FPPA PensionCHECK

A review of your retirement benefits. Volume Three 2008

Weathering The Storm

by
Bill Morris, FPPA CEO

An economic slowdown, which first became apparent earlier this year, has accelerated over the last two months and, by most measures, has turned into a global recession. Investment markets have deteriorated as well, with the S&P 500 down -39% year-to-date through November and international stock markets down almost 50% over the same period. Other investment categories, including bonds, real estate and private equity, also have experienced lackluster performance this year.

FPPA's portfolio, like most institutional portfolios, including other public pension plans, is down significantly this year. As of October 31st, the total fund year-to-date return is approximately -25%.

Through postings to our website (FPPAco.org), we have tried to keep members and employers apprised of the FPPA portfolio's performance this year and the possible impact that performance may have on the various plans under FPPA's umbrella. We urge you to review our prior website postings in this regard, but include in this article an updated synopsis by plan category. The synopsis reviews possible actions currently under consideration which may allow FPPA plans to better weather the current crises. However, with respect to retirees, we repeat here the statement posted on our website: If you are a retired defined benefit plan member (and that includes DROP participants), your benefits are fully vested and cannot be reduced.

Statewide Defined Benefit (SWDB) Plan

The SWDB Plan was fortunate to have a funded ratio of over 119% as of January 1, 2008. This ratio, however, will decline as of January 1, 2009, but the amount will depend on the ultimate investment performance achieved through the end of the year, as well as other factors. It now appears likely that the decline in the funded ratio will impact the October 2009 cost of living increase for SWDB Plan retirees. It is possible that the plan will not be able to afford any COLA increase next year. Also to the extent that active member SRA accounts are required to be invested in the same manner as all other fund assets, SRA account balances will decline as of January 1, 2009, based on FPPA's investment performance through year-end 2008. To put this in perspective, however, please keep in mind that for the five years ended December 31, 2007, SRA account balances increased on average over 13% per year.

If you are a retired defined benefit plan member (and that includes DROP participants), your benefits are fully vested and cannot be reduced.

The SWDB Plan has other safeguards in place to ensure the base benefits provided by the Plan are properly funded and secure. These include the use of active member SRA accounts to fund base benefits, the roll-back of certain benefit enhancements and an increase in retirement age. While we remain hopeful that it will not be necessary

continued on page 2

Weathering The Storm

Continued

to implement any of these safeguards, we are researching priorities and implementation issues in this regard and we will keep you fully apprised as we work through this process. Members and employers, however, should take comfort from knowing that FPPA has a lot of "tools in its toolbox" to ensure that base benefits of the SWDB Plan are protected.

Old Hire Plans

In the aggregate, old hire plans affiliated with FPPA had a funded ratio of 90% as of January 1, 2008. However, each plan has its own funded ratio, with some being higher, and some lower, than 90%. Since old hire plan actuarial studies are only conducted every two years, the next studies will not be completed until 2010. If investment performance over 2008 and 2009 combined, is less than the actuarially assumed rate of 8%, per year, the funded ratio of old hire plans will decline. This could result in an increase in required employer contributions in 2011. We are working with our actuaries to develop an estimated impact on the funding of old hire plans based on 2008 investment performance. We will provide this information to members and employers in 2009. In addition, the FPPA Board of Directors ('the Board") is considering proposing legislation for 2009 which would extend the amortization period for funding any old hire plan liabilities. Extending the amortization period would reduce any required contribution for 2011 and subsequent years. (If approved by the Board, FPPA will request its actuary to include information regarding the impact of extending the amortization period in the estimates they prepare for old hire plans early next year.) Finally, given the anticipated decline in funded ratios for old hire plans, the Board strongly discourages plans from considering plan amendments that have an actuarial cost and are based on the January 1, 2008 actuarial studies. The Board may not be able to approve such amendments until new studies are completed which reflect the impact of this year's returns on each plan's funded status.

Colorado Springs New Hire Pension Plans

Both the fire and police plans were close to 100% funded as of January 1, 2008. Again, to the extent FPPA's investment return in 2008 will be substantially less than the 8% actuarial assumption, the funded status of both plans will decline as of January 1, 2009. This will necessitate an increase in contribution rates for 2010. How any increase is allocated to members and the city is governed by the plan documents. As always, we will keep the city and members informed as we work with our actuaries next year on the 2009 studies.

