

# FPPA PensionCHECK

*A review of your retirement benefits.*

*Volume Two 2007*

## **Pension Protection Act of 2006**



**A**s we reported in the last issue of Pension Check, the Pension Protection Act of 2006 (PPA) includes a number of provisions applicable to public pension plans. Since then, we have received numerous calls and questions about the PPA, most concerning the federal income tax exclusion for certain retiree health and long-term care insurance premium payments. This article addresses the most frequently asked questions regarding this income tax exclusion. It is important to understand, however, that the PPA is a new law and is quite complex. Many of the provisions of the PPA will require additional clarification from the IRS and other government agencies. The following information in this article reflects FPPA's understanding of the health care premium tax exclusion based on information available at this time.

### *Pension Protection Act of 2006 Questions & Answers.*

**Q.** What is the health care tax benefit under the PPA?

**A.** The PPA permits eligible retired public safety officers (PSO) to exclude from federal income tax, amounts paid directly from retirement plan distributions to cover the cost of certain health and long-term care insurance premiums. The maximum amount of the exclusion in any one year is the lesser of actual premiums paid or \$3,000.

**Q.** Who qualifies as a PSO under the PPA?

**A.** PSO is defined as "an individual serving a public agency in an official capacity, with or without compensation, as a law enforcement officer, as a firefighter, as a chaplain, or as a member of a rescue squad or ambulance crew."

**Q.** What other eligibility requirements apply?

**A.** The individual must have retired at normal retirement age or must be receiving a disability retirement. The individual's benefit must be fully or partially taxable. In addition, FPPA requires that the member's monthly benefit be sufficient to cover the full cost of the member's monthly insurance premium.

**Q.** Which FPPA members do not qualify for the benefit?

**A.** FPPA believes the following members do not qualify: retired administrative support personnel; retirees receiving an early retirement benefit prior to reaching the plan's normal retirement age; members taking a vested retirement who, at the time of separation of service have not reached the plan's normal retirement age; and beneficiaries.

**Q.** Who ultimately determines eligibility for the PPA health care premium tax exclusion?

**A.** It is the responsibility of each individual claiming the exclusion to substantiate PSO eligibility. This responsibility also applies in the event of an IRS audit.

**Q.** When does the PPA health care premium tax exclusion become effective?

**A.** The exclusion may be claimed for tax years beginning with 2007. It may only be claimed, however, to the extent that your retirement plan administrator has implemented a program for the direct payment of health insurance premiums from your retirement or disability benefit. The PPA does not require that employers or adminis-

*Continued on next page.*

## **Pension Protection Act of 2006**

*Continued From  
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trators implement such a program. As discussed below, FPPA already has a program in place for a number of different health care plans. Further, the FPPA Board has made it a priority to establish conditions and procedures for extending the program to other health care plans used by our retirees.

- Q. I am a member of a money purchase plan affiliated with FPPA. May I claim the exclusion?**
- A.** You may qualify as a PSO, but implementation of a direct payment arrangement for your health insurance premiums is subject to implementation by FPPA's record keeper, Fidelity. FPPA will continue to engage Fidelity on this issue, but at this time Fidelity advises that they have no plans to implement a direct payment arrangement.
- Q. May I claim the \$3,000 tax exclusion with respect to insurance premiums which I pay directly to the insurance carrier?**
- A.** No, only premium payments withheld by FPPA from a member's monthly benefit and paid by FPPA to the insurance carrier will qualify.
- Q. With which health insurance providers does FPPA currently have an arrangement for the direct payment of retiree health insurance premiums?**
- A.** FPPA will publish a list of all such plans on its website in the coming weeks.
- Q. My insurance plan/carrier is not one of the plans/carriers having a direct payment arrangement with FPPA. How can I get my plan/carrier included in FPPA's program?**
- A.** FPPA is currently working on the requirements and procedures necessary to include other carriers in the direct payment program. Members should be advised, however, that based on information received from other retirement plans, many carriers do not allow for the payment of premiums by a third party like FPPA. Also, many carriers may not be willing to agree to FPPA requirements for the direct payment of premiums through benefit withholding.
- Q. How do I claim the income tax exclusion for eligible health insurance premium payments?**
- A.** Based on the latest IRS instructions for Form 1099-R and informal advice given by the IRS to another retirement plan, it appears that FPPA will not report the amount of health insurance premium payments made by FPPA on the member's 1099-R. Rather, the member will report the exclusion on his/her income tax return. At this point the IRS has not issued final instructions for the 2007 Form 1040 so it has not been determined where on the form the member can claim the exclusion. FPPA is attempting to verify the informal advice given by the IRS and will update this information as we learn more.
- Q. If FPPA is already withholding and making health care insurance premium payments for me, and I meet the eligibility requirements, is there anything else I need to do in order to claim the exclusion?**
- A.** The PPA requires that a member "elect" to have amounts withheld from the member's pension benefit in order to pay qualified health insurance premiums. FPPA believes the form already submitted by the member to his/her employer or to FPPA, authorizing the withholding and payment of premiums from the member's monthly benefit, constitutes a sufficient "election" in this regard. The election, once made, remains in effect until you cancel it in writing. It does not have to be renewed each year.
- Q. Will FPPA report to me the amount of premium payments it has paid each year on my behalf?**
- A.** We are currently researching what reporting is required, but we anticipate an annual statement will be provided to members. **FPPA**

