

FPPA

Defined Benefit System



This plain language document is intended for informational purposes only. Official interpretations or determinations are based upon the statutes, plan document and rules and regulations that govern these plans.

Overview

- Terms - Defined Benefit and Defined Contribution
- Process to Enter FPPA Defined Benefit System
- Details of the Three Retirement Plan Choices Offered Within the Defined Benefit System
- Plan Administration

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Defined Benefit System

Defined Benefit (DB) Plan

- A traditional retirement plan with a promised retirement benefit
- Member receives a defined monthly benefit upon retirement
 - Based on a formula of age, total years of service, and salary
 - Cost-of-living adjustment (COLA) may be awarded annually
 - Optional survivor benefits
- Contributions are directed to and invested in the FPPA Total Fund
- FPPA is responsible for making sure assets are available to provide the pension each member is promised

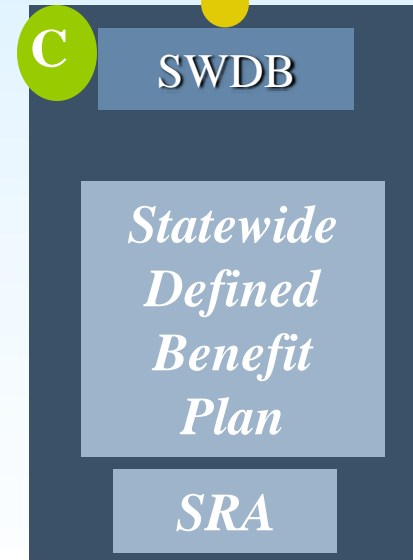
Defined Contribution (DC) Plan

- Commonly referred to as a Money Purchase Plan
- Member has an individual account in his/her name
- Member directs the investments within the account while an active employee
- Member is not promised a set retirement benefit
- Final benefits depend on how much is contributed, the rate of return earned, and the fees paid

FPPA Defined Benefit System

Statewide Hybrid Plan Tier SWH

Statewide Defined Benefit Tier SWDB



Options to Enter the FPPA Defined Benefit System

1. Full Department Entry – All existing active members enter the FPPA Defined Benefit System and have a choice of one of the three plan choices.
2. Partial Department Entry – Members have the choice to stay in current plan or move to FPPA and have a choice of one of the three plan choices.

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Defined Benefit System

Departments that voted for full entry into the FPPA Defined Benefit System

1. Brighton Police
 2. Canon City Police
 3. Carbondale & Rural FPD
 4. Dacono Police
 5. Evans Police
 6. Federal Heights Police and Fire
 7. Florence Police
 8. Lafayette Police
 9. Lake Dillon FPD
 10. Milliken Police
 11. North Metro Fire Rescue
 12. Snake River FPD
 13. Snowmass Wildcat FPD
 14. Trinidad Fire
 15. Westminster Fire
 16. Littleton Fire
-

Partial Department Entry Into the FPPA Defined Benefit System

1. West Metro FPD

Process for Full Department Entry into FPPA's Defined Benefit System

- Employer files a non-binding Resolution
- Six-nine month waiting and planning period
 - Disclosure Statement distributed
 - Meetings with members
 - Membership vote
 - 65% member approval necessary to enter the FPPA Defined Benefit System

Process for Full Department Entry into FPPA's Defined Benefit System

- If the vote is affirmative:
 - Employer files certification of compliance
 - FPPA Board approves certification - *entry is now irrevocable*
 - Enrollment meetings held and each individual member selects their plan of choice:
 - A. Statewide Hybrid Plan - DB & MP Components
 - B. Statewide Hybrid Plan- MP Component only, or
 - C. Statewide Defined Benefit Plan

Process for Partial Department Entry into FPPA's Defined Benefit System

- Employer files a non-binding Resolution
- Six- nine month waiting and planning period
 - Disclosure Statement distributed
 - Meetings with members
 - Each member selects retirement system (FPPA or local plan)

