of all public employees in the Social Security system.

At present, most public employees in Colorado and numerous other states do not participate in Social Security. They do not pay into the system nor do they accrue credit for Social Security benefits as public employees. Instead, they participate in other pension plans, such as the statewide plans administered by FPPA, which are directly designed to meet their needs for retirement, death and disability benefits.

These pension plans are working well for firefighters, police officers and other public employees. Despite that fact, since these employees are not paying into Social Security, they are being viewed as a possible source of revenue for a Social Security system that faces insolvency somewhere around the year 2032. Studies have shown, however, that revenues from bringing non-participating public employees into Social Security would only extend that system's solvency an additional two years while adding new liabilities to the Social Security system.

Most of the Social Security reform proposals are aimed at future public employees. Current employees would not be required to participate in Social Security, but in most proposals employees hired after January 1, 2000 would have to participate.

FPPA for many years has opposed the mandatory inclusion of police officers and firefighters in Social Security, and continues to participate in federal lobbying efforts opposing mandatory Social Security. The impact of mandatory Social Security would be detrimental in several ways.

For starters, fire and police pension plans, like other public plans, provide better benefits for the dollars contributed than does Social Security. Fire and police plans are actuarially funded and are able to invest in stocks and other diversified investments providing a much higher return than the U.S. Treasury bonds held by Social Security.

If Social Security were mandated for Colorado police officers and firefighters, in order to maintain the current level of benefits for these employees, pension contributions would have to be increased. We do not know where the required funding would come from. If additional funding were not available, then the current pension system would have to be restructured around Social Security, and the benefit package would be decreased.

A preliminary study by FPPA's actuarial consulting firm has found that if Social Security becomes mandatory, the statewide plans would have to either reduce benefits for employees in Social Security by 15% to 40%, or increase costs by 4% to 8% of payroll.

Also, the lack of participation of future employees in the current plans would have an adverse effect on current plans because of the diversion of revenues into Social Security. Current members likely would not have their benefits reduced, but revenues and investment income would not be available for future plan improvements.

Further, Social Security does not meet the unique needs of firefighters and police officers. Due to the physical demands and risks of public safety work, they need pension plans that allow them to retire earlier than other employees, and that provide more extensive disability and survivor benefits. The normal retirement age under FPPA's statewide defined benefit plan is 55, with 25 years of service. Full retirement benefits under Social Security don't begin until age 65. FPPA's death and disability plan provides both occupational and total disability benefits. Social Security disability benefits

continued on next page

Social Security

continued from page 1

are only available upon total disability.

There are many reasons why mandatory Social Security is a bad idea for Colorado police officers and firefighters. Our state legislators recognize the problems, and a resolution (Senate Joint Resolution 99-006) is now making its way through the Colorado General Assembly urging Congress to oppose the mandatory inclusion of police officers and firefighters in the Social Security system. Upon passage, the resolution will be sent to Colorado's members in Congress.

FPPA members and employers may also want to contact their representatives in Congress, or the White House, expressing their concern about this important issue. FPPA

Legislative News

FPPA Initiates Four Bills and One Resolution in 1999 Legislative Session

The following legislation, initiated by FPPA, has either already been approved or is working its way through the 1999 session of the Colorado General Assembly.

House Bill 1062

This bill improves the total disability benefit for members of the Statewide Death and Disability Plan. It has already been approved by the legislature and signed by the governor, with an effective date of January 1, 2000. Previously, members received a "tiered" benefit of 40% of salary, plus an additional 10% for a spouse and another 10% for any dependent children, for a maximum benefit of 60%.

This legislation:

- Changes the total disability benefit to a "flat" 70% percent of salary, regardless of family status.
- Offers a payment option that protects surviving family members as beneficiaries.
- Will be available to current and prospective benefit recipients.

House Bill 1063

This bill improves the benefit for surviving spouses of members of the Statewide Death and Disability Plan who die while in active service. Under existing law, the benefit to a surviving spouse of a member who dies in active service terminates upon remarriage.

