FPPA PensionCHECK

A review of your retirement benefits. Fall 2002

Investment Update

You may have noticed that since the fall of 2001, we have featured in the *FPPA PensionCheck Newsletter* a continuing series of articles entitled *Investment Updates*. These articles are written by the Investments Division of FPPA and are drafted in hopes of addressing concerns you may have about your pension dollars invested in the current markets.

Having said that, members should remember that the fund invested by FPPA represents 'defined benefit' plan assets. The benefits provided by these plans do not fluctuate with changes in the market value of the fund. Long term, however, investment returns must meet or exceed the actuarial rate of return assumptions for the plans in order to avoid an increase in required contributions to the plans.

Turning to the investment results for the third quarter - not since the late 1930's have we had double digit declines in consecutive calendar quarters from the US Stock Market. Among the reasons cited by analysts: the lack of confidence in an economic or market recovery; concern about corporate misdeeds; the possibility of war with Iraq; and a lack of any significant pick-up in corporate earnings.

FPPA's portfolio, like most large pension funds, has a majority of its assets invested in stocks because, long-term, stocks offer the best opportunity to achieve our return objectives. In the short-term, however, our portfolio has suffered during this almost three year bear market in equities. Still, FPPA's portfolio has held up relatively well because it is diversified and includes significant exposure to bonds, real estate and other asset classes.

For the third quarter, the US stock market was down –17.59% and non-US stocks were down –20.12%; FPPA's total fund was down about half that much at -9.79%. Similarly, year-to-date, US stocks are down –28.2% and non-US stocks are down –22.33%, while FPPA's portfolio is again down about half that much at –13%.

Comparing FPPA's asset class returns to returns earned by mutual funds, in the third quarter, the average return for diversified US stock mutual funds was a -17.17%; FPPA's domestic equity portfolio returned -16.85%. The average return for taxable fixed income mutual funds in the third quarter was 1.49%; FPPA's bond portfolio returned 1.98%.

We continue to believe the portfolio is well positioned to achieve its long-term objectives, with 56% targeted for stocks, 29% to bonds, 8% to private equity, 6% to real estate and 1% to cash.

Looking ahead, there are some signs that the economy and markets will recover in the 4th quarter of this year and early next year. The economy is growing at a 2% to 3% annual rate, consumer spending remains strong, inflation is under control and the unemployment picture is improving. In the stock market, many believe valuations of a number of stocks are cheap, there is some good news on the corporate earnings front and thus far in October and November, stocks are rallying. Having said that, we believe the stock market will continue to be volatile, with a lower return environment for both stocks and bonds over the next couple of years.

We are committed to achieving our investment objectives and secure the benefits promised to our members by thinking and acting in accord with our long term, strategic vision for investment markets. FPPA

FPPA Rules Adopted

The FPPA annual public hearing to consider changes to the association's rules and regulations was held on Wednesday, August 28th. 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 technical in nature, the following is a brief overview of just some of the amendments to the rules and how they may affect the membership.

The rule changes accomplishes the following;

- expanded purchase of service credits under the Statewide Defined Benefit Plan,
- provide for the self direction of DROP funds for members in the Statewide Defined Benefit Plan and local plans if authorized by the plan,
- require the payment of contributions under the Statewide Death and Disability Plan while a member, hired after January 1, 1997, is on an authorized leave of absence and provide for certain offsets from benefits,
- expand the definition of dependant child to include any child living in a member's household for which the member has the right to claim the child as a dependent for federal tax purposes,
- implement Senate Bill 2002-26 which modifies the Statewide Death and Disability Plan including but not limited to;
  - differentiating between temporary occupational disabilities and permanent occupational disabilities,
  - requires treatment plans to be ordered for members with temporary occupational disabilities,
  - provides for reexaminations,
  - eliminates earned income offsets for total disabilities and,
  - makes additional provisions for the reinstatement of formerly disabled members,
  - requires that claims for disability be filed within 180 days of the last day on the payroll,
  - allows for the continuing review of the status of an incapacitated child,
  - permits an employer to state additional basis for disability,
  - allows the election of a temporary disability in certain circumstances,
  - provides for the change of disability status,
  - provides for the discontinuance of a temporary occupational disability under certain circumstances,
- include fire authorities as a covered employer and,
- generally clarify and conform the rules to state and federal laws.