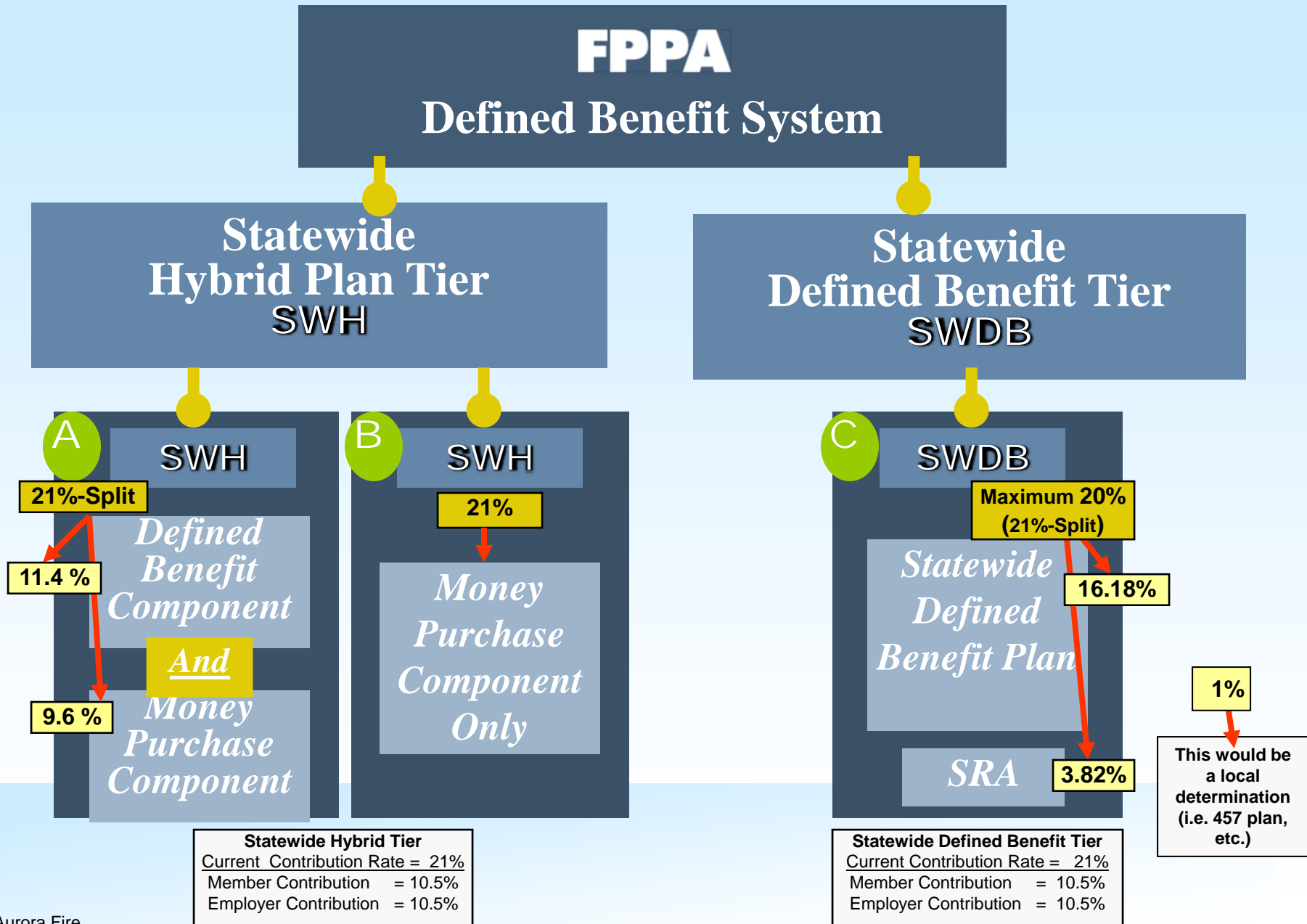
Process for Partial Department Entry into FPPA's Defined Benefit System

- Enrollment meetings held and members who chose FPPA select their plan of choice:
 - A. Statewide Hybrid Plan - DB & MP Components
 - B. Statewide Hybrid Plan- MP Component only, or
 - C. Statewide Defined Benefit Plan

New Members Hired After The Entry Date

- Employer chooses one plan that all new members will enter:
 - Statewide Defined Benefit Plan or
 - Statewide Hybrid Plan – Defined Benefit and Money Purchase Component

The following chart assumes the contribution rate remains at 21% for existing employees



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Statewide Hybrid Plan



Money Purchase Component

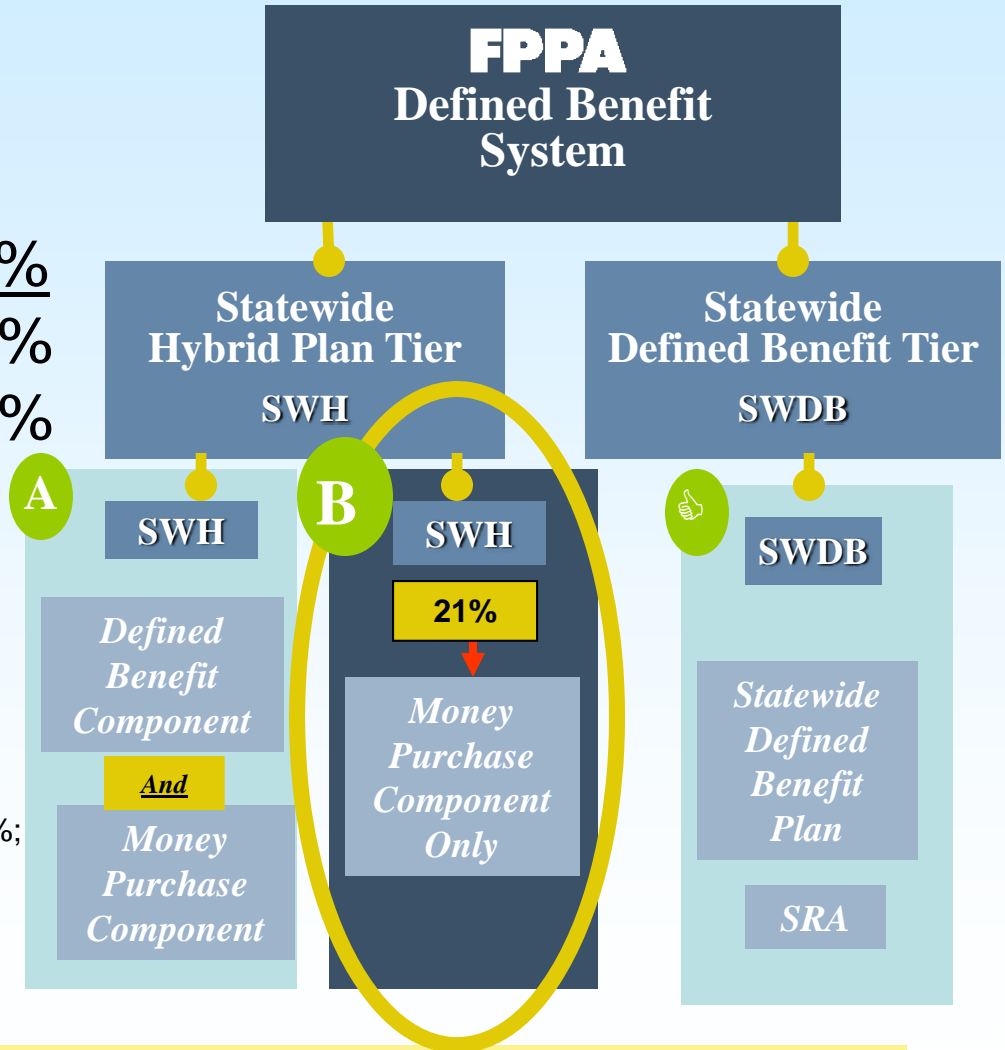
Statewide Hybrid Plan – Money Purchase Component Only

Choice B

Current Contribution = 21.0%
 Member Contribution = 10.5%
 Employer Contribution = 10.5%

21% - directed to Money Purchase Component

Note: this assumes that the contribution rate remains at 21%; this is a local decision.