This legislation would allow the surviving spouse of the member to continue to receive a benefit until death, regardless of marital status.

Senate Bill 032

This bill simply relocates cross-referenced material. It is a technical bill, making no substantive changes to either the Statewide Defined Benefit Plan or the Statewide Death and Disability Plan. It has been approved by the legislature and signed by the governor, effective January 1, 2000.

The bill makes the Statewide Death and Disability Plan a "stand alone" plan; in other words, members can read all significant plan terms in one part of the state statutes rather than having to refer back to another plan in another part of the statutes.

Senate Bill 005

This bill authorizes members of the Statewide ("new hire") Defined Benefit Plan to purchase service credit. Similar authority is found in many other public pension plans. Specifically, the bill allows members to purchase service credit for non-covered public safety employment within the United States, as well as up to five years of military time. It has been approved by the legislature and signed by the governor, effective January 1, 2000.

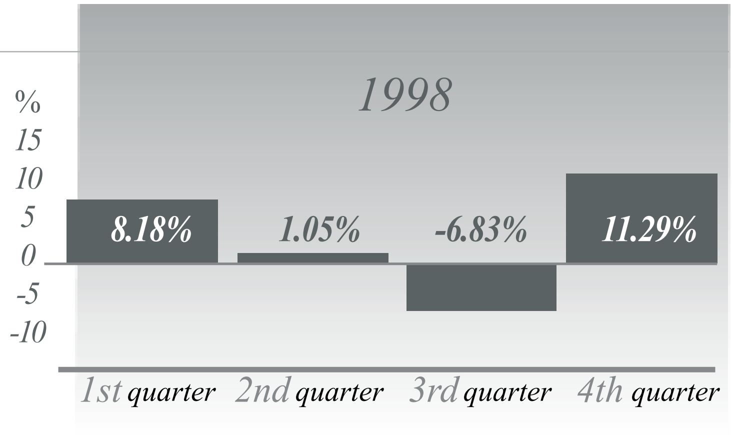
Senate Joint Resolution 006

Finally, this resolution asks our representatives in Congress **not** to impose social security coverage on public safety officers. Fire and police pension plans have been long established as an alternative to social security and provide benefits that are designed to address the physical demands and high risks of public safety work. The existing plans are working. Mandatory social security will significantly reduce benefits for public safety officers. (See page 4 for more information about the mandatory social security issue.) FPPA

Quarterly Investment Returns

We are pleased to report that during the year 1998, FPPA's investments earned a total return of 13.07%. The earnings on a quarterly basis are shown to the right.

As of December 31, 1998, FPPA's total assets exceeded $2.19 billion. FPPA



FPPA Prepares For Year 2000

You've no doubt read or heard something about what's being called the Y2K, or Year 2000, problem. It's a problem, or potential problem, with computers which began years ago when computers had very limited, expensive memory and storage space. Computer programmers saved some of this space by storing the minimum amount of data necessary.

One way computer storage space was saved was by abbreviating a reference to a year from four digits to two digits. For example, the year 1976 was represented and stored as 76. This approach works fine as long as the century does not change. However, when the year appears as 00, a computer may treat the year as 1900 instead of 2000. This could cause confusion and mistakes for any business.

Like other businesses, FPPA faces this potential problem and the task of determining the extent to which its computer systems might be affected by Y2K. FPPA has been aware of this problem and began taking steps in 1993 to expand to four digits the years referenced in our custom designed computer applications. These custom applications include the retiree payroll system, membership contribution system, and deferred compensation system.

Currently we're reviewing FPPA's other internal systems, and doing a survey of the products and systems of FPPA's suppliers and service providers to obtain their assurances of Y2K preparedness. The survey, together with our own internal systems review, will enable us to continue to assess FPPA's readiness for the year 2000.