A current copy of the rules may be obtained by calling the FPPA office at (303) 770-3772 in the Denver Metro area or (800) 332-3772 toll free nationwide. The rules and regulations are also available on our website at www.FPPACO.org for viewing and/or downloading. Any questions concerning the amendments to the rules should be directed to Kevin Lindahl, FPPA General Counsel. FPPA

Cost of Living Adjustment

Announced For Statewide Plan Retirees & Beneficiaries 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 each year to determine COLA percentages. In previous years, the criteria also stated that the maximum amount of a COLA allowed was governed by the consumer price index or 3%, whichever was less. After the last Statewide Defined Benefit Plan election (held earlier this year) members voted and passed Amendment #1 which stated that the CPI would no longer be a limiting factor in establishing a COLA.

Announced COLA's are effective every year from October 1 to October 1. Each percentage announced is cumulative and compounds upon the previous year's percentage.

Statewide Defined Benefit Plan Retirees
A 2.7% COLA for 2002 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 & Disability Plan, and thanks to recently passed legislation (Senate Bill 02-026) **totally disabled** members will be granted a fixed 3% COLA each year. **Occupationally disabled** members and **survivors of active duty** members will continue to have their COLA determined each year by the FPPA Board of Directors. At its September meeting the Board made a decision to grant a 1% COLA for occupationally disabled members and survivors of active duty members. FPPA

SRA Rate Announced

Statewide Defined Benefit Plan Members

The FPPA Board of Directors has set the 2003 Stabilization Reserve Account contribution rate for members of the Statewide Defined Benefit Plan at .5%. 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, 2003.

A Stabilization Reserve 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.

The original intent of the SRA was to provide an additional retirement benefit for when the cost to fund the plan would fall below 16% (as it has in the last 15 years since inception) and to protect from having to cut benefits or raise contribution rates in the event of unfavorable market conditions.

Additionally, the SRA serves as a resource for the cost of enhanced benefits to the Statewide Defined Benefit Plan. As an example in 2000, the membership elected to provide a benefit percentage for *all* years of service incurred. Specifically, the passed amendment awarded 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 benefit was a significant enhancement to the plan and was funded through a 5% reduction to the SRA in 2000. The SRA absorbed the cost of the enhancement without increased contributions from either the Member or Employer.

The SRA allocation continues to vary from year to year based on the amount of contributions needed to fund the Statewide Defined Benefit Plan from the previous year. Understandably the current poor market conditions (see *Investment Update* on page 1) weighed heavily in the determination of this years percentage. FPPA

Social Security Offsets You Should Know About

Government Pension Offset And The Windfall Elimination Provision

There are two provisions of federal law which currently reduce a person's Social Security benefits if he/she is also receiving a public pension. The Government Pension Offset (GPO) reduces an individual's Social Security survivor benefits (available to a person whose deceased spouse had earned Social Security benefits) by an amount equal to two-thirds of his/her public pension. And the Windfall Elimination Provision (WEP) changes the formula used to figure benefit amounts – reducing an individual's own Social Security benefits (earned while working in a job covered by Social Security).

History of the GPO and WEP

Social Security law prevents "dual entitlement" – or receipt of full Social Security and spousal benefits at the same time. In 1977, Congress began treating public pensions, such as those earned by FPPA members, as Social Security benefits. The effect of this change was a dollar for dollar reduction in Social Security survivor benefits for anyone also earning a public pension. In 1983, Congress amended the law to a two-thirds offset. The WEP was enacted in 1983 to prevent people with relatively high-compensated public service and relatively low-paying Social Security-covered employment from having their Social Security benefits determined under the more favorable formula used for retirees with the lowest Social Security earnings.