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Defined Benefit System

Vesting Schedule Money Purchase Component

- Five-year vesting schedule
- Based on combined years of service in member's current Money Purchase Plan **and** the Statewide Hybrid Plan

Statewide Hybrid Plan

Money Purchase Component Only

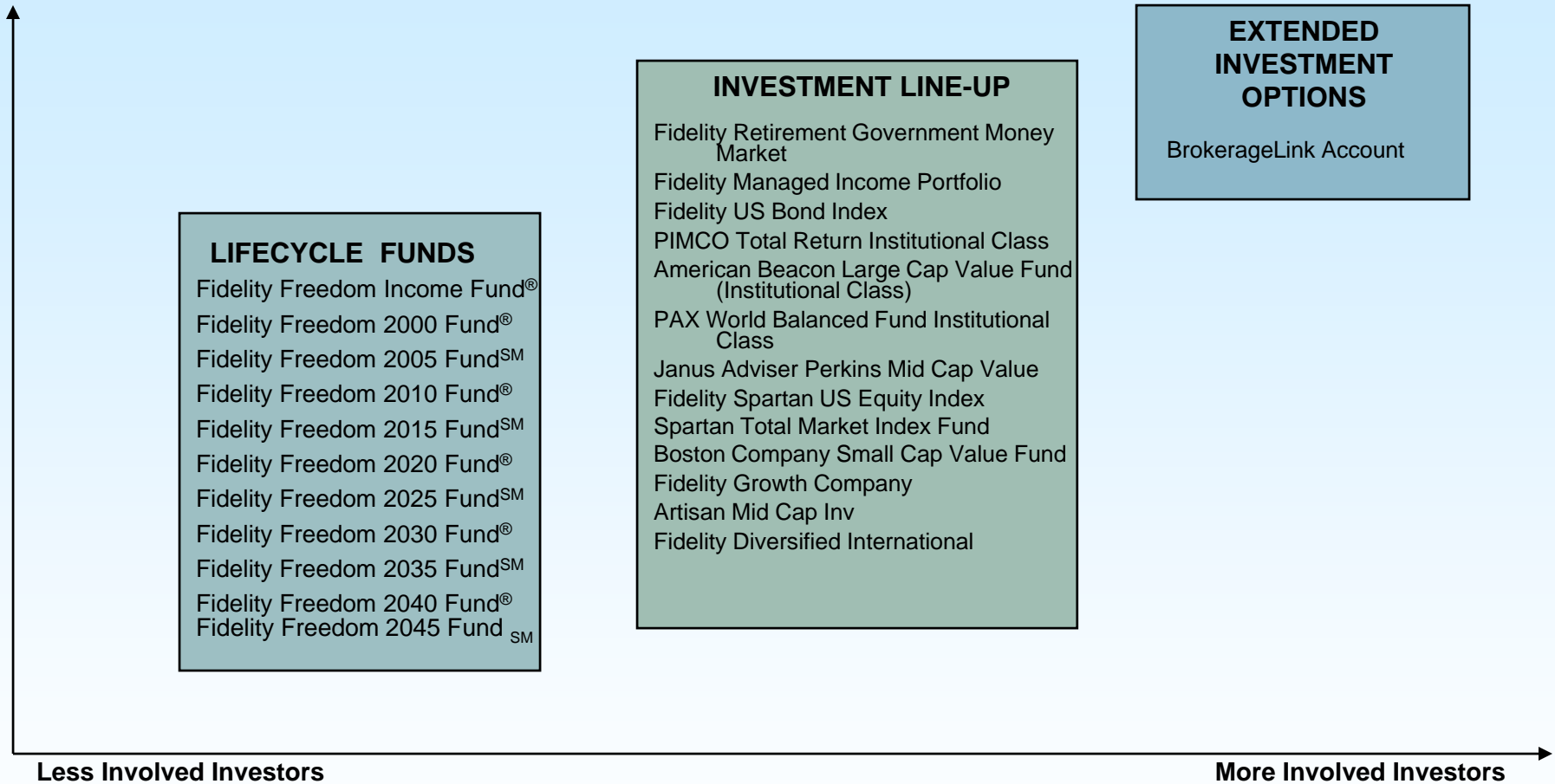
**Money
Purchase
Account**

Payout Options:

- Lump Sum
- Periodic Payments
- Convert to Monthly Lifetime Benefit
- Combination of the above