The FPPA annual public hearing to consider adoption and amendment of the association's rules and regulations was held on Wednesday, February 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.

#### *Amendments to the FPPA Rules & Regulations:*

- to implement an amended definition of base salary to exclude step-up pay in a temporary position expected to last less than six months;
- to amend the Social Security Supplemental Plan allowing members of this plan to purchase service credit at full cost and credit;
- to amend the rules to provide for participation in the Statewide Death & Disability Plan to clarify part-time members as those who work a regular schedule of hours each month;
- to add a new rule to allow for the implementation of the federal Pension Protection Act of 2006 (see the related article elsewhere in this publication).



#### *Amendment to the Statewide Hybrid Plan Rules & Regulations:*

- to provide a process for the application and adoption of partial entry resolutions and to add procedures for a member to elect participation in the Defined Benefit System where the member's employer has applied for coverage under the Defined Benefit System through the partial entry process.

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](http://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**

**A**s of March 31, 2007 FPPA announced that total assets including defined benefit as well as defined contribution plans continues to grow just over the \$3 billion dollar mark to a total of \$3.29 billion. **FPPA**



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

## FPPA Rules & Regulations Annual Public Hearing

## FPPA Total Assets

## FPPA Investment Returns

Of Defined Plans as of March 31, 2007



## The Colorado Legislature Adopts Sudan Divestment Legislation



The killing and torturing of citizens in the region of Sudan called Darfur is considered to be one of the most tragic genocides of our time. Since 2003, the Sudanese government in Khartoum and the government sponsored Janjaweed militia have used rape, displacement, organized starvation and murder to kill more than 400,000 and displace 2.5 million people from Darfur. The United States has imposed some sanctions against Sudan, including restrictions on companies that do business there in American dollars. In addition, many states, now including Colorado, have passed laws requiring their public pension funds to divest holdings in companies which have active business operations in Sudan.

In April Colorado Governor Bill Ritter signed into law House Bill 1184, sponsored by House Speaker Andrew Romanoff (D-Denver) and Senate President Pro Tem Peter Groff (D-Denver), along with 74 other legislators, that requires public pension funds, including FPPA, the Public Employees Retirement Association (PERA), the Colorado County Officials and Employees Retirement Association (CCOERA), Denver Public Schools (DPS), and the Regional Transportation District (RTD) to engage and divest from companies that have business operations in Sudan. Colorado is the tenth state to pass divestment legislation. Nineteen other states are currently considering passing the same or similar legislation.

The bill requires the pension funds to identify their investments in companies that have “active business operations” in Sudan. The definition of “active business operations” excludes humanitarian activity. Once identified, the pension funds are required to divest holdings in those companies that do not cease operations in Sudan and are prohibited from future investments in those companies. While the legislation is complex, pulling funds out of Sudan is quickly becoming a national focus.

FPPA is currently working on implementing the details of the House Bill. The Investment Department has begun a search for a third party advisor to assist in identifying companies with operations in Sudan. Once they have been identified FPPA will screen its portfolio for holdings in such companies and then follow the procedure in the statute for engaging such companies and ultimately divesting holdings in those companies who do not close Sudan operations.

