FPPA Fire & Police Pension Association of Colorado



Affiliation FAQs: Social Security Employers

General Questions

Q1 | *Who is FPPA?*

Established by the Colorado General Assembly in 1980, the Fire & Police Pension Association of Colorado (FPPA) provides retirement, disability, and survivor benefits to Colorado police officers, firefighters, and other first responders. FPPA was created to address a pension crisis in the 1970s affecting many Old Hire Plans across the state. FPPA administers a statewide, multiple employer, public employee retirement system providing defined benefit plan coverage (the Statewide Retirement Plan), defined contribution plans, as well as death and disability coverage (the Statewide Death & Disability Plan) for police officers and firefighters throughout the State of Colorado. FPPA also administers local Old Hire defined benefit pension funds for police officers and firefighters hired prior to April 8, 1978 whose employers have elected to affiliate with the Association, as well as volunteer fire defined benefit plans. In addition, Colorado police and sheriff departments who participate in Social Security have the option of affiliating for supplemental coverage through the Statewide Retirement Plan and Statewide Death & Disability Plan.

FPPA is governed by a nine-member board of directors who are appointed by the Governor and confirmed by the state Senate. More information can be found at **FPPAco.org**.

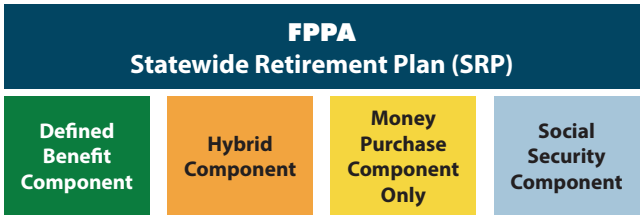
Q2 | *Can Colorado county sheriffs and other Social Security-affiliated departments cover their eligible employees with FPPA benefits?*

Generally speaking, yes, via our partial entry affiliation process, and provided that your department does not already have a defined benefit retirement plan in place.

Q3 | *What plans make up the FPPA Statewide Retirement Plan, for purposes of partial affiliation?*

The FPPA Statewide Retirement Plan is comprised of four Components that apply to partial affiliation:

- ✓ **The Defined Benefit Component**
- ✓ **The Hybrid Component**, which includes both a defined benefit and money purchase account
- ✓ **The Money Purchase Component**
- ✓ **The Social Security Component**



Alternatively, Members who are active (not terminated or retired) at the time of the partial affiliation could elect to stay in their local money purchase plan.

Q4 | What is partial affiliation?

Partial affiliation permits a Member of a Social Security-affiliated department to either remain covered by their locally administered money purchase plan or to join the FPPA Statewide Retirement Plan. Using this process, eligible Members who are actively employed at the time of the process individually choose:

1. Whether to participate in the local money purchase plan or to move to the FPPA Statewide Retirement Plan
2. Those who elect to join the FPPA Statewide Retirement Plan then also decide which FPPA Component they want to participate in going forward. (The Employer decides whether all four Components will be offered as choices to participants, or fewer.)

Those hired after the effective date of entry participate in one single, default FPPA Component selected by the Employer, either:

- The Defined Benefit Component of the Statewide Retirement Plan;
- The Hybrid Component of the Statewide Retirement Plan; or
- The Social Security Component of the Statewide Retirement Plan

A Member election is not required by FPPA.

More information on the process for a partial affiliation is discussed later in this document. Visit our dedicated website, JoinFPPA.org, for specific information about partial affiliation with additional resources, including sample documents and a purchase of service credit calculator.

Q5 | Can my department affiliate for Death & Disability coverage through FPPA?

For future new hires, yes, this coverage is a possibility. However, currently active Members of a department at the time of an affiliation process cannot be covered under our D&D plan. Members/departments that select the Social Security Component of our Statewide Retirement Plan also cannot affiliate with our Statewide Death & Disability Plan.

For Employers who would like to cover future new hires, note that the Death & Disability Plan has its own contribution rate. A department must affiliate for retirement benefits in order to affiliate for the Statewide Death & Disability Plan. Departments cannot affiliate for the D&D Plan only.

Q6 | What about Social Security?