Those affected by the GPO and the WEP

The GPO provisions particularly impact public employees who are not covered by Social Security. These individuals receive a public pension rather than Social Security, but retain eligibility for survivor benefits if their spouse (who is covered by Social Security) dies. The WEP primarily affects people who earned a pension from a public pension fund such as FPPA, and also worked at other jobs where they paid Social Security taxes long enough to qualify for retirement or disability benefits. The GPO and WEP impact government employees and retirees in virtually every state, but their impact is most acute in 15 states: Alaska, California, Colorado, Connecticut, Georgia, Illinois, Louisiana, Kentucky, Maine, Massachusetts, Missouri, Nevada, Ohio, Rhode Island, and Texas. Estimates indicate that 9 out of 10 public employees affected by the GPO lose their entire spousal benefit, even though their deceased spouses paid Social Security taxes for many years. The WEP causes public employees outside the Social Security system to lose up to sixty percent of their Social Security benefits.

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For More Information

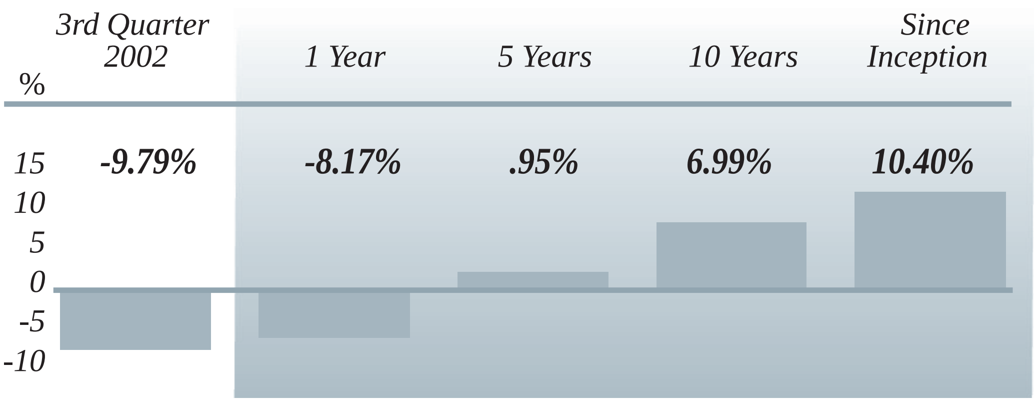
Many FPPA active and retired members are already affected, or will be affected by, the GPO and WEP. Recently there is an effort in congress to modify legislation. For more information about the specific legislation log on to www.retirementsecurity.org or the Social Security web site at www.ssa.gov for answers to many of the questions you may have about either the GPO or WEP. 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 a percentage 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 the August Board meeting, a 2.4% contribution rate was established for 2003 and will remain the same for 2004. According to Colorado State Statute (C.R.S., 31-31-811(4)) contributions may be increased or decreased by 0.1% every two years. The contribution rate for 2001 - 2002 was 2.3%.

Investment Returns as of September 30, 2002



As of September 30, 2002 FPPA's total assets exceeded $1.9 billion.

Investment Returns

Rates Of Return: 3rd Quarter, One, Five And Ten Years, And Since Inception

Supplemental Insurance Now Available

FPPA is pleased to announce that the following new supplemental insurance benefits are now available to our retirees and members.

Prescription Drug Card Program – Everyone needs affordable access to prescriptions and medications. We hope that the Medicare program will bring some relief in this area, but in the meantime, we have negotiated a co-pay card that should be very helpful. PRAM Insurance Services offers a $10 - $15 copay for generic prescriptions and up to a 30% discount on brand name drugs. (This benefit is available for active members and retirees.)