Volunteer Plans

Although much will depend on the funded status of each plan and the extent to which FPPA's 2008 investment returns are below the 8% actuarial assumption, it is likely that most departments will need to increase contributions to their plans in 2010 in order to fully fund the current level of benefits provided by the plans. We will keep departments apprised as we work through the actuarial valuations next year. In addition, as noted for the old hire plans above, the Board strongly discourages plans from adopting plan amendments which have an actuarial cost and are based on the plans' funded status reflected in the January 1, 2007 actuarial studies. Those studies do not include the impact on funding from this year's negative investment returns.

We clearly are in the midst of the most difficult economic and investment environment in our lifetime. Please be assured that the FPPA staff and Board will continue to take all necessary steps to ensure plans are properly funded and retirement benefits are secured. As we concluded in our most recent website memo, "we firmly believe that the American financial system will emerge stronger, the economy will rebound and companies will grow and prosper. We will continue to position the FPPA portfolio based on our long-term investment horizon in order to take advantage of that opportunity." FPPA

CEO Bill Morris Retires From FPPA After 28 Years Of Service

Earlier this year FPPA's CEO Bill Morris announced his intent to retire from the Fire & Police Pension Association. At that time Bill indicated to the Board of Directors he would stay as long as necessary to complete a search for a new CEO. The FPPA Board retained an executive recruitment firm in May and began a national search for Bill's replacement in June. In November, the Board selected Dan Slack of Illinois. Dan will begin work at FPPA at the end of this year. (See related article below.)

Bill Morris came to FPPA in 1983 as the Association's first Staff Attorney. He subsequently was named General Counsel for the Association and, in 1998, was appointed to the newly created role of Chief Investment Officer. Since 2006 Bill has held the office of Chief Executive Officer.

"During my time with FPPA," Bill tells us, "I have worked with many talented and dedicated Board and staff members but I truly believe the current Board and staff are among the best I have had the privilege to work with. That gives me great confidence that FPPA will emerge from what is currently a very challenging environment for all public pension plans, an even better and stronger organization." He continues, "I have always thought that helping to provide retirement security for those who protect the lives and property of all Colorado citizens is a very worthwhile way to spend a career."

Kirk Miller, FPPA Board Chair reports. "After such a long and valued career with FPPA, Bill will be greatly missed in this organization. His many years as General Counsel formulating the majority of this association's early legislation has been instrumental in securing the pension benefits of FPPA members today and for years to come. His contribution to this organization has been highly respected by both the FPPA Board of Directors and Staff. On behalf of the Board of Directors, we extend our gratitude for so many years of dedicated service." FPPA

Dan Slack Accepts CEO Position

Following a national search, the FPPA Board of Directors announced in November the selection of Dan Slack as the Association's next Chief Executive Officer. Previously Mr. Slack was the Executive Director for the State Universities Retirement System (SURS) of Illinois, a $14.5 billion public employee retirement system. Before his appointment as the Executive Director of SURS in 2005, Mr. Slack also served as the System's Associate Executive Director and its General Counsel. Mr. Slack holds an A.B. degree from the University of Illinois, Urbana and a J.D. degree from the University of Illinois, Champaign.

"When making the decision to make the move to FPPA and Colorado," Dan says, "I learned as much as I could about FPPA. I was very impressed with the reputation of FPPA and pleased with the level of respect FPPA has in the industry." Slack continues, "Our family has spent a great deal of time in Colorado and we couldn't be more happy to now call it home."

FPPA Board of Directors' Chairman, Kirk Miller, issued the following statement: "The Board is very pleased to announce the appointment of Dan Slack as the Association's next CEO. Dan has excellent credentials and is well-respected nationally for his expertise as a public pension plan administrator. The Board is confident that Dan will continue to move the Association forward." FPPA

New 3rd Party Insurance Programs Named for HELPS

Information For FPPA Retirees

FPPA Retirees who currently have deductions from their pension benefit for insurance premiums and who qualify for the HELPS component will receive a statement from FPPA for tax purposes by early February.

For complete information about the Heathcare Enhancement for Local Public Safety (HELPS) provision, please visit our web site.