FPPA's audit and remediation program includes the following phases, some of which are already underway and all of which we intend to have completed before January 1, 2000:

- ✓ Taking steps to increase awareness of the Year 2000 problem within our organization, and among our membership, suppliers and service providers.
- ✓ Developing lists of internal and external sources that may be affected.
- ✓ Assessing our computer software and hardware, as well as all other systems that rely on year-dated components.
- ✓ Surveying our suppliers and service providers about their Year 2000 compliance, and ensuring that all new products and services purchased are Year 2000 compliant.
- ✓ Providing for the correction or replacement of non-compliant products and systems.
- ✓ Securing backup suppliers in the event our current suppliers are not and will not be Year 2000 compliant by January 1, 2000.
- ✓ Testing corrected software and hardware systems to ensure Year 2000 compliance.
- ✓ Implementing the operation of corrected items.

As you can see, FPPA is taking the Year 2000 matter very seriously. We are committed to making a smooth transition to the next millennium. FPPA

This article is provided as a Year 2000 Readiness Disclosure under the Year 2000 Information and Readiness Disclosure Act.

Fund Profile

Investment Option Information for Members in a Section 457 Deferred Compensation Plan or a Money Purchase Plan

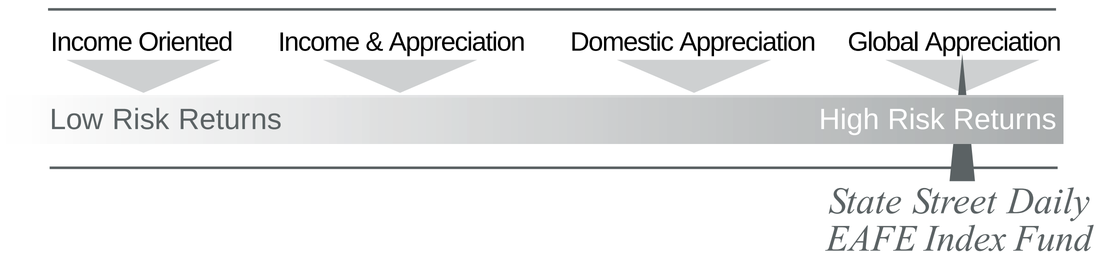
This newsletter's Fund Profile is for the:

State Street Daily EAFE (Europe, Australia and the Far East) Index Fund

In the past few years, low returns have made the long-term average in this index unattractive. However, in 1998, the international equity market rebounded. As you think about your asset allocation strategy, we wanted you to be aware that FPPA continues to offer diversification through the EAFE Index.

Type of Investor

Higher Risk Investor. As an international stock fund, this Fund may be appropriate for investors who have a medium to longer investment time frame or are seeking maximum growth potential and are willing to accept potentially large fluctuations in value that often accompany international investing.



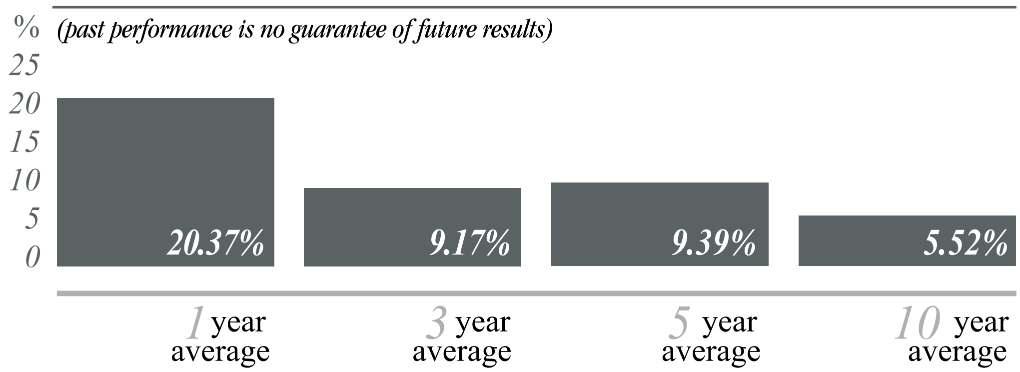
Description

The Fund is a passively managed fund. The Daily EAFE Index Fund typically invests in all the stocks in the Morgan Stanley Capital International (MSCI) EAFE Index in proportion to their weighting in the Index. The strategy of investing in the same stocks as the Index minimizes the need for trading and, therefore, results in lower expenses. Please refer to the Fund prospectus for further detailed information.