Life Insurance – While employed, you had access to employer-sponsored life insurance. SecureMaster offers many of the same advantages. It provides affordable, comprehensive coverage for all of your basic needs. No matter what your stage in life, you have coverage without purchasing large amounts of insurance. (This benefit is available for active members and retirees.)

Vision Benefit – For several years we have offered (and will continue to offer) the VSP vision plan. We will now be offering an additional vision plan through EyeMed Vision Care that provides three advantages: a choice of two plans (Premier and Preferred); attractive monthly premiums; and access to many more eye doctors all over the U.S. **

Long-Term Care – The need for long-term care can arise suddenly and unexpectedly, such as through an injury or accident, or gradually through the aging process. Generally, Medicare only covers a small portion of LTC expenses, and health insurance plans do not cover long-term care at all. C N A offers long-term care insurance for you and your families. It also comes with a 10-year rate guarantee.

Dental Plan – We first offered the Fortis Dental Plan in January, and we are very pleased with the acceptance of the plan by our retirees. We'd like to remind you of the available coverage and that you can continue to enroll in the plan at any time. **

If you are interested in any of these programs, call the Gemini Group, FPPA's service provider, for additional information and enrollment forms. The Gemini Group may be reached in the Denver Metro area (303) 893-0300 or toll free nationwide at 1-888-795-0300. Ask to speak to Ginger, the FPPA Insurance Coordinator. FPPA

*** If your current medical plan has dental or vision coverage incorporated into it, you may be unable to drop that portion of your coverage. Please check on your current coverage before enrolling in the enclosed dental or vision plans to avoid double coverage.*

If you are interested in any of these programs, call

The Gemini Group

In the Denver Metro area
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Or Toll Free Nationwide
(888) 795-0300

Legislative Update

2003 Legislative Session

The Pension Reform Commission (PRC) is the state legislative oversight committee set up to review and recommend legislation governing fire and police pension plans in Colorado. In the recent fall meeting with the PRC, FPPA staff members presented three proposed bills which they asked the PRC to sponsor during the 2003 legislative session. The three bills, summarized below, along with their sponsors were approved by the PRC and will be introduced when the legislature convenes in January.

Benefit Plan Alternatives For Members Of Money Purchase Plans Bill

Senate Sponsorship

Senator Norma Anderson, Sponsor
Senator Deanna Hanna
Senator Terry Phillips

House Sponsorship

Representative Bill Cadman, Co-Sponsor

This proposed bill will accomplish the following:
The creation of a new Statewide Hybrid Plan.

- FPPA Board is authorized to create a new plan.
  - The terms of the plan to be established after a task force of interested members and employers meet and make recommendations.
  - Members earn a defined benefit and a defined contribution account.
  - The plan document will govern:
    - ► The accrual of service credit and vesting,
    - ► The benefits to be offered based on age and service,
    - ► The allocation of contributions between the defined benefit and the defined contribution,
    - ► Service credit purchase options, and
    - ► The establishment of defined contribution investment alternatives.
  - Contributions are split 8% employer and 8% member; local election available to increase contribution rates.
- Local election into the Statewide Hybrid Plan.
  - Employers with a local money purchase plan, an alternate exempt local money purchase plan, or the Statewide Money Purchase Plan may apply for coverage under the new plan.
  - A department wide election by members is conducted.
  - Members maintain their money purchase balances either within the existing plan or with FPPA.
  - Members vest in money purchase balances based on combined years of service.
  - Members vest in the Statewide Hybrid Plan based on service credit earned or purchased while in the Statewide Hybrid Plan.

Entry allowed into the Statewide Defined Benefit Plan.

- Employers with a local money purchase plan, an alternate exempt local money purchase plan, or the Statewide Money Purchase Plan may apply for coverage under the plan.
- Members maintain their money purchase balances either within the existing plan or with FPPA.
- Members vest in money purchase balances based on combined years of service.