Affiliating with FPPA will provide benefits in addition to Social Security; however, it will not replace Social Security. County sheriffs can still affiliate with FPPA in addition to covering their eligible employees under Social Security, but it's important to note that Member and Employer contribution rates will be required for both Social Security and whatever FPPA Component Members choose as part of the partial affiliation process.

Q7 | What if I work for a county that already has a defined benefit plan in place?

Employers that already enroll their law enforcement officers and/or fire service in a defined benefit plan (such as PERA or a county-administered plan) are not eligible to affiliate with FPPA's Statewide Retirement Plan.

Contribution Rate Questions

Q8 | What is the contribution rate for the plans offered by FPPA?

The required contribution rates vary by Component.

In addition, affiliating groups are required to submit a Continuing Rate of Contribution for Members who enter the plan prior to the earlier of the effective date of the filed resolution or the filing of the Certification of Compliance. This Continuing Rate of Contribution is in addition to the minimum mandatory contributions for each Component. This Continuing Rate of Contribution may be paid by the Member, Employer, or split 50%/50%. Continuing Rates of Contribution are listed in each contribution table below.

In all FPPA Components, contributions are calculated using the Member's pensionable earnings (base salary). *(See definition in Question 14 or visit* **FPPAco.org** *to review the rules.)*

Statewide Retirement Plan: Defined Benefit Component

Contribution Rate Schedule for Affiliating Members at Social Security Employers

Effective January 1 of each year	Minimum Mandatory Member Contribution Rate	Minimum Mandatory Employer Contribution Rate	Total Combined Member and Employer Contribution Rate	Continuing Rate of Contribution*	Total Required Rate for Affiliating Members
2024	12.0%	10.0%	22.0%	3.5%	25.5%
2025	12.0%	10.5%	22.5%	3.5%	26%
2026	12.0%	11.0%	23.0%	3.5%	26.5%
2027	12.0%	11.5%	23.5%	3.5%	27%
2028	12.0%	12.0%	24.0%	3.5%	27.5%
2029	12.0%	12.5%	24.5%	3.5%	28%
2030 & thereafter	12.0%	13.0%	25.0%	3.5%	28.5%

- The additional Continuing Rate of Contribution for this Component is 3.5%. This additional required contribution can be paid by Member, Employer, or split 50%/50%.

Statewide Retirement Plan: Hybrid Component

Contribution Rate Schedule for Affiliating Members at Social Security Employers

Minimum Mandatory Member Contribution Rate	Minimum Mandatory Employer Contribution Rate	Total Combined Member and Employer Contribution Rate	Continuing Rate of Contribution*	Total Required Rate for Affiliating Members
9.0%	9.0%	18.0%	3.5%	21.5%

- The additional Continuing Rate of Contribution for this Component is 3.5%. This additional required contribution can be paid by Member, Employer, or split 50%/50%.

Higher required rates than those in the tables above are acceptable; any excess contributions would be allocated to the Member's Money Purchase Component account.

Future new hires (those hired after the earlier of the effective date of the filed resolution or the filing of the Certification of Compliance) would have the same contribution rates as above in whatever default Component the Employer decides to enroll them; however, there would not be a Continuing Rate of Contribution for this group.

As for the allocation of contributions in the Hybrid Component, in particular, the Employer contribution is used to fund the defined benefit portion first. If additional monies are needed to fund the defined benefit, they will be taken from the Member contribution. If the Employer contribution is greater than the amount needed to fund the defined benefit, then the excess will be contributed to the Money Purchase account and is subject to that Component's vesting schedule.

If the department does not affiliate for the Statewide Death & Disability Plan (SWDD) for future hires, there will also be a 1.6% Continuing Rate of Contribution for this population. This contribution can be paid 100% by the Member, 100% by the Employer, or split 50%/50%. If the department affiliates for SWDD, then there will not be a Continuing Rate of Contribution for future hires; however, there is a required contribution for the SWDD Plan. It is a local decision on how the SWDD contribution is paid, which can be changed at any time.