The MSCI EAFE Index represents over 1,000 stocks in the major foreign markets, including Japan, the United Kingdom, France and Germany. The Index is used to represent the stock markets of the world's developed countries (countries that are economically, politically and socially mature). It represents approximately one-half of the world's equity markets.

State Street Daily EAFE Index Fund

Rates of Return as of 12/31/98



This investment option profile focuses on the State Street Daily EAFE Index Fund. Information has been supplied by the State Street Daily EAFE Index Fund and has not been verified by FPPA. For information on how you may change your investment options, call FPPA at 1(800) 332-3772 or (303) 770-3772 (in the Denver area). FPPA

Disability Benefits

Statewide Death and Disability Plan

PART THREE

Recent History and Improvements to Death and Disability Benefits

This is Part Three of a continuing series of articles highlighting the benefits under the Statewide Death and Disability Plan.

Disability and death benefits are an important part of the retirement programs administered by FPPA. Here's a refresher on developments in recent years affecting the Statewide Death & Disability Plan.

During the 1995 legislative session a number of issues arose concerning the Statewide Death and Disability Plan. One issue focused on the level of benefits provided by the plan, particularly the lack of distinction between benefits for on and off duty disabilities, and the problem of duty related disability benefits being subject to income tax. This issue was of special concern to the Senate Local Government Committee. Another issue was raised by the Joint Budget Committee, which was primarily one of funding. The committee members expressed their concern with the state providing all of the funding for the death and disability plan, and directed FPPA to create a task force made up of members and employers to develop a plan to eliminate the necessity for state funding by the middle of 1996. The Statewide Death and Disability Plan has been funded almost exclusively by state contributions since its inception in 1980.

There were two pieces of legislation generated by the task force that were later endorsed by the Board of FPPA. Those two pieces of legislation, which ultimately passed through the legislative process, were House Bill 1016 (1996) and House Bill 1370 (1996). While HB-1016 was unanimously supported by the entire task force from the beginning, the final version of HB-1370 was the result of many discussions and compromises on all sides.

House Bill 1016 established a separate statutory determination under the Statewide Death and Disability Plan for those members whose disabilities are the result of an on-duty injury or occupational disease. The bill was designed to take effect upon FPPA's receipt of an IRS ruling which determined that disabilities awarded under the on-duty statutory provisions will be exempt from federal income tax. FPPA received such a ruling in late 1996, and since that time has processed applications for a determination of on-duty status.

House Bill 1370 addressed the future funding of benefits provided under the Statewide Death and Disability Plan. It provided that the state will fund the benefits of members hired prior to January 1, 1997, through the payment of a one time lump sum amount of $39,000,000. For those members hired on or after January 1, 1997, the bill required funding by the members and/or their employers. On the benefit side, the bill provided a guaranteed cost of living adjustment for those members who are found to be totally disabled. In addition, the bill required distribution of a member's separate retirement account under the Statewide Defined Benefit Plan if the member is awarded a disability retirement or the member dies and survivor benefits are awarded. Any amounts paid from the separate retirement account are offset against the benefits provided from the Statewide Death and Disability Plan. Finally, the bill permitted an employer, within a limited time window, to withdraw from the Statewide Death and Disability Plan and establish its own disability and survivor benefit plan.

Many of the terms of this legislation were the result of important compromises reached by the employee and employer representatives who were on the task force. A careful balance was reached by the two groups which runs throughout the legislation. For example, while employees opposed permitting withdrawal from the state plan, employers supported having an opportunity to withdraw. The parties compromised, agreeing that employers would be allowed to withdraw, but that withdrawing employers would only receive a proportionate share of the $39 million lump sum payment from the state. Employers would receive none of the remainder, or corpus, of the fund.