INVESTMENT MENU STRUCTURE

3-tiered investment approach helps you meet a wide range of needs



Investment Services

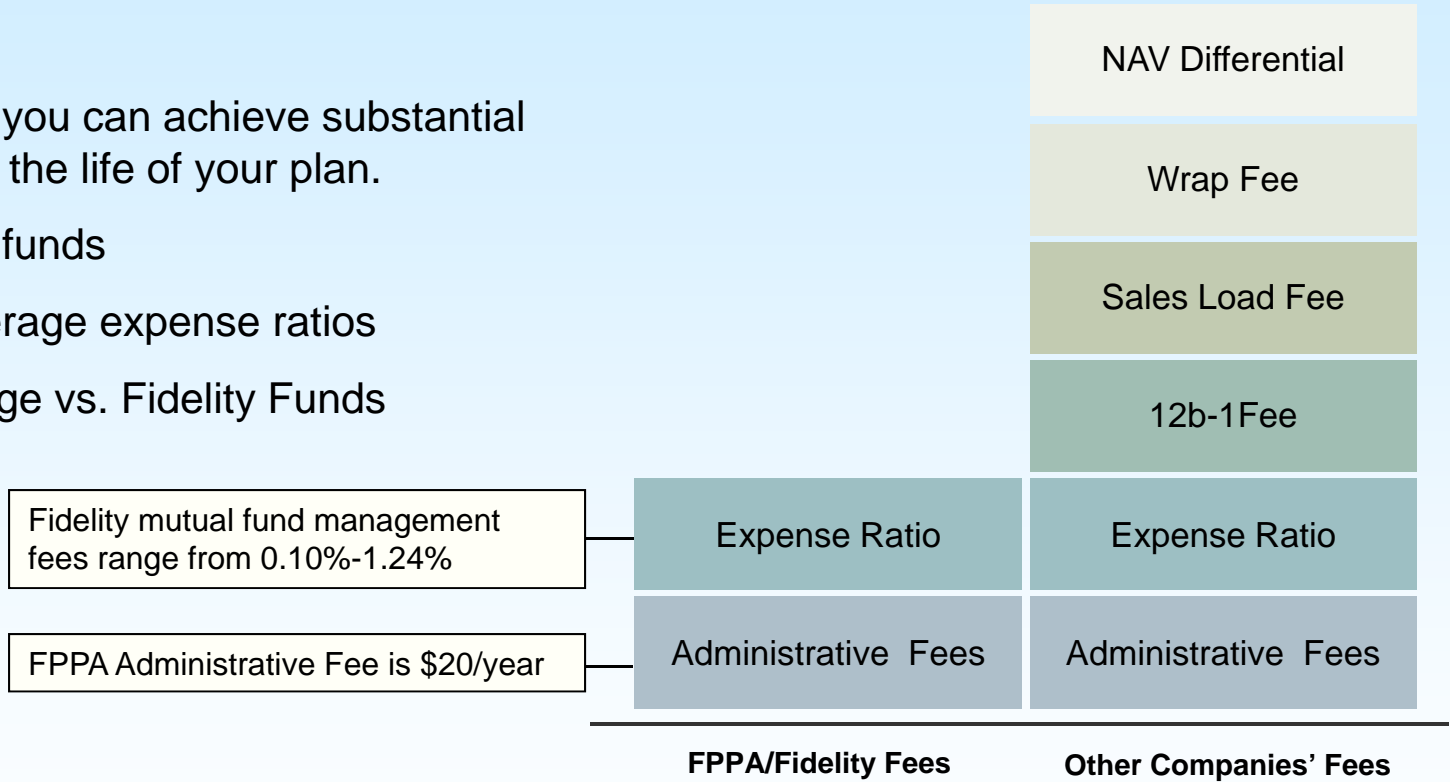


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- With Fidelity you can achieve substantial savings over the life of your plan.
 - No load funds
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- Lipper average vs. Fidelity Funds



Fees



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Statewide Defined Benefit Plan



Statewide Defined Benefit Plan

Choice **C**

Current Contribution = **21.0%**

Member Contribution = **10.5%**

Employer Contribution = **10.5%**

16.18% - directed to
Statewide Defined Benefit Plan

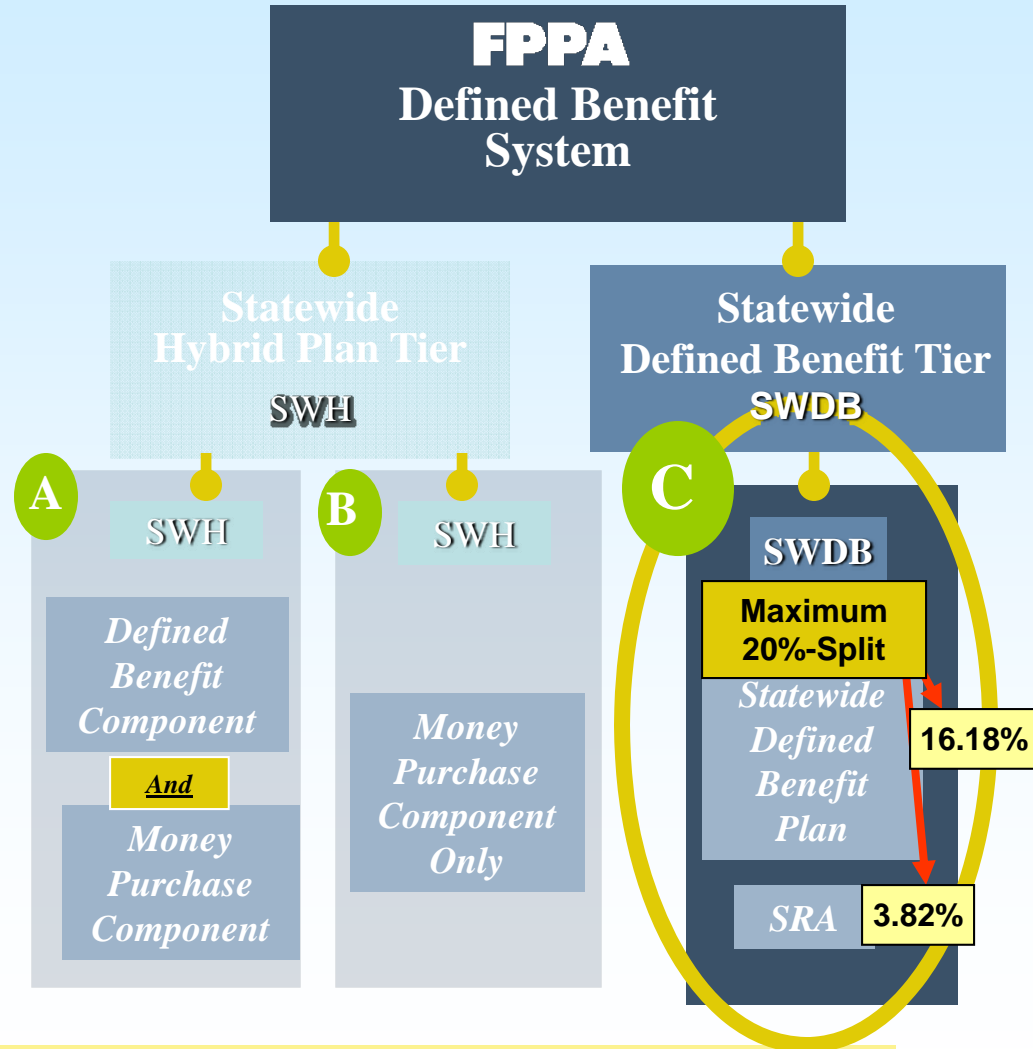
3.82% - directed to
Member's SRA account, currently

