FPPA PensionCHECK

A review of your retirement benefits. Volume One 2007

Pension Protection Act of 2006

The Federal Government has passed the Pension Protection Act (PPA) of 2006, a massive tax law aimed at strengthening pension funds and providing a multitude of other tax changes. President Bush signed the bill into law on August 17, 2006. While the entire Act is complex in nature and has many components, the following provisions directly affect FPPA members who are qualified public safety officers.

Pension Plan Distributions for Health Insurance Premiums

The PPA allows eligible public safety officers to direct FPPA to make pension plan distributions directly to a health insurance provider or group insurance provider to pay the cost of qualified health insurance premiums on behalf of the Member, his or her spouse, or dependent(s). Up to $3000 of such distributions from the Member's pension plan are then excludable from federal taxable gross income annually. Beneficiaries receiving distributions under these plans are not eligible for this exclusion. Each Member may only take one $3000 exclusion annually even if the member is receiving more than one type of eligible pension.

Eligible Public Safety Officers

This would include all Members of FPPA plans except those who participate as administrative employees of a fire district. Further guidance from the IRS is necessary before FPPA can implement this exclusion for volunteer firefighters. Members must have separated from service by reason of disability or attainment of normal retirement age to be eligible for the exclusion. Further guidance is required from the IRS as to whether a Member who separates from service prior to normal retirement age is eligible to receive the favorable treatment after they reach retirement age. Members who receive an on-duty disability are not eligible because the benefit is not taxable.

Payment of Premiums

The insurance premiums must be paid on behalf of the Member directly to the collection agent for the insurance carrier. Members cannot be reimbursed for expenses they have incurred in order to obtain the advantageous tax treatment.

Qualified Health Insurance Premiums

These are premiums paid for coverage by an accident or health insurance plan or qualified long-term care insurance contract for the Member, spouse, or dependent(s).

Eligible Plans

Payments can be made from FPPA administered pension plans or the Statewide Death and Disability plan. FPPA does not allow these types of distributions from 457(b) plans, DROP accounts, SRA accounts, and volunteer plans.

No deduction for excluded amounts

The Member cannot take into account amounts that are distributed and excluded from federal gross taxable income when computing the itemized medical expense deduction or the deductible self-employed health insurance costs on his or her tax return. Likewise, insurance payments that are already paid through a pre-tax program (such as a spouse's

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Pension Protection Act of 2006

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employer cafeteria plan or Section 125 plan) are not eligible for this exclusion.

Coordination with the Statewide Health Care Defined Benefit Plan (SWHC)
When the IRS gives final approval to the SWHC as requested, Members can participate in the SWHC plan and still receive the additional $3000 annual exclusion under this legislation.

Implementation
Implementation of this new opportunity for exclusion comes with short notice and does require some administrative and technological changes to the process of issuing monthly benefit payments. The following is FPPA's plan and timetable for implementation.

1. Effective for the 2007 tax year, eligible Members who currently have amounts withheld from their monthly benefit payment for employer or FPPA sponsored insurance premiums will have up to the $3000 maximum distribution reported on their 1099 tax form as excluded from gross income without any further action being required. Each of these Members will receive a notice of this exclusion in February of 2007 which explains the details and confirms the qualifications for this exclusion. FPPA will not automatically adjust the Member's tax withholding during the year based on the adjusted gross income.
2. If other employers currently offer participation in health insurance plans to retired Members, the employer should contact FPPA about the possibility of the payment of insurance premiums through pension plan distribution withholding.
3. FPPA is planning to expand the withholding program to include insurance providers of the Member's choice upon receiving further guidance from the IRS.

Waiver of Penalty Tax for Public Safety Employees in a Defined Benefit Plan After Age 50
The Pension Protection Act also provides that after August 17, 2006, a fire fighter or police officer who receives a distribution from an FPPA defined benefit plan, including SRA or DROP distributions, will not be subject to the additional 10% tax required for the distributions made after separation from service and after attainment of age 50. Fire fighters and police officers include all Members of FPPA plans except administrative support employees for fire districts. This new legislation does not include participants in money purchase / defined contribution plans.

Other rules and exceptions under 26 USC 72(t) still apply. The previous exceptions and safe harbors are still in place for Members who do not qualify under this new legislation.

Questions regarding this issue should be directed to Amanda Embree in FPPA's Accounting Department. FPPA

D&D 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.

