FPPA PensionCHECK

A review of your retirement benefits. *Summer 2000*

Taxcut 2000

What the impact may be.

Proposed Amendment to the Colorado Constitution

Article X, Section 20 (8)(d)

"A $25 tax cut, increased $25 yearly (to $50, $75...), shall lower each tax in each tax bill for each 2001 and later district: utility customer and occupation tax and franchise charge; vehicle sales, use, and ownership tax; yearly income tax; property tax; income and property tax equal to yearly revenue from sales and use taxes on food and drink other than tobacco and alcohol; and income tax equal to yearly revenue from estate taxes. (8)(d) tax cuts and state replacement of local revenue shall not lower state or local excess revenue, the state may limit local acts increasing replacement costs, joint income tax returns equal two tax bills, and attorney fees and costs to enforce (8)(d) shall always be paid to successful plaintiffs only."

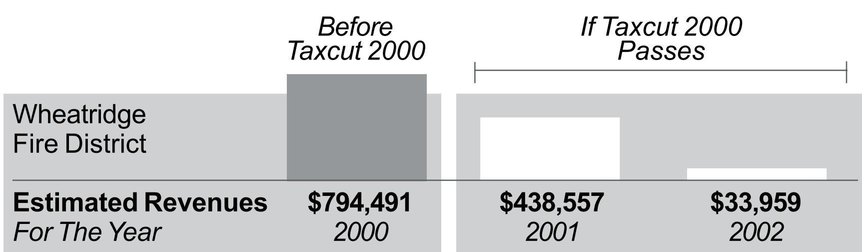
Taxcut 2000 (the "Amendment") is a citizens' initiative to amend the Colorado Constitution. The Amendment, which will be considered by Colorado voters on November 7, 2000, will add a new paragraph to Article X, Section 20 of the Colorado Constitution ("TABOR"). The Amendment has important implications for state and local governments in Colorado. The full text of the Amendment appears in the box to the left.

Taxcut 2000, if passed by the voters, will seriously impact many of the employers we serve. We are including a factual discussion of the ballot question to assist in increasing awareness in the community at large about the initiative and its implications. The FPPA Board of Directors has unanimously adopted a position of opposition to this Amendment. FPPA encourages its members to share this information with their friends and neighbors.

Governments Affected

The Amendment will affect the State and local governments which impose one or more of the taxes described in the Amendment. The Amendment will have the greatest impact on the property tax or State revenue. State and those local governments which are largely funded by sales tax revenue and either (i) have little or no property tax revenue or (ii) depend on the State for little financial support are likely to be the least directly affected. A government which receives property tax revenue from a large number of taxpayers will have a greater revenue loss than a government with the same assessed valuation which receives revenue from a small number of taxpayers.

As an example, Wheatridge Fire District estimates the following changes in its total revenues if Taxcut 2000 is passed by the voters:



Taxes Impacted

The Amendment will cut the following taxes for the State and each local government which imposes such taxes:

(a) utility customer tax, utility occupation tax and utility franchise charge;
(b) vehicle sales, use and ownership taxes;
(c) the State income tax; and
(d) the property tax.

Amount of Tax Cut

Generally, the reduction in the first year is $25 per tax (or for each taxing entity with respect to property taxes), increasing $25 yearly. Accordingly, the tax cut would be $50 in year two, and $75 in year three. In year twenty, each tax cut will be $500 and will continue to increase $25 per year. There is no termination date in the Amendment.

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Legislative News

2001 Legislative Session

On August 23, 2000, the FPPA Board of Directors recommended three bills to be considered by the Pension Reform Commission for introduction during the 2001 legislative session. The Pension Reform Commission has oversight over the FPPA and will be meeting September 13, 2000 to determine which bills will proceed.

Statewide Plan Cleanup Bill

The first bill is the Statewide Plan Cleanup Bill. This bill would be effective in September of 2002, after the adoption of some additional rules. The highlights of the bill are as follows:

- Authorizes the Board to set up processes to expedite approval of survivor and disability applications
- Authorizes the Board to promulgate rules to allow members who are eligible for retirement (normal, early, vested) and Separate Retirement Account (SRA) distributions to defer receipt of such benefits as may be allowed under the Internal Revenue Code, giving members more flexibility
- Provides that a single member's estate shall receive the member's SRA and member's contributions upon death prior to retirement
- Amends the definition of dependent child under the Statewide Death and Disability Plan to allow continued receipt of benefits past age 19 if the child is in high school or if the child is incapacitated and becomes married
- Eliminates earned income offsets and reporting requirements for disability recipients for income earned after the calendar year in which a member attains age 55
- Amends definition of employer to include "fire authority"
- Allows FPPA to release the names and addresses of retirees of an affiliated plan to the local pension board for pension-related purposes only
- Clarifies that "normal retirement age" under the Statewide Defined Benefit Plan is fifty-five years with 25 years of service, unless adjusted by the board based on the annual actuarial valuation
- Amends the benefit for early retirement under the Statewide Defined Benefit Plan to be based on the actuarial equivalent of normal retirement as determined by the board
- Allows a member's designated beneficiary to receive a pension in the event the member dies before electing a payment option.
- Clarifies that a pension election is irrevocable upon deposit of a pension payment
- Allow a more flexible withdrawal process from the Statewide Defined Benefit Plan to the Statewide Money Purchase Plan, useful especially with new plans
- Allows an employer with multiple plans to exercise affiliation and withdrawal options on an individual plan basis
- Excludes members who are participants in the Statewide Money Purchase Plan or a local money purchase plan and who have reached age 55 with 25 years of accumulated service from paying contributions to or receiving benefits from the Statewide Death & Disability Plan.
- Requires an <u>annual</u> actuarial valuation report for the Statewide Death and Disability Plan

continued next page

Legislative News

Continued

- Allows "other employees who provide direct support to the employer's public safety department" to participate in the Statewide Deferred Compensation Plan

Plan End Old Hire Funding Bill
The second bill provides for a method of pro-rating the last year's payments made by the state and an employer to a state-assisted old hire pension plan to bring the plan to full funding. It also requires an annual actuarial study for each state-assisted old hire plan.

Statewide Death & Disability Bill
The third bill provides for survivor benefits for a spouse or child or a spouse and a child at forty percent of the monthly base salary of the member. A spouse with two or more children or three or more dependent children with no spouse would continue to receive a fifty percent benefit. Benefits for the surviving spouse would increase from twenty-five percent to forty percent of the monthly base salary for the spouse's lifetime.

You can view text of these bills on FPPA's website at *www.FPPACO.org*. During the legislative session, there will be links available to track the progress of these bills. FPPA

Tax Cut 2000

Continued

Impact of Property Tax Cut
Generally, for the first year, the property tax revenue for each government which levies a property tax will be reduced $25 per property tax bill. For example, a fire district which would have received $21.50 in revenue from a parcel of property in the first year would receive no revenue from that property if the Amendment passes.

The Title Board estimated that the minimum amount of lost property tax revenue will be approximately $111.4 million for tax bills due in 2002 (which it assumes to be the first property tax collection year to which the Amendment will apply).

Impact of Sales and Use Tax Cut
The specific ownership tax is imposed annually on each vehicle registered in Colorado. The tax is imposed at differing rates depending upon the age of the vehicle and declines each year as the vehicle depreciates. The specific ownership tax is collected by the State Department of Revenue and distributed to each county in proportion to the amount of miles of State highways in each county. At the county level, it is then distributed to each local government which levies a property tax in proportion to the total amount of property taxes levied.

The State Department of Local Affairs estimates that the total revenue lost to local governments in 2001 as a result of this tax cut will be $58.2 million.

It should be noted that smaller taxing entities may be disproportionately impacted by the specific ownership tax cut. Smaller taxing entities are likely to have a larger percentage of their tax revenue cut as a result of the basic property tax cut revenue. Because distribution of specific ownership tax revenue could be based on reduced total tax collections, those smaller entities also may receive a proportionately smaller share of specific ownership tax revenue.

Possible Replacement of Revenue by the State
The express language of the Amendment does not require the State to replace revenue lost by local governments. Earlier versions of the Amendment filed by its proponents did have such a requirement; however, despite the insistence of its drafter that revenue replacement is required, the Amendment does not include this requirement. The only reference in the Amendment to State replacement of local revenue says that if the State does replace revenue, it must do so within the State's existing TABOR revenue limits (it may not be paid from surplus revenue).

If you have any questions about the Tax Cut 2000, visit our website at *www.FPPACO.org* or contact the FPPA Legal Department. FPPA

New Rules Proposed

The FPPA annual public hearing to consider changes to the association's rules and regulations was held on Wednesday, August 23. Most of the amendments adopted by the FPPA Board are designed to bring FPPA rules in line with recently adopted state and federal legislation. Other changes resulted from suggestions made by individual members, employer representatives and FPPA staff.

While many of the changes are relatively minor and technical in nature, the following is a brief overview of the amendments to the rules and how they may affect the membership. Specific language of each amendment is also available upon request from FPPA's legal department or on our website at *www.FPPACO.org*.