1% - local decision; may be directed
to another account (i.e. 457 Deferred
Compensation Plan, etc.)

SWDB Plan can only accept 20%.

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Defined Benefit System



Statewide Defined Benefit Plan

- Normal Retirement
 - 25 years of service and age 55
- Vested Retirement
 - At least 5 years of service, payable at age 55
- Early Retirement
 - 30 years of service or age 50
- Deferred Retirement

Statewide Defined Benefit Plan

Members earn:

- 2% benefit for each year of service for first 10 years
- 2.5% benefit for each year of service thereafter

To calculate monthly lifetime benefit:

$$\begin{array}{|c|} \hline \text{Benefit} \\ \text{Percentage} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Highest Average} \\ \text{3 Years' Salary} \\ \text{(HAS)} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Annual} \\ \text{Pension} \\ \text{Benefit} \\ \hline \end{array} \div \begin{array}{|c|} \hline 12 \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Monthly} \\ \text{Pension} \\ \text{Benefit} \\ \hline \end{array}$$

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Defined Benefit System

Statewide Defined Benefit Plan

Sample Deferred Retirement

- Member retires at age 55 with 25 years of service
- Defers receipt of benefit to:

- **Age 58**
 - Approximately 135.70% of the **benefit** amount
- **Age 60**
 - Approximately 167.63% of the **benefit** amount
- **Age 65**
 - Approximately 294.18% of the **benefit** amount

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Defined Benefit System

Statewide Defined Benefit Plan Cost-of-Living Adjustment (COLA)

- Ad hoc COLA; determined by the Board each year
- Effective October 1st each year
- May begin once a retired member has been receiving retirement benefits for at least 12 months as of October 1st
- Cannot be greater than 3% or the CPI and is dependent upon what the actuarial study indicates the plan can support

Statewide Defined Benefit Plan

- Payout Options
 - Decide this at retirement or upon entry into DROP
 - Normal Option (*Monthly lifetime benefit for member only*)
 - Five Optional Survivor Benefits

Additional Features of the Statewide Defined Benefit Plan

Separate Retirement Account
(SRA)

Deferred Retirement Option Plan
(DROP)

Separate Retirement Account (SRA)

- Comprised of excess employer contributions
- May be used to stabilize the defined benefit plan in the case of actuarial necessity
- Invested in the Members Benefit Fund
- Vested upon retirement approval

Deferred Retirement Option Plan (DROP)

- Must be eligible for
 - Normal Retirement,
 - Vested Retirement (and age 55) or
 - Early Retirement
- Instead of terminating employment and receiving benefit, a member may elect to enter DROP and work up to an additional 5 years

Before DROP

DROP

DROP Entry Date

- FPPA Retirement Benefit has been determined
- Payment Option Chosen

- Continue to work and receive salary for up to 5 years

Salary

Defined Benefit
Earning Service Credit

10% of Base Salary Employee Contribution

10% of Base Salary Employer Contribution

➤ Employer Contributions Stop

10% EE

**FPPA
Defined
Benefit**

DROP Account

Two Funding Sources:

1. FPPA Defined Benefit
2. 10% Employee Contribution

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Defined Benefit System

Sample DROP Calculations

Statewide Defined Benefit Plan

3 Year DROP

- Salary: **\$55,000**
- Age: **55**
- Benefit %: **57.5%**
- Member Contribution: **10%**
 - ✓ **67.5%** Funds the DROP
- DROP Period: **Age 55-58**
- DROP Total: **\$125,816**
- Projected payout over 25 years = **\$795/ month** (Age 58–83)
- (Assumed 6% earnings on DROP)

5 Year DROP

- Salary: **\$55,000**
- Age: **55**
- Benefit %: **57.5%**
- Member Contribution: **10%**
 - ✓ **67.5%** Funds the DROP
- DROP Period: **Age 55-60**
- DROP Total: **\$229,069**
- Projected payout over 25 years = **\$1,447/ month** (Age 60–85)
- (Assumed 6% earnings on DROP)

Payout Options

DROP Account
SRA Account
Money Purchase Account

1. Lump Sum

2. Periodic Payments

3. Convert to a Monthly Lifetime Benefit

- Actuarial calculation based on account balance, age, mortality tables, earnings assumption
- Monthly lifetime benefit that includes:
 - Survivor Options
 - Maximum 3% COLA

These payout options can apply to all or a portion of the above account balances

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Defined Benefit System

Statewide Defined Benefit Plan

- Refunds
 - Member contributions plus 5% as interest
 - Funds paid to FPPA to purchase service credit are considered member contributions
 - Vested members may elect a refund of contributions in lieu of a defined benefit retirement

Purchasing Service Credit

- Cost is based on the member's age and salary at the time of purchase
- Purchasing Service Calculators are on FPPA's web site at www.fppaco.org

Purchasing Service Credit

- Purchasing service credit is an option, not a requirement
- Service purchases must be completed prior to retirement or entering DROP

Cost to Purchase Service Credit

For estimate purposes only

Annual Salary x Age Factor x Years of Service You Want to Purchase = Cost

Statewide Defined Benefit Plan

Age (at time of purchase)	Factor
20	.08842
25	.10705
30	.12968
35	.15718
40	.19058
45	.23150
50	.28199
55	.34549
60	.31281

Example: 45 year-old member currently earning \$48,000 annually, wants to purchase 5 years of service credit in the **SWDB Plan**.