The contribution was set at 2.6% at the July 2006 Board Meeting. The rate is effective from January 1, 2007 through December 31, 2008. According to Colorado State Statute (C.R.S., 31-31-811(4)) contributions may be increased or decreased by 0.1% every two years as determined by the FPPA Board following an actuarial review. FPPA

Welcome Colorado Springs

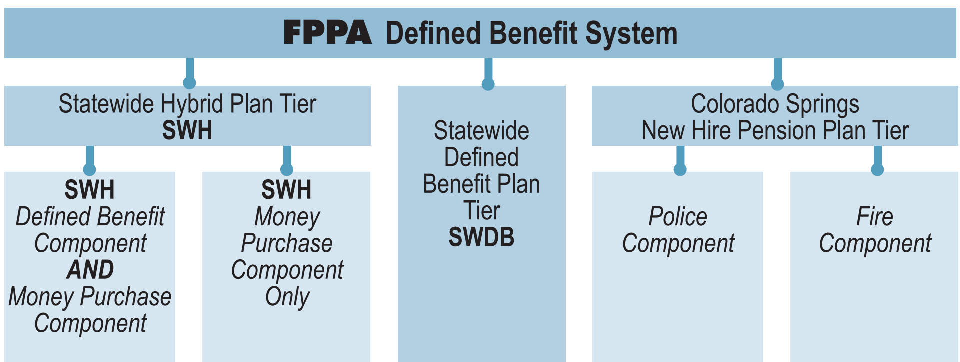
Colorado Springs Fire & Police Pension Plans Transfer Administration of the Plans to FPPA

Effective October 2, 2006 the Colorado Springs New Hire Pension Plan - Police and Fire Components, were added to FPPA for administration purposes.

Historically the assets of the Colorado Springs New Hire Pension Plan have been invested with FPPA since 1989. Colorado Springs Fire & Police officers have also been covered by the Statewide Death & Disability Plan administered by FPPA since 1980.

Colorado Springs New Hire Pension Plan becomes the third tier of the FPPA Defined Benefit System (see chart) typically consisting of Colorado Springs Police Officers and Firefighters hired after April 8, 1978 and prior to October 1, 2006. An actuarial review is in process to determine the cost and feasibility of a member in this tier electing coverage under the Statewide Defined Benefit Plan. The decision to allow this choice will also require joint approval by the FPPA Board and Colorado Springs City Council. If approved, the process would likely be completed by October 2007. New Police Officers and Firefighters hired on or after October 1, 2006 will participate in the FPPA Statewide Defined Benefit Plan. "Old Hires" of the Colorado Springs Pension Plan are not impacted by the change in administration.

For complete information about this transfer please visit our website at www.FPPAco.org.



FPPA Total Assets

As of December 31, 2006 FPPA announced that total assets including defined benefit as well as defined contribution plans inched just over the $3 billion dollar mark to a total of $3.2 billion. FPPA

FPPA Investment Returns

Of Defined Plans as of December 31, 2006

** For trailing 10 years, returns are gross of all fees; since inception is net of pre-1995 private asset management fees.*

New Annual Contribution Limits

For Members of

The 457 Deferred Compensation Plan

The Statewide Money Purchase Plan

The Statewide Hybrid Plan - Money Purchase Component

and

A Local Money Purchase Plan

Below are listed the 2007 Annual Contribution Limits for the FPPA 457 Deferred Compensation Plan as well as the Statewide Money Purchase Plan and local money purchase plans. FPPA

FPPA 457 Deferred Compensation Plan

Contribution Limits

Year	Annual Contribution Limit
2007	$15,500

Catch-up Contribution Limits for Members Age 50 and Older

Year	Catch Up Contribution Limit
2007	$5,000

As an alternative to the age 50 catch-up, a FPPA 457 plan participant is eligible to defer up to twice the contribution limit in effect for the 3 years preceding the employee's normal retirement age.

Statewide Money Purchase Plan, Statewide Hybrid Plan - Money Purchase Component and local money purchase plans

2007 Contribution Limits

The annual limit on total employee and employer contributions to a participant's money purchase plan account is the lesser of $45,000 or 100% of compensation.

Retirement Investing

Think back about 30 years. Individual retirement accounts (IRAs) were just being created. There were no such things as 401(k)s or 457 Plans. Our parents relied on the proverbial three-legged stool to prop them up in their golden years: Social Security, pension checks, and savings. Retirement didn't last too long because life expectancies didn't go far beyond the age of 70.

A Four Part Series of Articles Focusing on Retirement Information.

Retirement 411

Your retirement will be very different. You will live longer, and you'll have a more active (read: expensive) lifestyle. Financial planners project that you will need at least 80-90% of your working income throughout your retirement in order to maintain your standard of living.