FPPA believes that its investment in companies covered by the legislation represents a relatively minor percentage of its overall investment portfolio. **FPPA**

## Member Search

*We're Looking for  
These FPPA  
Members  
Who May Be Due  
a Refund*



The following individuals have separated service from a Colorado fire or police department and are due a refund from FPPA. Unfortunately, we do not have their current addresses. If you are in contact with anyone listed below, please have them contact FPPA immediately so that we might process their refund. **FPPA**

Member Name	Separated Service From
Bohan, Christopher	Denver Fire
Cruzan, Robert B.	Kiowa FPD
Dominguez, Anthony C.	Silt and Yuma Police
East, Anthony D.	Wray and Haxtun Police
Pacheco, Jason B.	La Salle and Platteville Police
Taylor, Anthony J.	Northwest FPD
Whitfield, Jeffrey D.	Denver Police



**H**ave you recently married or gone through a divorce? Started a family or celebrated your child's entrance into adulthood? Or experienced the death of a loved one? Any of these life events could mean that your beneficiary designation form is no longer up to date. And that could create a big headache for those you leave behind.



"Beneficiary-designation forms are easy to complete, even easier to forget, but so important in keeping your financial assets in order," says William L. Anthes, of the Colorado-based National Endowment for Financial Education® (NEFE®). NEFE is an independent, nonprofit foundation whose mission is to educate Americans about personal finance.

If you wish to update your beneficiary information - request a *Statewide Defined Benefit / Statewide Hybrid Membership Form* from FPPA. Turning in this information will better serve any active member who dies and leaves no surviving spouse or dependent children who are eligible for benefits under the Statewide Death & Dis-

ability Plan. It may also better serve the inactive vested member who dies prior to distribution of benefits, and any active member who is eligible for a Normal Retirement and not participating in DROP.

To receive a *Statewide Defined Benefit / Statewide Hybrid Membership Form* call the FPPA office at (303) 770-3772 in the Denver Metro area or toll free statewide at (800) 332-3772. The form is also available on our web site at [www.FPPAco.org](http://www.FPPAco.org). The link to the form is on the first page of the web site under "What's New?" If you have questions when completing this form, please contact the FPPA Benefits Division. **FPPA**

**T**he annual FPPA Audit Report for the year ending December 31, 2006 has been prepared by the FPPA Accounting Department and is now available on our web site ([www.FPPAco.org](http://www.FPPAco.org)) by clicking the *Employer* button and then selecting the *FPPA Financial Statements & Supplementary Information*.

The FPPA Audit Report is placed into the larger and more comprehensive FPPA Annual Report which will be published in July. The FPPA Annual Report contains general information about the Association, including plan information for the Statewide Plans, investments and returns, actuarial information for the various plans, and statistical data relating to membership and funding.

Many Employers find the FPPA Audit Report of particular interest as they prepare for their own independent audits, while Members find the statistical data and investment information of the Annual Report more informational.

If you do not have access to our web site, you may request a hard copy of the FPPA Audit Report by calling FPPA at (303) 770-3772 in the Denver Metro area or (800) 332-3772 toll free statewide. Availability of the FPPA Annual Report will be announced in the next issue of *PensionCheck* newsletter. **FPPA**

## Who's Your Beneficiary Now?

*For Members of The Statewide Defined Benefit Plan*

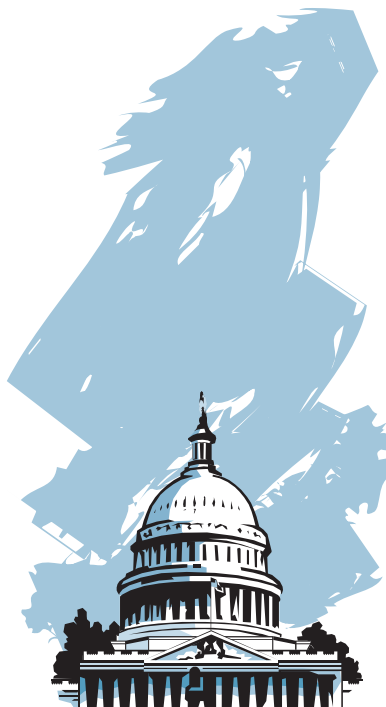
*and*

*The Statewide Hybrid Plan - Defined Component*

## FPPA Audit Report Available

*For Year Ending December 31, 2006*

## Legislative Update



The following bills have successfully made their way through the 2007 General Assembly of the Colorado State Legislative Session. Three of the bills were signed into law by Governor Ritter with House Bill 07-1024 becoming law without his signature.

For the highlights of the following bills visit our web site at [www.FPPAco.org](http://www.FPPAco.org) and click on *Legislation*, and then on *State Legislation*. For the actual legislative language of the following bills visit the Colorado State web site at [www.colorado.gov](http://www.colorado.gov). Once there scroll down and click on the *Colorado Legislature Homepage* link. Then click on either the *House* or *Senate Bills* link which will take you to each of the bills by number.

FPPA wishes to acknowledge the hard work of the Legislative Sponsors and Co-Sponsors of each bill. Their dedication to the FPPA Members is greatly appreciated.