FPPAco.org

In many previous *FPPA PensionCheck* newsletters and on our web site we have informed members about the **Pension Protection Act of 2006** and specifically the **Healthcare Enhancement for Local Public Safety (HELPS)** component. Basically, this component grants eligible retired public safety officers an annual federal income tax exclusion of up to $3000 for amounts paid to cover the cost of qualified health insurance premiums on behalf of the member, his or her spouse, or dependents. To qualify, premiums must be paid through payroll deduction directly from the member's pension plan benefits. Beneficiaries receiving direct distributions from a member's pension plan are not eligible for the exclusion.

There are three categories of health insurance programs (listed to the right). **This particular article addresses ONLY the individual third party insurance program category of qualified insurance programs.**

Currently there are three categories of health insurance programs for which FPPA can make direct premium payments through a deduction from a member's pension benefit.

1
An Employer Group Health or FPPA Sponsored Insurance Program.

2
Certain AARP Plans.

3
Individual Third Party Insurance Programs.

New Third Party Insurance Programs Named

Early in the administration of HELPS FPPA agreed to also include retirees having existing individual policies with third party insurance carriers who comply with FPPA requirements. If you choose to take advantage of HELPS through one of these carriers, visit our web site for more information. To date the following insurance programs have entered into an agreement with FPPA to participate in the program:

American Republic Insurance Company | (800) 247-2190 • AmericanRepublic.com
Blue Cross & Blue Shield of Florida | (904) 791-6111 • bcbsfl.com
Equitable Life & Casuality Insurance Company | (800) 352-5150 • EquiLife.com
Humana Health Plan, Inc. | (800) 351-2857 • Humana-One.com
Reserve National Insurance Company | (800) 654-9106 • ReserveNational.com

The following insurance provider declined to participate in the third party insurance program - **Blue Cross & Blue Shield of Nebraska.** **FPPA**

Member APB

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 may process their refund. **FPPA**

Member Name	Separated Service From
Wade S. Arfsten	Haxtun Police
Carl E. Coonce	Cedaredge Police
Michele A. Dickson	Colorado Springs Police
Scott Jenkins	Colorado Springs Police
Samuel F. Kaufman	Colorado Springs Police
Marc D. Lannum	Denver Fire
Terry K. Lingle, Jr.	Colorado Springs Police
Beth A. Maurello	Pueblo Police
Darrell J. McCord	Denver Fire
Rabun G. Moss	Platteville Police
Scott M. Nauman	Platteville Police
Brian M. Rey	Colorado Springs Police
Andrew D. Mayers	Blackhawk Fire
John D. Vasquez	Center Police

Legislative News

2009 Legislative Session

The following two bills to be introduced by FPPA have been approved and will be sponsored by the Pension Reform Commission for the 2009 Colorado General Assembly. For complete information and current updates, please refer to the Colorado State web site at Colorado.gov.

House Bill to be introduced *- FPPA Pension Plan IRS Qualification*

- Gives the boards of the Statewide Defined Benefit System, Old Hire, and Volunteer pension plans for firefighters and police officers authority to adopt provisions necessary for compliance with IRS code qualification requirements.
- Permits the FPPA to create a master Old Hire plan document and seek IRS qualification approval for the document. Local Old Hire boards could elect, but would not be required, to adopt the document. Permits the FPPA to amend the master Old Hire plan document as necessary to comply with IRS code.
- The requirement that the plans meet the qualification requirements of section 401 of the IRS code remains, but eliminates itemized requirements that were intended to ensure that plans meet the IRS qualification requirements.

Sponsor - House Representative Jeanne Labuda | **Co-sponsor** - Senator Lois Tochtrop

Senate Bill to be introduced *- FPPA Disability and Survivor Benefits*

- Repeals the earned income offset for occupational disability benefits.
- Repeals the dependent child eligibility requirements with regard to education for dependent children between the ages of 19 and 23 for members receiving an occupational disability benefit prior to October 1, 2002.
- Repeals the termination of benefits upon remarriage for survivors of members awarded total disability benefits prior to January 1, 2000, and clarifies the termination statute.
- Repeals the board's authority to implement the supplemental disability benefit program. (This program has never been implemented.)
- Includes an offset for statewide defined benefits for a member or survivor who subsequently receives a disability or survivor benefit from the Statewide Death and Disability plan.
- Includes the requirement for payment by the employer of the excess contribution over the sixteen percent rate for members in the FPPA Defined Benefit System (for those members paying the re-entry rate) who are found temporarily disabled and subsequently receive a normal retirement benefit.
- Clarifies the applicability of on-duty status for temporary occupational benefits and permanent occupational benefits.
- Repeals obsolete language allowing totally disabled members to elect a new survivor benefit upon the implementation of the flat benefit in 2000.