The plan is actuarially sound, with the state relieved of both current and future responsibility for the funding of the plan. As permitted by statute, the FPPA Board approved the reduction of the required local contribution rate to the plan on August 26, 1998, such reduction being effective

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Employers NOTICE

Employers are reminded to process in a timely manner the Statewide Standard Health History Form for all new police officers and firefighters. The form must be filled out completely, signed and notarized prior to the employee starting the job.

If you have any questions regarding proper completion and submission of the health history forms please call FPPA's Accounting Department at (303) 770-3772 or 1-800-332-3772 if calling from outside the Denver area. FPPA

Disability Benefits

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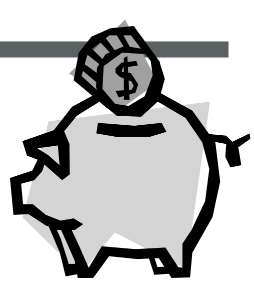
January 1, 1999. The required contribution for the next two years has been reduced from 2.4% to 2.3%.

The past two years have resulted in two potential program changes for the Statewide Death and Disability Plan. In 1997, **House Bill 1213** authorized FPPA to offer a supplemental disability benefit program to members of the statewide plan. Participation in the supplemental program would be voluntary. For those who choose to participate, a monthly contribution from salary is required. A member would select from coverage providing either an additional 10% of pay or an additional 20% of pay in the event of a disability. In 1998, FPPA's actuary studied the contribution amounts that would be required for each level of coverage as well as the minimum participation required for various contribution rates. FPPA will survey its members in 1999 to determine whether there is enough interest in the supplemental benefit to establish a program.

House Bill 1024 was passed in 1998. It allows survivors of police and fire members of the Statewide Death and Disability Plan to seek relief from state and federal income taxes when the plan member's death was in the line of duty or the result of an occupational disease. Also, survivors of members who died prior to the effective date of the bill are granted a two-year period to apply to the Board for a "death-in-the-line-of-duty" determination.

FPPA's investment earnings have been in excess of its actuarially assumed rate over the past two years (since the state's final payment into the plan), which has resulted in actuarial gains for the statewide death and disability fund. Those gains have been allocated to pre-fund the discretionary COLA for occupationally disabled members and survivors. FPPA's Board of Directors approved legislation which will utilize some of those actuarial gains to enhance benefits within the state plan. The two pieces of legislation involving those benefits are discussed in more detail elsewhere in this newsletter. One seeks to eliminate the "remarriage penalty" for survivors of members who die while in active service. The other has already been approved by the legislature and signed by the governor, and as of January 1, 2000 will improve the benefits for totally disabled members from the current tiered structure to a flat 70% of pay, regardless of marital status. Previously, a single member who became totally disabled (and by definition, can no longer be gainfully employed), received 40% of his or her base salary. The Board felt strongly that the benefits needed to be improved for this group of beneficiaries.

In the future, the Board plans to utilize any actuarial gains to first reduce the required contribution rate as allowed by state statute, then to improve benefits for the state's disabled public safety officers and for survivors. FPPA

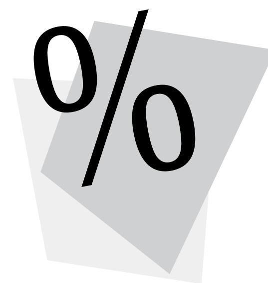


Direct deposit is the safest and most convenient way to secure your pension each month.

Thousands of your fellow retirees are already enjoying the safety and convenience of direct deposit. To join them, call Joyce Nelson or Eloy Maes at (303) 770-3772 or 1-800-332-3772 if calling from outside the Denver area. FPPA

Cost of Living

2.3% Increase Announced Effective October 1



Colorado state statute establishes the criteria for a cost of living adjustment (COLA) to statewide plans administered by FPPA. The criteria states that it is the determination of the FPPA Board of Directors whether a COLA is granted and what amount a COLA may be. The criteria also states that the maximum amount a COLA may be is either the consumer price index or 3%, whichever is less.