Statewide Retirement Plan – Social Security Component

Contribution Rate Schedule for Affiliating Members - *those hired prior to the effective date of entry.*

Effective January 1 of each year	Minimum Mandatory Member Contribution Rate	Minimum Mandatory Employer Contribution Rate	Total Combined Member and Employer Contribution Rate	Continuing Rate of Contribution*	Total Required Rate for Affiliating Members
2024	6.0%	5.0%	11.0%	1.9%	12.9%
2025	6.0%	5.25%	11.25%	1.9%	13.15%
2026	6.0%	5.5%	11.5%	1.9%	13.4%
2027	6.0%	5.75%	11.75%	1.9%	13.65%
2028	6.0%	6%	12%	1.9%	13.9%
2029	6.0%	6.25%	12.25%	1.9%	14.15%
2030 & thereafter	6.0%	6.5%	12.5%	1.9%	14.4%

- The additional Continuing Rate of Contribution for this Component is 1.9%. This additional required contribution can be paid by Member, Employer, or split 50%/50%

Note that future new hires for departments that select this Component will also have a 0.8% Continuing Rate of Contribution because Statewide Death & Disability affiliation is not available to this group. This contribution can be paid 100% by the Member, 100% by the Employer, or split 50%/50%.

Statewide Retirement Plan – Money Purchase Component Only

The entire contribution rate funds the Member's Money Purchase Component. The current required minimum contribution rate is 18%, split 9% Member and 9% Employer. Higher required contribution rates are acceptable.

Q9 | Why do affiliating Members who select the Defined Benefit Component, Hybrid Component, or Social Security Component have a higher contribution rate than non-affiliating Members who are enrolled in these same Components?

The minimum required rate for the reentry Members is higher because—on average—the group is older, closer to retirement, and more expensive to the Plan. The actuaries suggested the contribution rate differential to help ensure that allowing affiliating Members into the Plan would not have a negative impact on the Plan. Each affiliating department's Continuing Rate of Contribution will be reevaluated on January 1st in the year following the second anniversary of the effective date in the Plan. The reevaluation is conducted to determine whether the Continuing Rate of Contribution will be reduced or stay the same. The Continuing Rate of Contribution cannot be increased above the rate set in the department's resolution.

Q10 | How does this current process differ from the one that was offered to Social Security-affiliated Employers who affiliated with FPPA prior to 2020?

Social Security-affiliated Employers who joined FPPA prior to 2020 were limited to a single choice: what was then called the Supplemental Social Security Plan. However, legislation passed in 2019 allowing the affiliation options available for departments paying into Social Security to include the Statewide Retirement Plan: Defined Benefit Component, Hybrid Defined Benefit Component, Money Purchase Component, or the Social Security Component for existing Members at the time of affiliation. Existing Members can choose to stay in the local plan or participate in one of these Components as part of the affiliation process, although the Employer can determine whether they would like to offer all the options or not. Future hires will not have a choice.

Q11 | Can a Member who selects the Defined Benefit Component or Hybrid Component make voluntary contributions to the Statewide Retirement Plan's Money Purchase Component?

Yes. Members in these Components are permitted to submit voluntary contributions on an after-tax basis.

In addition, Members who want to voluntarily save additional money for retirement should consider contributing to a 457(b) Deferred Compensation Plan, either through FPPA or another provider as determined by the plan(s) provided by your employer.

Q12 | What happens if a department has a higher contribution rate than what is required for an FPPA Component that includes a defined benefit?

The excess rate for affiliating Members can be accepted. In the Defined Benefit Component, for instance, any excess contributions will be deposited into the Money Purchase Component of the Statewide Retirement Plan.

For example: If the combined local money purchase plan rate is 1.0% higher than the contribution rate for the Defined Benefit Component, and the Members and Employer decide that they will not lower that rate, then the extra 1.0% contribution will be deposited into the Money Purchase Component. This is an individual, self-directed account held at Fidelity.

Q13 | Are Member contributions submitted as a pre-tax contribution or a post-tax contribution?

It depends. If the required employee (a.k.a. Member) contribution going forward varies between employees of an employer when they have choice between plans, the IRS has determined that the lowest required Member contribution is considered the base amount and may be treated as pre-tax.

Employees making contributions into a plan with a higher contribution rate than this base amount will make such additional contributions on a post-tax basis.

So, in the case of a partial affiliation where existing members have individual choice, a portion of their Member contribution rate may be post-tax if Member contribution rate varies by plan.

However, for those hired after the effective date of entry, because the Employer mandates the pension plan and there isn't plan choice, there is no post-tax portion.