When will you retire? 20 years from now, five years, tomorrow? Now think about propping up that retirement three-legged stool with some investments. Starting a 457 Deferred Compensation Plan with FPPA (or the vendor chosen by your employer) is the best way to start. Contributions to a 457 Plan lowers your taxable income dollar for dollar, so you immediately cut your income tax bill. Plus, the investments grow tax-deferred (i.e., you don't pay taxes on the growth and income until you make withdrawals in retirement) leaving more of your money to compound through the years.

With any 457 Deferred Compensation Plan you get both tax deferment and your choice of asset allocation. How you allocate the assets of your 457 Plan should take into account your investing timeline, your tolerance for the market's performance ups and downs, and where your temperament falls on the growth vs. risk spectrum. Looking for long-term growth (read: stocks) or short-term stability and income (read: bonds)? The mix you have in these instruments is something you decide for yourself. FPPA

Part Three

Retirement Investing

Statewide Health Care Defined Benefit Plan Update

Many members and employers have inquired about the status of the Statewide Health Care Defined Benefit Plan. The following explains where we are currently with the implementation of this plan.

FPPA submitted the Statewide Healthcare Plan Document to the IRS for review in May 2004. Since then, FPPA Staff has had several discussions with the IRS regarding provisions in the Plan. IRS representatives have not been able to provide us with an estimated approval date.

FPPA has taken the position that it will not implement the Plan until we are in receipt of IRS approval. One of the keys to a swift implementation was to hold a vote of the membership. As you know, that vote occurred in the Spring of 2005. FPPA Staff does have an action plan in place for Plan implementation after IRS approval is received. While some of the infrastructure has already been set up, work still needs to be completed before the new plan can be made available. This includes:

Communicating to and training for employers about how to submit the new member contribution.

Developing and implementing member communications about when the new member contribution will begin to be deducted from your paychecks, as well as how to access your benefit.

FPPA Staff is unable to accomplish these tasks until we have a definite implementation date for the Plan. We, along with many members and employers, are anxiously awaiting approval so that this new Plan may be made available. FPPA Staff commits to you to work on the implementation action plan just as efficiently as possible once this approval is received.

In the interim, we remain in a holding pattern. We will post any updates to the situation here and on our website. We appreciate the patience and continued interest that our members and employers have shown.

If you have any questions, please contact Elane Ables or Gina McGrail via email or by phone. Email: generalbenefits@fppaco.org. Phone: (303) 770-3772 in the Denver Metro area or Toll Free Statewide at (800) 332-3772. FPPA

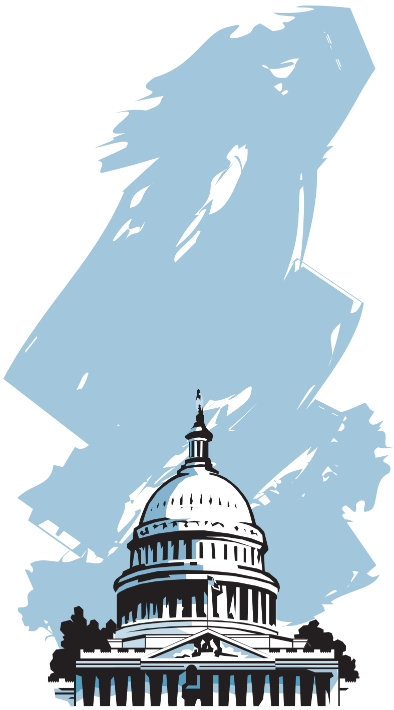
FPPA Rules & Regulations Annual Public Hearing

The FPPA annual public hearing to consider changes to the association's rules and regulations was held on Wednesday, August 28th. 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.

- To implement Plan Amendment Three to the Colorado Revised State Statutes as certified regarding the conversion of an SRA balance or a DROP balance under the Statewide Defined Benefit Plan to a lifetime monthly benefit.
- Provide for the simplification of service credit calculations under the Statewide Defined Benefit Plan as well as the Defined Benefit System,
- To clarify coverage for part-time employees under the Statewide Death and Disability and Statewide Money Purchase Plans,

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

Legislative Update



The following four bills introduced by FPPA and sponsored by the Pension Reform Commission are currently on their way through the 2007 Colorado General Assembly. For complete information and current updates refer to the Colorado State web site at www.colorado.gov

House Bill 07-1024 - FPPA Property Tax Exemption

- The legislation would recognize that property owned and used by FPPA is exempt from real and personal property taxes as FPPA is a political subdivision of the State of Colorado.
- Property owned by FPPA and leased to third parties would be assessed property tax.
- This legislation is necessary because the Colorado Supreme Court has ruled that in order for FPPA property to be exempt from property taxes, the legislature must declare its intent to recognize such exemption. (See Denver v. FPPA, 30 P3d 177 (Supreme Court 2001)

Sponsor	**Co-Sponsor**
House Representative Mike Cerbo	State Senator Lois Tochtrop

House Bill 07-1030 - Contribution Timing

- The legislation would require employers to remit payment of contributions within 10 days of the date of payment of salary for FPPA plans.
- Currently certain plans provide for payment within 10 days after the last day of the pay period. Currently, departments that pay salaries more than once a month may make contributions by the 10th day of the following month. This legislation makes payment for all plans consistent and easier to handle administratively.