Sponsor -Senator Lois Tochtrop | **Co-sponsor** - House Representative James Riesberg

GFOA Award Given To FPPA

For The 2007 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, 2007. The Certificate of Achievement is a national award recognizing conformance with the highest standards for preparation of state and local government financial reports. 2007 marks the 14th consecutive year FPPA has been given this award.

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. A copy of the comprehensive annual financial report is available on our web site at FPPAco.org. FPPA

2009 Annual Contribution Limits

For Members of

The 457 Deferred Compensation Plan

The Statewide Money Purchase Plan and The Statewide Hybrid Plan - Money Purchase Component

Below are the 2009 Annual Contribution Limits for the FPPA 457 Deferred Compensation Plan, the Statewide Money Purchase Plan, and the Statewide Hybrid Plan - Money Purchase Component. FPPA

FPPA 457 Deferred Compensation Plan

Contribution Limits

Year	Annual Contribution Limit
2009	$16,500

Catch-up Contribution Limits for Members Age 50 and Older

Year	Catch Up Contribution Limit
2009	$5,500

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 and Statewide Hybrid Plan - Money Purchase Component

2009 Contribution Limits

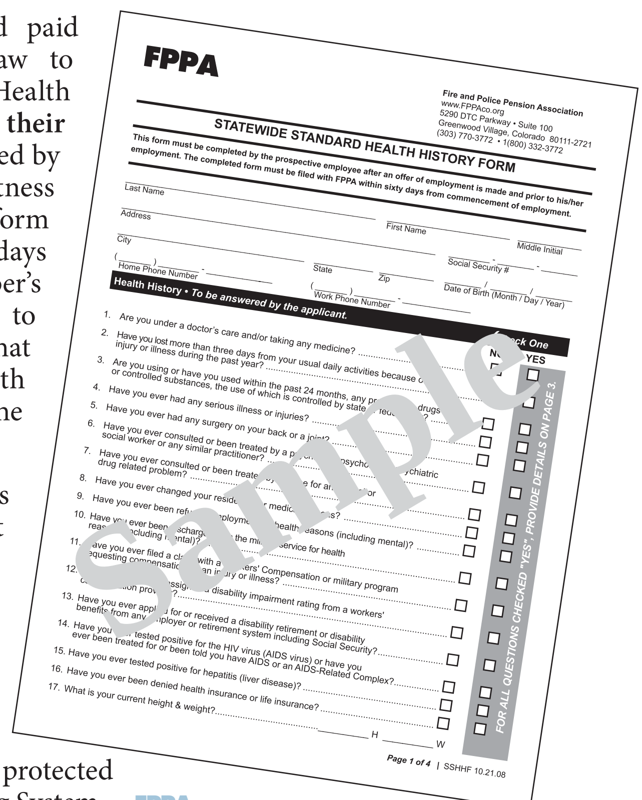
The annual limit on total employee and employer contributions to a participant's money purchase plan account is the lesser of $49,000 or 100% of compensation.

NEW Statewide Standard Health History Form Now Available

Notice to Employers

Every Colorado police officer and paid firefighter is required by state law to complete a Statewide Standard Health History Form **prior to beginning of their employment**. This form must be signed by the prospective member as well as a witness to the signature. Once complete, the form must be filed with FPPA within 60 days from commencement of the member's employment. This form is designed to identify existing medical conditions that could result later in disability or death and that may not be covered under the Statewide Death & Disability Plan.

By now Employers of FPPA members have all received a letter and packet which includes copies of the NEW Statewide Standard Health History forms (dated at the bottom right corner 10.21.08). Employers should throw out any previously dated forms.



The form is also available as a PDF on our web site after the password protected log-in page of the Employer Reporting System. FPPA

FPPA Rules & Regulations Public Hearing

On December 4, 2008, FPPA held a special public rule-making hearing to consider adoption of amendments to:

- FPPA Rules & Regulations for the Statewide Defined Benefit Plan,
- Statewide Hybrid Plan Rules and Regulations,
- Colorado Springs New Hire Pension Plan Rules and Regulations, and
- the adoption of amendments to the Statewide Money Purchase Plan.