Amended Rule 101.03
As amended, this rule has updated the actuarial assumptions used for benefit calculations by increasing the interest rate used in all actuarial equivalent calculations for the Statewide Defined Benefit Plan and the Statewide Death and Disability Plan from 7.5 percent to 8.0 percent per annum, compounded annually, with a cost-of-living adjustment calculated annually.

New Rule 708
The enactment of this rule has implemented House Bill 2000-1005, which is codified at 31-31-402 C.R.S. The FPPA Board is now able to waive the statutory interest charge mandated by Section 31-31-402(4) C.R.S. for new employers in hardship cases.

Amended Rule 304.01
As amended, this rule is a result of the enactment of House Bill 2000-1006. HB 1006 eliminated the possibility of reducing the Separate Retirement Accounts of members of the Statewide Defined Benefit Plan in order to make transfers to the death and disability account. The possibility is no longer necessary because the Statewide Death & Disability Plan is fully funded.

Amended Rule 605.06
As amended, this rule has incorporated the changes required by the 1999 Statewide Money Purchase Pension Plan Election. Members are now able to direct investment of one hundred percent of both their contributions and the employer contributions in any one or a combination of the investment alternatives.

Amended Rule 101.05
As amended, the definition of base salary now conforms with federal law.

Amended Rule 706.05
As amended, this rule has clarified the applicability of disbursement requirements for domestic relationship orders to the Statewide Money Purchase Plan.

Amended Rule 605.02
As amended, this rule now can be cross-referenced with the Colorado Revised Statutes; the rule was needed as a result of the recodification of section numbers in the Colorado Revised Statutes.

Repeal Rule 609
The repeal of this rule was made necessary, as withdrawal from the Statewide Death and Disability Plan is no longer possible.

Copies of all amended rules are currently on file with FPPA. Transcripts of all rule-making proceedings will be available shortly. The new rule changes will also appear in the *FPPA Member Handbook* which will be distributed early next year. In the meantime, any questions concerning the amendments to the rules should be directed to Kevin Lindahl, FPPA General Counsel. FPPA

Contribution Rate

Employers of Statewide Death & Disability Plan Members

For Colorado firefighters and police officers hired on or after January 1, 1997, employers are required to contribute 2.3% of each member's base pay for coverage under the Statewide Death & Disability Plan. The employer, in conjunction with its members, decides who actually pays the contribution. In August the FPPA Board voted to continue the 2.3% required contribution. This rate will be in effect from October 1, 2000 through December 31, 2002. The contribution rate may only be increased or decreased by 0.1% every two years. FPPA

What The Recent Vote Means To Your Pension

Statewide Defined Benefit "New Hire" Plan

Early in July the Board approved the results of the Statewide Defined Benefit Plan "New Hire" election. The election passed an amendment to provide a benefit for all years of service. Specifically, the amendment gives a 2% benefit for each year of service for the first ten years, then a 2.5% benefit for each year of service thereafter.

This table shows the benefit percentages at age 55 for the following hire ages:

If hired at age:	20	25	30	35	40	45
benefit % at age 55 =	82.5%	70.0%	57.5%	45.0%	32.5%	20.0%

This increased benefit accrual formula applies to both normal and vested retirement benefits. The effective date of the amendment will be January 1, 2001. You must work until January 1, 2001 to be eligible for this benefit.

If you want more details on the amendment, please visit FPPA's web site at *www.FPPACO.org* or contact FPPA's benefits department. FPPA

FPPA Executive Staff Changes

FPPA has named Kevin B. Lindahl *(photo at left)* to the position of FPPA General Counsel. A graduate of the University of Denver College of Law, Lindahl was formerly in private practice in Eagle County, Colorado before joining the FPPA Legal Department. Prior to his work in private practice, Lindahl served as the Eagle County Attorney. As General Counsel for FPPA, he will direct the association's legal affairs and legislative initiatives.

Former FPPA General Counsel, Laura C. Harper, has moved to the position of Chief Benefits Officer. The Chief Benefits Officer has primary responsibility for managing the Association's benefits and communication programs, including disability and new hire retirement processing, member and employer education, affiliations, administrative compliance, special projects and supplemental programs. FPPA

Dependents Tuition Assistance Program

Tuition Aid Offered Through The Colorado Student Financial Assistance Programs

Dependents of Colorado law enforcement officers, fire or national guard personnel killed or disabled in the line of duty may apply for **The Dependents Tuition Assistance Program**. The program allows dependents to attend any state-funded college free of tuition, room and board charges for up to six years from date of enrollment. These Colorado student aid awards are appropriated by the state legislature and allocated by the Colorado Commission on Higher Education to eligible Colorado colleges and universities.