FPPA's contributions reporting systems track pre-tax and post-tax contributions and treat them accordingly in retirement. Members recover any post-tax contributions in retirement according to the provisions of the Internal Revenue Code. In other words, Members are not double-taxed if they submit a portion of the contribution rate post-tax.

Also, the Employer will want to give consideration to this tax treatment—especially the ability of the Employer's payroll system to accommodate the appropriate pre or post-tax designation—when determining which Components will be offered as choices and when establishing Member contribution rates.

Q14 | What is FPPA's definition of Pensionable Earnings (Base Salary)?

Simply put, the definition of Pensionable Earnings (Base Salary) includes the Member's base rate of pay, plus any pay for longevity or shift differential. Overtime or other forms of extra pay are generally not included.

Pensionable Earnings (Base Salary) is defined in FPPA Rules 101.08. The FPPA Rules and Regulations can be found at **FPPAco.org**.

Process Questions

Q15 | What are the primary considerations the Employer must be aware of before starting the partial affiliation process?

To pursue a partial affiliation, the Employer must:

1. Certify to FPPA that the Members self-direct the assets in their local money purchase plan
2. Be willing to keep the local money purchase plan open for those active, eligible Members who wish to continue participation in the local money purchase plan. This means that the local money purchase plan will be partially terminated, and
3. Submit contributions on both a pre-tax and post-tax basis, if necessary
4. Finally, the Employer must be comfortable with enrolling all new Members hired after the effective date in the FPPA Statewide Retirement Plan, either in the Defined Benefit Component, the Hybrid Component, or the Social Security Component

Q16 | Briefly describe the process for a partial entry.

While partial affiliation is a complex process that typically spans 9-12 months, it includes a few basic steps:

1. **Informational Meetings:** FPPA meets with the Employer/Committee (and sometimes with the Members) to review the benefits and process, as well as to answer questions regarding FPPA, the plans being offered, etc.

We also collect plan-level data to determine the mapping strategy and benefits offered in the existing plan

2. **Resolution:** FPPA works with the Employer to complete a timeline and a non-binding resolution. The resolution is approved and signed by the Employer's governing body (e.g. board of county commissioners) and submitted to FPPA. FPPA accepts the resolution
3. **Asset Transfer:** FPPA, Fidelity, the Employer and the recordkeeper for the local plan assets work together to develop a timeline and mapping strategy for the asset transfer of those Member accounts moving to FPPA
4. **Disclosure Process:**
   a. FPPA works with the Employer to complete a Disclosure Statement comparing the provisions of all the plans being offered. FPPA also gathers pertinent data from the Employer and then prepares individual retirement projections for each Member. Finally, dates and times are set for the Member Disclosure Meetings
   b. The Disclosure Meetings provide an opportunity for Members to learn about their options and ask questions
   c. Following the meeting, Members may attend an individual appointment with FPPA staff to review their individual personalized retirement projections that FPPA has prepared based on the data provided by the Employer
5. **Pension System Selection:** Following the Disclosure Meetings, Members complete a selection form indicating if they want to remain in their local money purchase plan or to move to FPPA. For Members who choose to remain in their local plan, the process stops here. Confirmation letters are emailed to each Member
6. **Final Certification:** The Employer files the final certification of compliance with FPPA; at this point the process is irrevocable
7. **Component Selection/Enrollment Meetings:** For those Members who choose to move to FPPA, we conduct Enrollment Meetings to assist them in selecting their FPPA Component. Once selections are made, confirmation letters are emailed
8. **Service Credit Purchase Meetings:** FPPA provides information on the service credit purchase process to Members who are interested and eligible. See Question 48 for requirements for how long Members must work in the plan before they are eligible to purchase service credits for particular kinds of past employment.

Plan Selection Questions

Q17 | Who gets to decide what FPPA Components are offered and what Component future Members are enrolled in?

In the case of a partial affiliation, the Employer has decided to keep the local money purchase plan as an option for the existing members. The Employer can also decide which (or all) of the four FPPA Statewide Retirement Plan Components to offer as options for Members electing to move to FPPA.

Partial affiliation Component choices for members who are active at the time of the entry process:

- Local MP Plan
- SRP: Defined Benefit Component (if permitted by Employer)
- SRP: Hybrid Component (if permitted by Employer)
- SRP: Money Purchase Only (if permitted by Employer)
- SRP: Social Security Component (if permitted by Employer)

Existing Members who are employed at the department at the time of affiliation individually choose from the Component(s) offered.