### **House Bill 07-1024 - FPPA Property Tax Exemption**

**Sponsor**

House Representative Mike Cerbo

**Co-Sponsor**

State Senator Lois Tochtrop

### **House Bill 07 - 1030 - Contribution Timing**

**Sponsor**

House Representative Jim Riesberg

**Co-Sponsor**

State Senator Jack Taylor

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

**Sponsor**

House Representative Larry Liston

**Co-Sponsor**

State Senator Lois Tochtrop

### **House Bill 07-1029 - FPPA Disability and Survivor Benefit Clarification**

**Sponsor**

House Representative Anne McGihon

**Co-Sponsor**

State Senator Lois Tochtrop

## Retirement Planning

In the last three issues we explored retirement basics, planning, and investing. Now is the time to consider retirement managing. Experts tell us we'll be spending many more years in retirement than any generation before us. By 2010, the average U.S. life expectancy will be an estimated 78+ years, according to the National Center for Health Statistics 2005.

The implication? Retirement management is more important than ever. You should be just as diligent in the distribution phase of your retirement dollars as you were in the accumulation phase.

*A Four Part Series of Articles Focusing on Retirement Information.*

# Retirement 411

### *Part Four Retirement Managing*



lump sums from these accounts once you retire. Consider of course the tax implications as well. Any of our FPPA Communications or Benefit Representatives may assist you in understanding your options.

And once you've retired - stay on track. Monitor your expenses monthly and make sure they are in line with what you've anticipated. At least twice a year do a check up on your investments. Compare your current asset allocation to your investment strategy and make any necessary adjustments. And at least once a year, or whenever you have a major life change (such as the sale of a home), review your retirement plan to keep your goals and investments strategy working for you. **FPPA**

**G**overnor Bill Ritter has named **Patty Fannin** to the Fire and Police Pension Association Board of Directors. Ms. Fannin is a Pension Administrative Technician in the Finance Department of the City of Colorado Springs. She fills the position on the Board calling for a representative from a Colorado municipal employer. Patty began her term on the FPPA Board of Directors at the May 2007 Board meeting. Her term will extend until September 2010. In addition, **Mark Sunderhuse** and **Monica Cortez-Sangster** were re-appointed by the Governor for another term.



*Patty Fannin*

## FPPA Board Of Directors

2006 - 2007 Term



*Mark Sunderhuse*



*Monica Cortez-Sangster*



*Leo Johnson*

In the September 2006 Board meeting, the Board elected **Monica Cortez-Sangster** as Board Chair, and **Leo Johnson** as Vice Chair. Monica is the Director of Human Resources for the Colorado Department of Personnel & Administration. She fills the required position on the Board for a member who is experienced in insurance dis-

ability claims. Leo fills the position on the Board representing Special Districts. He currently also serves as a trustee of the West Metro Fire Rescue District.

In addition to the Board Members listed above, the following members will also serve during the 2006 - 2007 term. **FPPA**



*Todd Bower*



*John Bramble*



*Kristine Gardner*



*Kirk Miller*



*Stanley Sponsel*

**B**ill Morris, Fire & Police Pension Association CEO announced last fall the appointment of Gina McGrail to the position of Chief Benefits Officer. Gina has been with FPPA for over 16 years and her experience within the organization spans from the Accounting Department to Member Services to her previous position as Communications Supervisor for the Benefits Department. Many members may know Gina as one of the 'always on-the-go' visitation team traveling to all of the Police Departments and Fire Stations throughout the state.



*Gina McGrail*

## Chief Benefits Officer Named

"We're lucky to have Gina taking over the lead in the Benefits Department," Mr. Morris said, "her knowledge and experience with the plans and programs of FPPA make her uniquely qualified to lead the Benefits Department." **FPPA**

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[www.FPPAco.org](http://www.FPPAco.org)

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## Members APB

**FPPA** is currently over 22,000 members strong! That number includes active firefighters and police officers throughout the state as well as survivors and retired members worldwide.

### Survivors or Retired Members

To protect the receipt of benefits to you, FPPA requires that all address changes be submitted in writing. Request a *Change Of Address Form* by calling FPPA or visiting our web site.

### Active Members

You may let us know of an address change by calling (303) 770-3772 in the Denver Metro area or (800) 332-3772 toll free nationwide or by emailing your address change to [addrchanges@FPPAco.org](mailto:addrchanges@FPPAco.org). **FPPA**



Please help us keep up with you by submitting your  
*Change of Address* each time you move.