The cost would be calculated as:

$$\$48,000 \times .23150 \times 5 = \mathbf{\$55,560}$$

Statewide Hybrid Plan

Age (at time of purchase)	Factor
20	.05305
25	.06423
30	.07781
35	.09431
40	.11435
45	.13890
50	.16919
55	.20729
60	.18768

Example: 45 year-old member currently earning \$48,000 annually, wants to purchase 5 years of service credit in the **SWH Plan**.

The cost would be calculated as:

$$\$48,000 \times .13890 \times 5 = \mathbf{\$33,336}$$

The above charts are samples of the factors used. There is a separate factor for each age, specific to both the year and month. These factors assume a 3% Cost-of-Living-Adjustment (COLA).



Funded Status

- Historically, the FPPA SWDB Plan has not had an unfunded liability
- As of the 1/1/2009 actuarial study:
 - SWDB Plan's funding level is 101.1%
 - SWH Plan - DB component's funding level is 128.1%
 - FPPA's gross annualized rate of return from inception through 12/31/08 is 9.47%
 - FPPA's gross rate of return year-to-date as of 8/31/09 is 12.7318%

Actuarial Soundness

- The 2010 actuarial study will likely reflect a funded ratio of less than 100% due to asset smoothing (realizing the 2008 loss over a 3 year period)
- FPPA still expects that the SWDB Plan will be “actuarially sound”.
- An unfunded liability is not uncommon in a DB plan.
- Per statute, the SWDB must remain “actuarially sound” which means:
 - Contributions must be sufficient to pay the annual current service cost and to amortize any unfunded accrued liability over a period not to exceed forty years.

- If the SWDB Plan's funding level ever decreased to the point that the plan was no longer considered "actuarially sound" there are safeguards in place that could be engaged.
- FPPA does not anticipate this scenario, except under severe market conditions.

Safeguards

- Eliminate excesses held to pre-fund future discretionary COLAs
- Reduce Separate Retirement Accounts (SRA) or future allocations
- Eliminate some of the Plan Amendments voted in by the membership
- Increase normal retirement age to age 60 (incrementally)
 - Age can be increased for active members who have not retired
 - Age cannot be increased for members who are retired or applied for a vested retirement, separated service and are waiting for age 55
- Age would only be increased for actuarial necessity. FPPA has no intention of increasing age at any point in the foreseeable future
- Under current law the FPPA Board can pursue legislation to increase contribution rates, but only after eliminating the safeguards listed above
- Also, the contribution rate could be changed through legislation.

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Defined Benefit System

Proposed Legislation

- 2010 legislation, if enacted, would permit active members to vote on an increased member contribution rate
 - Proactive measure
 - Having legislation in place would give the FPPA Board, in conjunction, with the Members, more flexibility to react to changing market conditions.