New Members (those hired on or after the effective date) are enrolled in the Component selected by the Employer for new hires: either the Defined Benefit Component, Hybrid Component, or Social Security Component of the Statewide Retirement Plan.

Q18 | Once a Member chooses a retirement plan option within the FPPA Statewide Retirement Plan, can they ever change their selection?

The Member has no right to revoke their retirement plan option once it is selected. The Member will remain in the Component they select for the duration of their employment with their current Employer. If a Member changes Employers, they will be covered by whatever plan the new Employer offers its new employees.

Q19 | If a department enters the Statewide Retirement Plan, do new employees hired after the effective date get a choice of the four Components?

No. New employees hired after entry into the Statewide Retirement Plan do not get a choice of the four Component options. They participate in the Component chosen by the Employer, as indicated in the Resolution.

Q20 | Will FPPA accept only a portion of the existing Members from a department if some want to remain in the local plan?

Yes, in the case of a partial department affiliation. Each individual Member gets to choose between joining an FPPA Component or remaining in their local money purchase plan. All new Members hired after the effective date are enrolled in the FPPA Component mandated by the Employer.

Q21 | If a department enters the FPPA Statewide Retirement Plan, is that decision irrevocable, or can they opt out at a later date?

No. Colorado Revised Statute states that FPPA shall adopt rules that specify that an Employer that opts to participate in the FPPA Statewide Retirement Plan shall not be permitted to opt out of such Plan at any later date.

The long-term viability of a defined benefit plan requires stability and consistency in its membership base. Allowing Members or departments to enter and withdraw at will weakens the stability of the plan and increases the cost of benefits. There is also the issue of determining the appropriate amount of funding that a Member or department can take upon withdrawing from a defined benefit plan, particularly if they want to withdraw after an especially good or bad period of market returns, since a defined benefit plan is funded based on a long-term, not short-term, average rate of return.

There was little, if any, discussion on the part of the 2004 task force about allowing free entry into and exit from the FPPA Statewide Retirement Plan. When creating the opportunity to allow reentry, an overriding concern was to in no way harm the Plan for its existing Members by allowing new Members to join. For the departments that reentered to date, the lack of a disaffiliation option was not an issue.

If Members are unsure as to whether they want a defined benefit plan, current existing Members at the time of affiliation may be given an individual choice to stay in the Money Purchase Component only of the Statewide Retirement Plan. Currently, Fidelity Investments is the recordkeeper. The FPPA Board may change providers if Fidelity is not providing the quality of services expected for the Membership.

Q22 | If the Member chooses to move to FPPA, what happens to their money purchase account?

The resolution filed by the Employer requires the transfer of the balances for those Members moving to FPPA in a bulk plan-to-plan transfer. The funds are held in a "transfer account" in the Statewide Retirement Plan: Money Purchase Component at Fidelity (FPPA's recordkeeper for the Money Purchase Component) in each Member's name. Members continue to manage the investment of any funds held in the Money Purchase Component transfer account.

If the Member is enrolled in either the Defined Benefit or Hybrid Component, they may choose to use the transferred funds to purchase defined benefit service credits.

At termination, retirement or death, the funds are payable to the Member, their beneficiary, or their estate, as applicable.

Cost and Fee Questions

Q23 | What are the costs associated with the Money Purchase Component of the Statewide Retirement Plan?

FPPA's Plans are very competitively priced. The participant Administrative Fee considers the cost charged by Fidelity to provide recordkeeping service and FPPA's administration services, plan oversight, and Member education. Finally, expenses charged by the underlying mutual funds (also known as Expense Ratios) offered within the Plan vary by fund. The Administrative Fees are typically determined Q1 each year. In addition to the asset-based fee, each participant is charged an annual fee of $10. When determining the asset-based fee, FPPA will factor in the amount already collected by the annual flat dollar fee. *(The latest Fee Announcement is posted on **FPPAco.org**.)*

Benefits and Benefit Payments Questions

Q24 | How is the average of a Member's highest three years' base salary (HAS) calculated? How is this average calculated for a Member who purchases service credit when eligible and wants to retire or enter DROP without having three years of salary history in the defined benefit plan?