The amendments were made in order to ensure compliance of the plans with the Internal Revenue Code regarding governmental pension plans. Generally speaking, the amendments will have little effect on the operation of the plans. The following are highlights of some of the amendments and how they may affect the membership.

- Ensure compliance with new requirements for members returning from military service under the Heroes Earnings and Assistance Relief Tax Act of 2008 (HEART Act of 2008).
- Allow for eligible rollover distributions to and from Roth IRAs as allowed under section 402(c) of the Internal Revenue Code.
- Allow for distributions to nonspouse distributees as provided under section 401(a)(9) of the Internal Revenue Code.
- Ensure compliance with contribution limits under section 415 of the Internal Revenue Code.

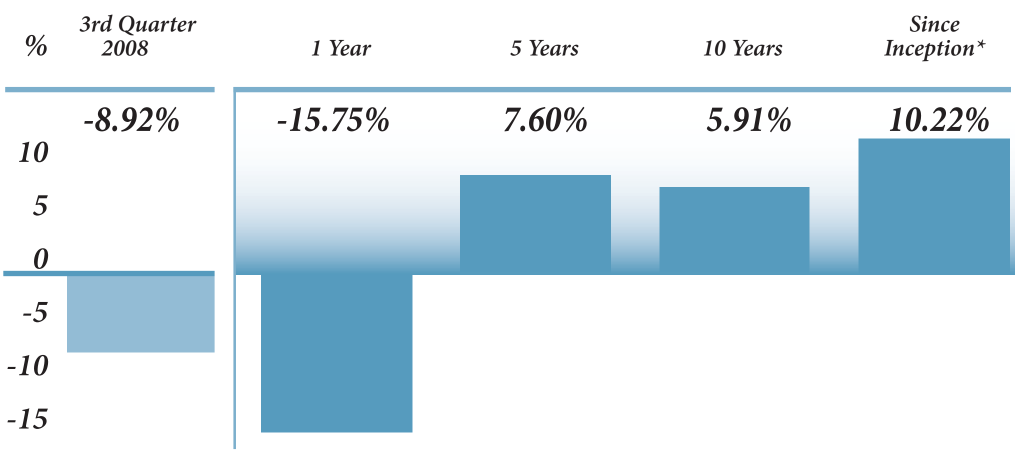
A complete set of current rules and regulations are available on our website at FPPAco.org for viewing and/or downloading. A copy may be obtained by calling the FPPA office at (303) 770-3772 in the Denver Metro area or (800) 332-3772 toll free nationwide. Any questions concerning the amendments to the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

FPPA Total Assets

As of September 30, 2008 FPPA announced that total assets of the defined benefit plans are $2.95 billion. FPPA

FPPA Investment Returns

Of Defined Plans as of September 30, 2008



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

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In This Issue

Newsletter News

Summer Issue
Primary news featured:
Annual Rates Announced, (COLA, SRA, D&D Contributions, etc.)
Legislative News, and Annual Report Highlights.

Winter Issue
Primary news featured:
Year End Returns, Legislation News and Adopted Rules.

In December, the FPPA Board of Directors approved a reduction in the frequency of the FPPA *PensionCheck* newsletter to two times a year. Part of this decision was based on the continual rise of postage over the last few years. The most recent U.S. Postal fee adjustment earlier this year saw self-mailer newsletters like ours realize the largest increase to postage costs compared to letters, postcards and packages. Another component to the decision supports a continuing desire to rely on electronic forms of communication such as our web site.

FPPA Board Chair Kirk Miller reports, "We believe the trend for pension funds similar to ours is to pursue greater usefulness of electronic media like our website. By reducing the number of printed newsletters we mail, we are not only supporting this effort but are also satisfying the main objective which is to always look for ways to preserve pension funds."

The two FPPA *PensionCheck* newsletters will be mailed in Summer and Winter. Listed in the column to the left is a brief list of articles to be featured in each issue. In between those issues our web site will be updated with the most up-to-date information. FPPA

1099-R Forms

FPPA will mail out IRS 1099-R Forms to many of our Retirees by the end of January. Not all Retirees of course will receive the form. Only those Retirees having a taxable gross amount greater than zero or having taxes withheld from their account during the previous year will get an IRS 1099-R Form from FPPA. The statements are provided by FPPA to Retirees for their tax purposes.

If you have any questions about the 1099-R Form once you receive it, please call (303) 770-3772 in Metro Denver or (800) 332-3772 toll free nationwide. FPPA