This tuition assistance program is awarded by colleges and institutions to students based upon state guidelines. For complete information and details about application procedures and deadlines, contact the applicable college or institution of higher education. Or contact:

Colorado Commission on Higher Education
1300 Broadway, Second Floor
Denver, Colorado 80203
(303) 866-2723
www.state.co.us/cche/

FPPA Board Update

The Chairman of the FPPA Board of Directors for the 2000-2001 session is **Randy Atkinson**. A member since February 2, 1988, Atkinson represents full-time paid firefighters as a Lieutenant with the Denver Fire Department.

Ron Lappi will be the FPPA Board of Directors Vice Chairman for the coming year. Lappi is the Finance Director for the City of Grand Junction. He has been a member of the FPPA Board since 1991 and represents municipal employers.

Ed Lujan and **Kris Gardner** have each been reappointed for another four year term by Governor Bill Owens. Ed Lujan is a Denver Police Captain and represents all full-time paid police officers. Kris Gardner is Senior Vice President at Alpine Banks of Colorado in Glenwood Springs.

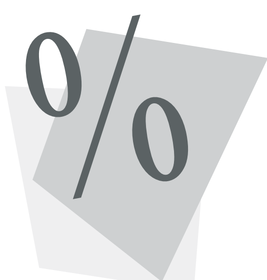
Newly appointed FPPA Board Member, **Leo Johnson** fills the position on the Board to represent Colorado special districts. Johnson currently serves as the Chair of the Board with West Metro Fire Protection District. He is recently retired from Lockeed Martin where he was a Mission Manager.

Representing Colorado municipal employers on the FPPA Board is newly appointed FPPA Board Member **John Bramble**. John is currently the City Manager of Brighton, Colorado.

Also currently serving on the FPPA Board of Directors for the 2000-2001 session are **David McConnel**, **Ray Mitchell** and **Gary West**. FPPA

3% SRA Rate Announced

Statewide Defined Benefit Plan Members



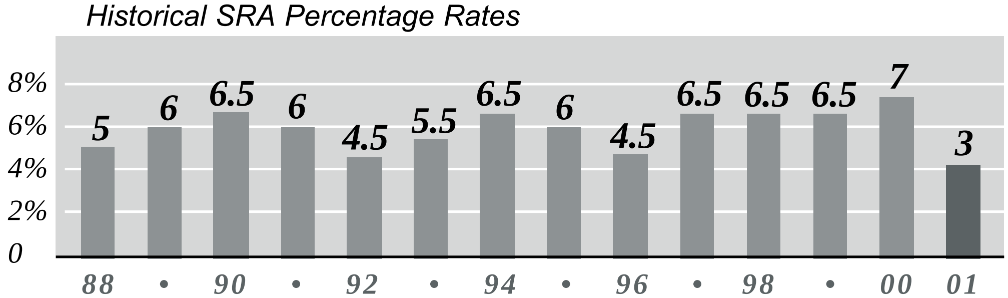
The FPPA Board of Directors has set the 2001 Separate Retirement Account contribution rate for members of the Statewide Defined Benefit Plan at 3%. This is the percentage of salary that will be added to the accounts of new hire members. The new SRA contribution rate will go into effect January 1, 2001.

A Separate Retirement Account (SRA) balance is calculated in the following way. After the 16% combined employee and employer contributions are received to fund the Statewide Defined Benefit Plan and after all of the plan costs are paid, any surplus amount is allocated from employer contributions to an SRA account in each member's name. Each member's SRA will have earnings or losses posted to his/her account on a monthly basis.

The SRA allocation will vary from year to year based on the cost of the Statewide Defined Benefit Plan from the previous year. **The 2001 reduced rate reflects the cost to fund the benefit enhancement passed in July of this year.** (See *What The Recent Vote Means To Your Pension* elsewhere in this newsletter.)

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

Historical SRA Percentage Rates



Cost of Living

2.2% 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 consumer price index of 2.2%, the Board of Directors granted the maximum allowable cost of living adjustment of 2.2% for benefits paid from October 1, 2000 to October 1, 2001.

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 1999 retiree will receive a 2.2% increase to his retirement benefits from 1999; a retiree from January 1990, due to compounding, will receive a 30.1% increase to his original retirement benefits from 1990.