The average of a Member's highest three (3) years' base salary (also known as Pensionable Earnings), for purposes of calculating a Member's Normal, Early, Deferred, or Vested retirement benefit, is the average of the Member's highest three (3) calendar years' actual base salary on which contributions into the Statewide Retirement Plan were paid. If the Member purchased service credit within the last three (3) years of service, the base salary used to determine the cost to purchase service credit would be used in calculating the average of a Member's highest three (3) years' service. For example, if a Member retires or enters DROP immediately, the salary used to calculate the cost to purchase service can be used as one year of salary history. The second year of salary history is determined by reducing the salary used to purchase service credit by 4%. The third year of salary history would be determined by reducing the second year of salary history by 4%. The highest average salary (HAS) is then finally determined by averaging these three amounts.

For example:

- If the salary used to purchase service credit were $50,000.00, that would be the first year of salary history
- The second year of salary history would be 96% of $50,000.00, or $48,000.00
- The third year would be 96% of $48,000.00, or $46,080.00
- The HAS would then be $48,026.67 ($50,000.00 + $48,000.00 + $46,080.00) / 3

This method has been adopted to ensure the Member's benefit is based on the appropriate contributions, ensuring that the HAS used in the service credit purchase calculation correlates with the HAS used in the benefit calculation. In short, a Member gets what they pay for.

Q25 | FPPA indicates that Members who have a Money Purchase Component or DROP balance at retirement can "convert the account to a monthly lifetime benefit." Is this feature similar to buying an annuity?

Yes, except FPPA does not charge commissions or fees. FPPA calculates a monthly lifetime benefit based on a Member's account balance, age, FPPA's actuarial assumed rate of return, and an additional margin for possible future Cost of Living Adjustments and/or adverse experience, to protect the Plan. If they elect this option, Members also have the option of choosing one of the FPPA's survivor options. If a Member is also enrolled in the Defined Benefit Component, this monthly benefit will be added to that Component, and the Member will choose one survivor option. The conversion to a monthly lifetime benefit is also a distribution option for DROP accounts.

Q26 | Is there a maximum benefit that can be accrued in the Defined Benefit Component, Hybrid Component, or Social Security Component?

The IRS determines the limit each year, which can be found in the IRS code 415(b) limits. Any excess benefit above the maximum will be paid from the Qualified Excess Benefit Arrangement account (QEBA). Benefits paid from the QEBA will be paid in addition to the maximum benefit paid from the trust. Accumulated DROP balances are not included in this maximum amount.

Q27 | Explain the Cost of Living Adjustment (or COLA) provisions and how they are determined under the Statewide Retirement Plan.

There are no guaranteed or fixed amounts for Cost of Living Adjustments (COLAs) under the Statewide Retirement Plan. Cost of Living Adjustments are ad hoc, meaning that they are awarded annually at the discretion of the FPPA Board. In determining whether to grant a COLA and the amount of the COLA, in addition to the most recent Consumer Price Index, the Board considers the Plan's ability to pay the current cost of awarding a COLA alongside the Plan's ability to pay future COLAs.

Q28 | Is the Statewide Retirement Plan solvent? We've heard that FPPA is not as well funded as the funded ratio might indicate because the actuarial study does not account for Cost of Living Adjustments (COLAs) when determining the funded ratio.

The Statewide Retirement Plan is solvent. There are no fixed or guaranteed COLAs under the Statewide Retirement Plan. By statute, any COLA is determined by the FPPA Board at its discretion after considering the funding level of the Plan, the cost of such increase, whether the increase creates an adverse actuarial impact on the Plan's ability to fund future benefits, and any other factors the Board deems appropriate. Legislation passed in 2022 also allows the Board the ability to grant one-time, non-compounding, lump sum COLAs in certain scenarios. So, while it's technically accurate to say that the reported funding ratio does not include a COLA, the methodology used to determine COLAs restricts COLAs in order to maintain full funding of the Plan into the future.

Q29 | Pension benefits for Members choosing the Single-Life Benefit payment option are not reduced. Why are benefits reduced if a Member chooses one of the other payment options in the Defined Benefit Component or Hybrid Component to pass along their defined benefit to a beneficiary? How much is the reduction?