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Statewide Hybrid Plan



Defined Benefit
& Money
Purchase
Components

Statewide Hybrid Plan – Defined Benefit and Money Purchase Component

Choice A

Current Contribution = 21.0%

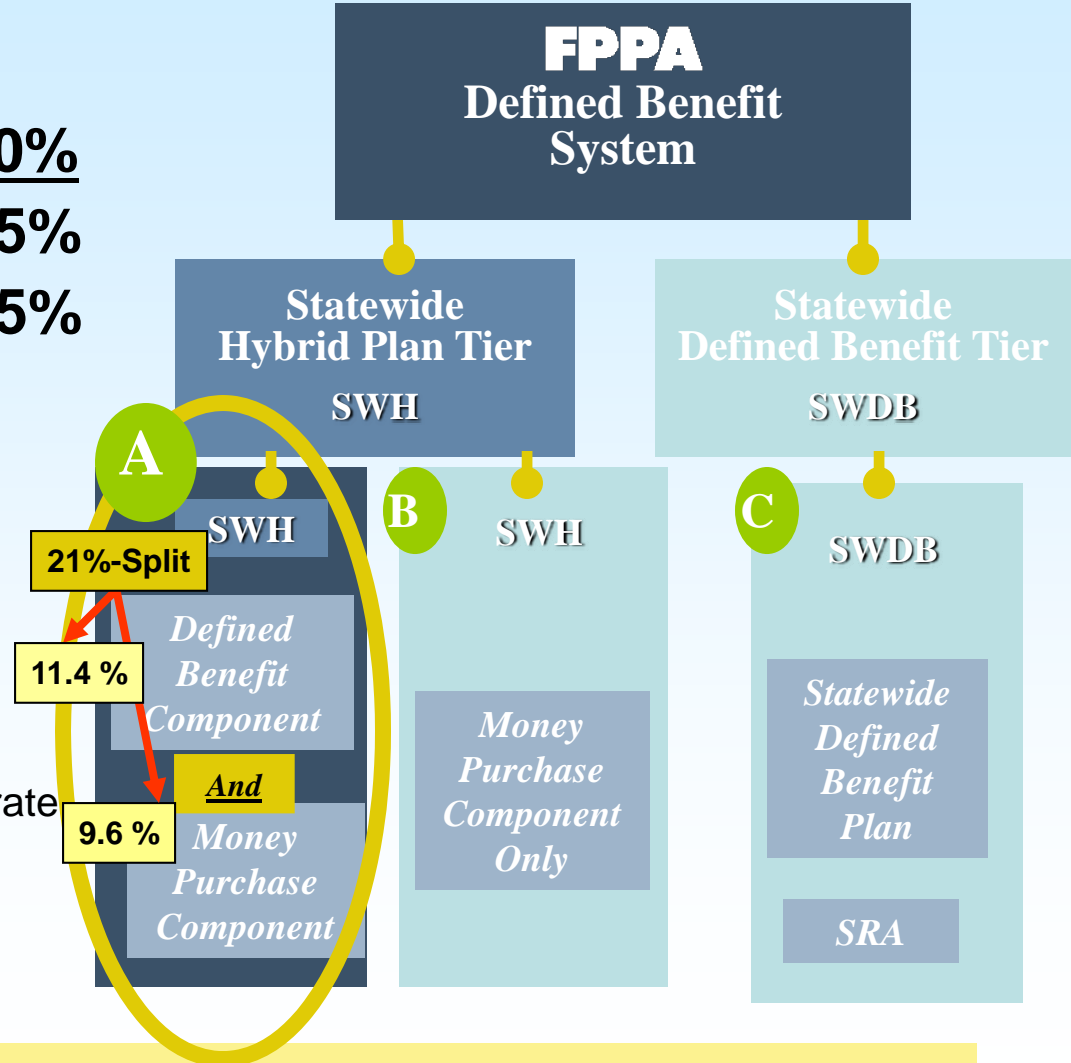
Member Contribution = 10.5%

Employer Contribution = 10.5%

11.4% - directed to Defined Benefit Component

9.6% - directed to Money Purchase Component

Note: this assumes that the contribution rate remains at 21%; this is a local decision.



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Defined Benefit System

Statewide Hybrid Plan DB Component

Benefit Calculation = $1\frac{1}{2}$ % for each year of service credit

- Normal Retirement
- Vested Retirement
- Early Retirement
- Deferred Retirement

Statewide Hybrid Plan DB Component

- Payout Options
- Refunds
- Deferred Retirement Option Plan (DROP)

Sample DROP Calculations

Statewide Hybrid Plan- DB Component

3 Year DROP

- Salary: **\$55,000**
- Age: **55**
- Benefit %: **37.5%**
- Member Contribution: **10.0%**
 - ✓ **47.5%** Funds the DROP
- DROP Period: **Age 55-58**
- DROP Total: **\$88,701**
- Projected payout over 25 years = **\$560/ month** (Age 58–83)
 - (Assumed 6% earnings on DROP)

5 Year DROP

- Salary: **\$55,000**
- Age: **55**
- Benefit %: **37.5%**
- Member Contribution: **10.0%**
 - ✓ **47.5%** Funds the DROP
- DROP Period: **Age 55-60**
- DROP Total: **\$161,494**
- Projected payout over 25 years = **\$1,020/ month** (Age 60–85)
 - (Assumed 6% earnings on DROP)

Purchasing Service Credit in the Statewide Hybrid Plan - Defined Benefit Component

- Less expensive than purchasing service credit in the Statewide Defined Benefit Plan
- Purchasing a different benefit percentage

Purchasing Service Credit

- Cost is based on the member's age and salary at the time of purchase
- Purchasing Service Calculators are on FPPA's web site at www.fppaco.org

Purchasing Service Credit

- Purchasing service credit is an option, not a requirement
- Service purchases must be completed prior to retirement or entering DROP