Based on the decision of the FPPA Board of Directors, and the 1997 consumer price index of 2.3%, a cost of living adjustment for 1998 was granted for 2.3%.

COLA adjustments are effective every year on October 1. Each percentage announced is cumulative and compounds upon the previous year's percentage. As an example: a January 1997 retiree will receive a 2.3% increase to his retirement benefits from 1997; a retiree from January 1990, due to compounding, is currently receiving a 26.7% increase to his original retirement benefits from 1990.

Statewide Defined Benefit Plan Retirees

The 2.3% COLA for 1998 was granted for all retirees of the Statewide Defined Benefit Plan who were retired before October 1 of last year. Those who retired after October 1 of last year will have their benefit adjusted by the COLA percentage announced next October.

Statewide Death and Disability Plan Members and Survivors

Under the Statewide Death and Disability Plan, **totally disabled** members and survivors are guaranteed a COLA, while **occupationally disabled** members and survivors may be granted a COLA at the discretion of the FPPA Board of Directors. The 1998 COLA announced for both **totally** and **occupationally disabled** members and their survivors was 2.3%. FPPA

GFOA Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to FPPA for its comprehensive annual financial report for the fiscal year ending December 31, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

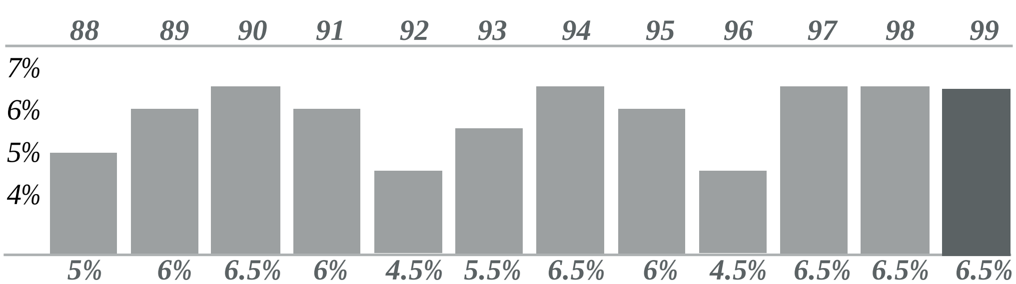
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements. FPPA

6.5% SRA Rate Announced

Statewide Defined Benefit Plan Members

The FPPA Board of Directors has set the 1999 Separate Retirement Account contribution rate for members of the Statewide Defined Benefit Plan at 6.5%. This is the percentage of salary that will be added to the accounts of new hire members. The new SRA contribution rate went into effect January 1, 1999.

The chart below shows the historical percentage rates added to the SRA since inception. FPPA



FPPA PensionCHECK

FPPA Board of Directors

1998-99 Term

front row from left to right
Beth Vega
Marie Hinds, Chair
Kris Gardner, Vice Chair
middle row from left to right
David McConnel
Ron Lappi
Gary West
back row from left to right
Ray Mitchell
Randy Atkinson
Edward Lujan
FPPA Executive Director (not pictured)
Ruth Sieler

Seminar News

1999 Seminar Calendar

Basic Investing • Thursday Evening • May 6th
This seminar is presented by Putnam Investments.

Retiree Seminar • Thursday Morning • August 12th
This seminar covers financial and lifestyle issues in retirement as well as social security and medicare information.

Wills, Estates, Taxes and Trusts • Thursday Evening • November 4th
This seminar will offer practical information on developing financial strategies while planning for the future.

Watch your mail for the announcements and registration forms! For more information contact Gina McGrail at FPPA (1-800) 332-3772 or (303)770-3772. FPPA

Inside This Issue

FPPA PensionCHECK

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