Statewide Defined Benefit Plan Retirees
The 2.2% COLA for 2000 will be 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 2000 COLA announced for both **totally** and **occupationally disabled** members and their survivors is 2.2%. FPPA

Verification Of Account Balances

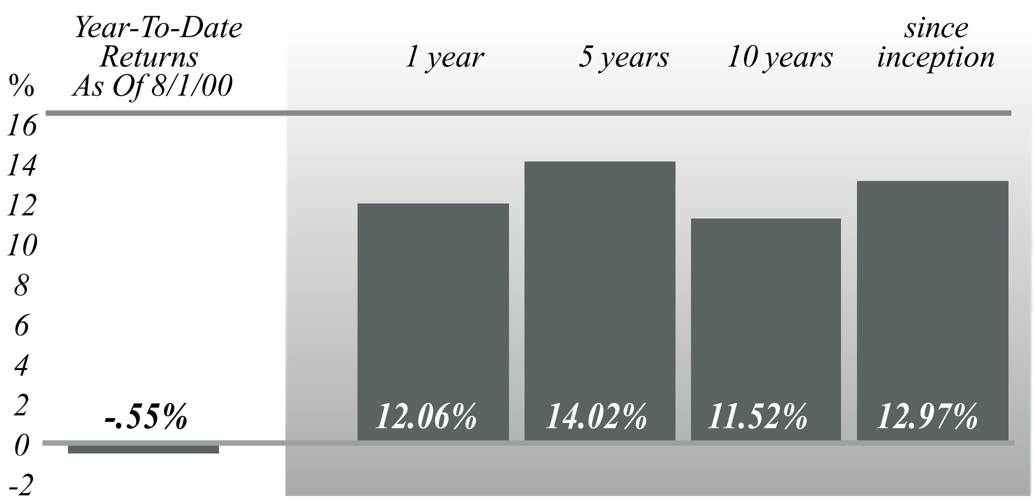
You've finally found the home you're looking for and interest rates have steadied for the next few hours - you're ready to buy!

One of the items your mortgage lender may request is a letter from FPPA verifying your account balance of contributions. Before you give us a call with your request, please keep in mind that we will only mail an account balance verification letter to the last known address we have for you in our data base. If you would like your lender to receive the verification letter directly, we will request a notarized release with your signature giving us permission to mail the information to a specific address other than your own. This procedure is in place as a safeguard to protect the disclosure of your information.

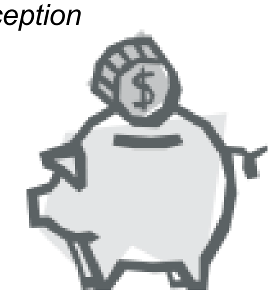
Once we have your request, we can usually process the information and have your letter on its way in 5-7 working days. FPPA

Investment Returns

Rates Of Return: YTD, One, Five Ten, and Since Inception



As of August 1, 2000, FPPA's total assets exceeded $2.61 billion.



Comprehensive Annual Financial Reports

The 1998 Report Is Awarded

And

The 1999 Report Is Now Available

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, 1998**. 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.

The Comprehensive Annual Financial Report for the fiscal year ending **December 31, 1999** is now available for distribution. To request a copy of the report, please contact FPPA at (303) 770-3772 or (800) 322-3772. Or log on to *www.FPPACO.org* to either view, download or print the report. FPPA

Now On The Web

FPPA announces our web site is up and running. On this site you will find information from current events to plan benefits, to election outcomes. Current news and information are highlighted on the first page with links to complete details. The *Calendar* page lists upcoming events such as seminars and board meetings. You'll find e-mail addresses to contact certain departments within FPPA on the *Contacts* page. The *About Us* page includes information about the FPPA Board of Directors as well as current investment and financial information. **The web address is *www.FPPACO.org*.**

The Publications page allows for newsletters, annual reports and plan brochures to be downloaded and printed. Many of the FPPA forms may also be downloaded and printed from this page with even more slated to be added in the future. Links to FPPA Rules and Colorado State Statutes are found on the *Publications* page as well.

All of this is just the beginning. We have many plans for the web site and are looking forward to adding more functions in the future. Stop by the web site and look around.

Seminar Update

Wills, Estates & Trusts Seminar Tuesday November 14th

This seminar will offer practical information on developing financial strategies while planning for the future. The emphasis will be to take an objective look at these issues now and allow you to make rational decisions *before* you are faced with life changing situations in the event the unthinkable happens to you or a loved one.

This seminar features one of our most popular speakers, Harley K. Look, Jr. He is a highly regarded estate and tax planning attorney.

For more information, call Gina McGrail at (303) 770-3772 or (800) 332-3772, or log on to *www.FPPACO.org* and click on the *Calendar* page. FPPA

FPPA PensionCHECK

Fire & Police Pension Association of Colorado

www.FPPACO.org

5290 DTC Parkway
Suite 100
Englewood, CO 80111-2721

(303) **770-3772**
in metro Denver

1 (800) 332-3772
nationwide toll free

(303) 771-7622 *fax*

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