Statewide Hybrid Plan

Money Purchase Component Only

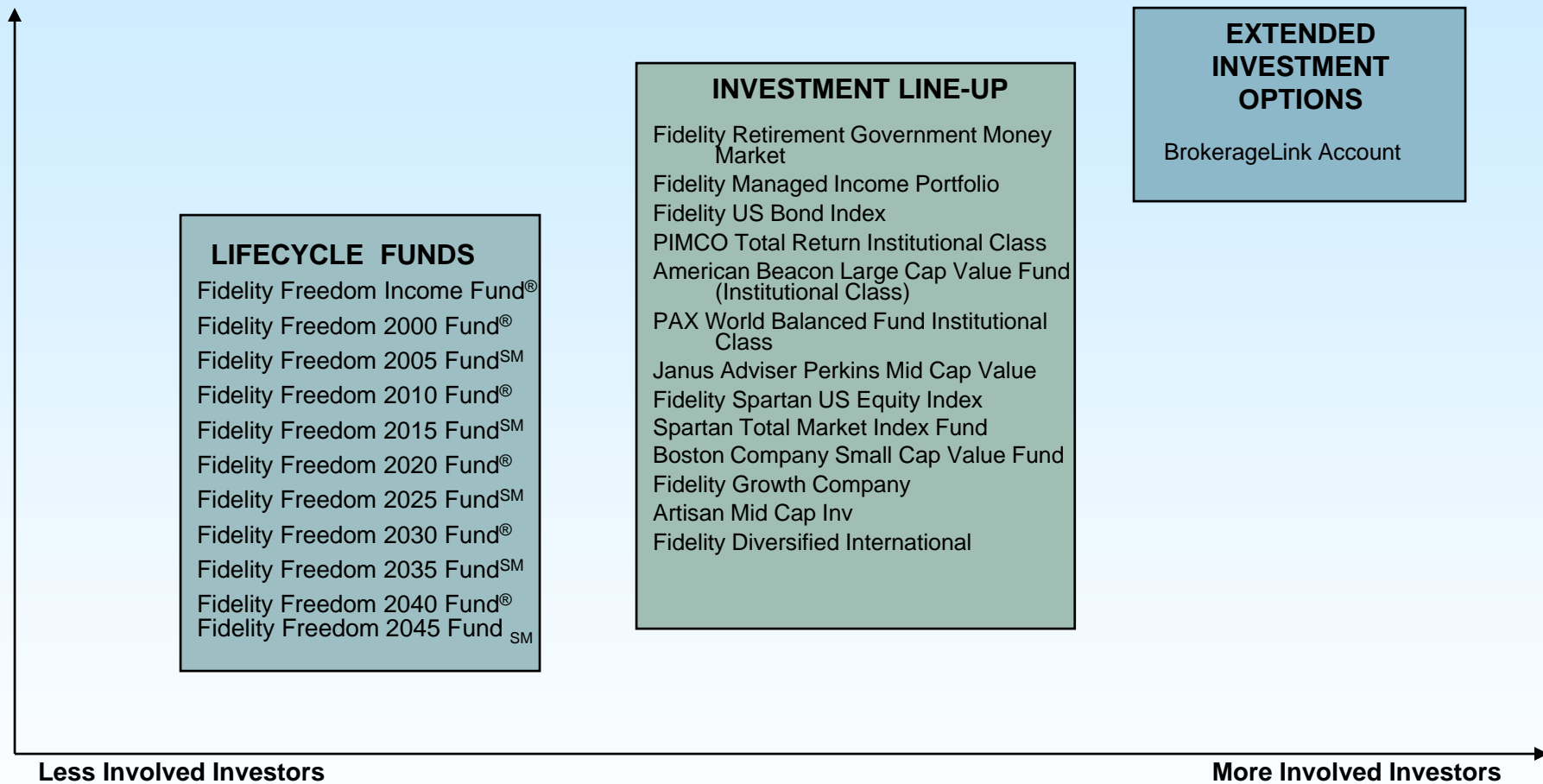
Money Purchase Account

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INVESTMENT MENU STRUCTURE

3-tiered investment approach helps you meet a wide range of needs



Less Involved Investors

More Involved Investors

Investment Services

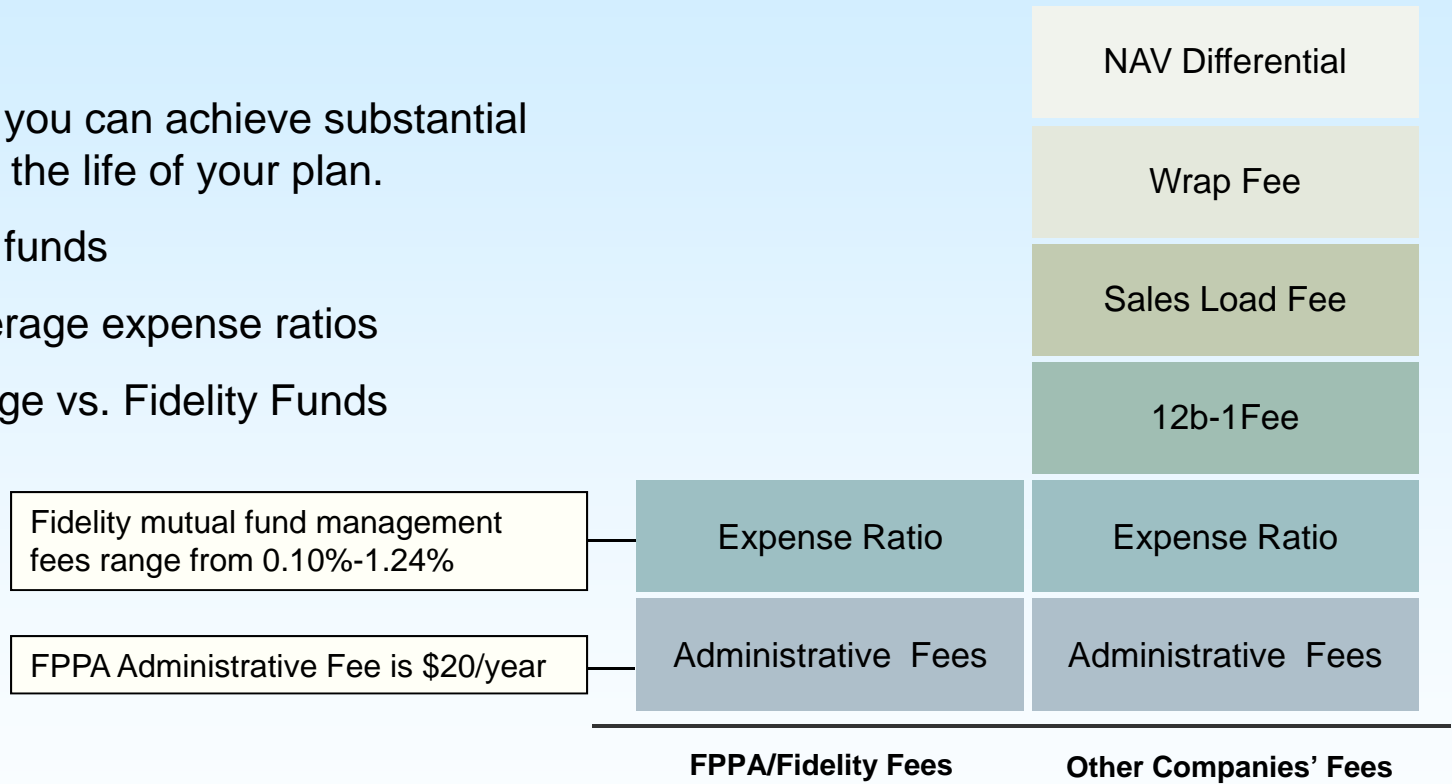


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- Lipper average vs. Fidelity Funds



Fees



Loans

- FPPA may accept existing loans according to FPPA Policy and Procedures
 - New loans are not permitted
 - Hardship withdrawals are not permitted

Statewide Death & Disability Plan

Members will remain covered under the Statewide Death & Disability Plan

- Different offsets apply
 - **Statewide Defined Benefit Plan-** SRA Offset and possibly MP Offset
 - **Statewide Hybrid or MP Plan-** MP Offset
- The offsets are intended to keep all members equal under the Statewide Death & Disability Plan.

Questions?