Sponsor	**Co-Sponsor**
House Representative Jim Riesberg	State Senator Jack Taylor

House Bill 07-1028 - FPPA Pension Options for Retirees Who Marry

- For members who are single when they retire under the SWDB; or are awarded a disability benefit, choose a single life annuity, subsequently marry and who wish to choose a new benefit option; the legislation requires that the member do so within six months of the date of marriage.
- It also sets a January 1, 2008 deadline for any such existing retired members who were initially single at retirement and subsequently became married and who have not chosen a new benefit option, to elect an option.
- The language also requires that a retiree must survive for 6 months after the date of marriage when an option change is made, in order for the survivor benefit to be payable.

Sponsor	**Co-Sponsor**
House Representative Larry Liston	State Senator Lois Tochtrop

House Bill 07-1029 - FPPA Disability and Survivor Benefits

- The proposed legislation would provide for an offset for any member or survivor who becomes eligible for a death and disability benefit and who also receives a benefit from a defined benefit plan. (This could occur if a member takes an early retirement from one department and subsequently works for a money purchase plan department and then becomes disabled or dies.)
- The legislation simplifies the definition of "dependent child" to any child under the age of 23.
  - This amendment only impacts the pre-2002 occupational disability retirees and survivors who receive a tiered benefit based on whether they have children. The administrative burden of tracking compliance with the current definition outweighs the additional benefit costs.

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Get FPPA Information From FPPA

The very best way to learn about your FPPA benefits is to ask FPPA. We are experts in the specifics of your plan – whether it is defined benefit or money purchase or the newly created Statewide Hybrid Plan. After all, FPPA was created specifically for the Police Officers and Firefighters of Colorado and we have administered their pension plans for over 25 years. We understand our members, their benefits and their retirement goals. FPPA staff can give you benefit information specific to your individual situation – and we charge no fees or commissions.

At some point in your retirement planning you may need information about the bigger retirement picture and you may want to seek advice from a trusted financial advisor. Financial advisors are the generalists in the field of money management. They can assess your overall financial picture with an eye on your investments, savings, debts, insurance, and other big areas of your money life. Some are equipped to offer estate planning advice or input on your tax situation. Many make investment recommendations, such as mutual funds or even specific stocks. The best ones can objectively put your finances into context and help you arrive at the best money moves for your future.

Be cautious of financial planners who infer a relationship with FPPA. FPPA has a record keeping agreement with Fidelity Investments, whose representatives can provide retirement advice for FPPA members at no cost. Other than that - we do not endorse or have affiliations with financial planning firms. FPPA or Fidelity will never give out private member information without the express written consent of our members.

FPPA staff members are experts in the benefits we provide. We are just a phone call away and are happy to answer any plan or benefit question you have. You may call (303) 770-3772 in the Denver Metro area or (800) 332-3772 toll free nationwide. Our web site at www.FPPAco.org is also available to learn more about your benefits. FPPA

GFOA Award Given To FPPA

For The 2005 Comprehensive Annual Financial Report

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, 2005. The Certificate of Achievement is a 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 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

Legislative Update

continued

- Finally, the legislation would change how the income offset is calculated for permanent occupational disabilities.
  - The base salary used would be the previous base salary multiplied by the change in CPI each year instead of the actual base salary used by the department over time.
  - This simplifies the process significantly and will reduce the error rate.
  - Collecting base salary information for disabled members from departments each year has proved time consuming and subject to errors.

Sponsor	**Co-Sponsor**
House Representative Anne McGihon	State Senator Lois Tochtrop

FPPA PensionCHECK Fire & Police Pension Association of Colorado

In This Issue

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(303) 771-7622 *fax*

Upcoming Seminar

Mark your calendar for this event!

It's time to Retire!

Pre-Retirement Planning Seminar

March 24th • 9am - 3:45pm
Denver Police Protective Association
Event Center

If you are within 10 years of retirement, this seminar is for you. From Social Security issues to financial and estate planning, you'll walk away with the most up-to-date retirement information available.

For more information about this seminar, call the phone numbers listed at the top of this page, or log on to www.FPPAco.org and click on the *Calendar* page. **FPPA**