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Legislative Update

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- Members vest in the Statewide Defined Benefit Plan based on service credit earned or purchased while in the Statewide Defined Benefit Plan.
- Based on an actuarial study, the FPPA establishes a continuing rate of contribution for all members who are active upon the date of coverage.
- New members after the date of coverage are treated as new hires under the Statewide Defined Benefit Plan.

Vesting under the Statewide Defined Benefit Plan is changed to five years.

Membership Bill

House Sponsorship

Representative Jim Snook, Sponsor
Representative Ann Ragsdale

Senate Sponsorship

Senator Terry Phillips, Co-Sponsor
Senator Deanna Hanna

This proposed bill will accomplish the following:

- The definition of member includes part-time fire and police officers beginning July 1, 2003.
- Part-time members would be in the Statewide Money Purchase Plan or a local money purchase plan.
- County sheriffs are eligible to participate in the FPPA supplemental social security plan for defined benefits or for death and disability.
- Members of PERA plans are not eligible to participate in the Statewide Death and Disability Plan because they have disability coverage under PERA.

Health Care Defined Benefit Plan Bill

House Sponsorship

Representative Timothy Fritz, Sponsor
Representative Jim Snook
Representative Bill Cadman
Representative Pam Rhodes

Senate Sponsorship

Senator Deanna Hanna, Co-Sponsor
Senator Terry Phillips

This proposed bill will accomplish the following:

FPPA is authorized to create a defined benefit plan to provide assistance in paying health care costs after retirement.

- The plan would be based on years of service.
- A task force would be created to recommend terms of the plan.
- The plan would be implemented if 65% of members in the Statewide Defined Benefit Plan, the Statewide Money Purchase Plan, and/or the Statewide Hybrid Plan vote in favor of adopting the plan. The plan would then be mandatory for all participants in the statewide plans electing coverage.
- Member contributions would be 1% of pay. Employers could “pick up” the contribution.

FPPAPensionCHECK Fire & Police Pension Association of Colorado

www.FPPACO.org
5290 DTC Parkway, Suite 100, Greenwood Village, CO 80111-2721
(303) **770-3772** *in metro Denver,* (800) 332-3772 *toll free nationwide*
(303) 771-7622 *fax*

Inside This Issue

FPPA Board of Directors

2002 - 2003 Term

Governor Bill Owens named two new members to the Fire and Police Pension Association Board of Directors. They are ***Mark Sunderhuse*** *(top photo)*, and ***Mike Sutherland*** *(bottom photo).* At the September 24th Board meeting both Mr. Sunderhuse and Mr. Sutherland officially began their board terms, which will extend until September 1, 2006.

Mark Sunderhuse is currently a principal with Foresight Capital. Previous to joining Foresight, he was a portfolio manager with Berger Funds. Mark fills the slot on the Board representing the financial community with his experience in corporate administration. Mark also serves on the Colorado Energy Assistance Board, the Eleanore Roosevelt Institute Board, the El Pomar Board as well as the Caring for Colorado Advisory Board.

Mike Sutherland currently is a managing partner in the law firm of Sutherland, Tarler & Laugesen of Denver. Mike has legal experience in the areas of workers' compensation, probate & estate planning, and title insurance defense. Mike fills the position on the board representing the business community with expertise in insurance disability claims. Sutherland also serves as a member of the board of the Fox Ridge Improvement Association in Centennial as well as the association's representative to the Centennial Council of Neighborhoods.

Outgoing FPPA board members are, ***Ray Mitchell*** and ***Gary West***. Ray Mitchell served for 13 years on the FPPA Board of Directors as a representative of the financial or business community with experience in the insurance industry. Gary West served on the Board for 8 years with experience in personnel administration. They both leave the board with our gratitude for their service to the membership.

The FPPA Board of Directors accomplishes its business at regular meetings, held ten times a year at the Association's Greenwood Village offices. All meetings are open to the public. FPPA