If a Member selects the Defined Benefit Component, Hybrid Component, or Social Security Component of the Statewide Retirement Plan, at retirement or at the time the Member enters the DROP they will select a payment option for the defined benefit. Options available include Single-Life Benefit or options to pass along all or a portion of their benefit to a beneficiary. These payment options are discussed in the respective Component brochures.

Benefits are reduced for options that cover a beneficiary because the pension benefit is now providing a lifetime benefit not only for the Member, but also for the Member's beneficiary. The reduction is based on the combined life expectancy of the Member and beneficiary. Charts describing these actuarially equivalent reductions are included in the Component brochures at **FPPAco.org** or **joinFPPA.org**.

Q30 | What happens if an active Member in the Statewide Retirement Plan dies?

If benefits are payable from the Statewide Death & Disability Plan, those benefits are payable in lieu of the Member's pension (Statewide Retirement Plan). See Questions 5 and 8 for important information regarding the conditions under which Social Security-affiliated Employers can affiliate for this coverage for future new hires after they potentially complete the partial affiliation process.

If benefits are not payable from the Statewide Death & Disability Plan because the department does not affiliate for this coverage for future new hires; if the Member leaves no surviving spouse and/or dependent children who are eligible for survivor's benefits under that plan; or, if the Member is not eligible for Normal Retirement benefits under the Statewide Retirement Plan, the deceased Member's pension contributions to the Statewide Retirement Plan, plus 5% as interest, may be refunded to the Member's designated beneficiary. In this instance, any applicable Money Purchase Component balance held at Fidelity is also payable if the Member was vested at the time of death.

If the Member has not designated a beneficiary and the Member leaves no surviving spouse and/or dependent children who are eligible for survivor's benefits under the Statewide Death & Disability Plan; or, if the Member is not eligible for Normal Retirement benefits under the Statewide Retirement Plan, the deceased Member's pension contributions, plus 5% as interest, may be refunded to the Member's estate. Any contributions rolled into the pension plan from a Member's current local money purchase plan (regardless if they were Member or Employer contributions), and any funds paid/rolled in to purchase service credit are considered Member contributions and included in the calculation of the refund.

Q31 | What happens if a Member dies while active in the Statewide Retirement Plan: Money Purchase Component only?

The funds in the Money Purchase Component are payable to the beneficiary listed.

Q32 | What happens if a Member dies during retirement if they are covered by the Statewide Retirement Plan: Defined Benefit Component, the Statewide Retirement Plan: Hybrid Component, or the Statewide Retirement Plan: Social Security Component?

If a Member dies during retirement and has chosen a payment option that includes survivor benefits, the Member's designated beneficiary will receive the survivor benefit payable for their lifetime according to the option selected.

If a Member selects the Single-Life Benefit option and dies during retirement before being paid the full amount of Member contributions, the remainder, plus 5% as interest, will be paid out to the Member's estate.

If a Member has an account balance in the Money Purchase Component, those funds are payable to the Member's beneficiary named on that account.

If a Member chose a payment option with survivor benefits and both the Member and a designated beneficiary died before the full amount of the Member's contributions had been paid out, the remainder of a Member's contributions, plus 5% as interest, will be paid out to the Member's or beneficiary's estate.

Any contributions rolled into the plan from a Member's current plan (regardless if they were Member or Employer contributions), and any funds paid/rolled in to purchase service credit are considered Member contributions and included in the calculation of the refund.

Q33 | How long after retirement can a Member defer starting a benefit payment?

Defined Benefit Component, Hybrid Component, or Social Security Component: If a Member has reached eligibility for a Normal or Vested Retirement (age 55 with at least 5 years of service), and has separated from service, they may choose to defer receiving retirement benefits as late as age 65. If a Member chooses to defer receiving their retirement benefits, they will receive the actuarial equivalent of the Normal or Vested Retirement benefit once they elect to draw their benefit.

Money Purchase Component: A Member may defer taking distributions from their account until the Required Minimum Distribution age as determined by the IRS.

Q34 | Can a Member with an account balance in the Money Purchase Component who separates from service prior to age 55 begin taking distributions from the Money Purchase Component immediately?

While age 55 is considered the Normal Retirement age under the Statewide Retirement Plan, the Plan does not prohibit distributions prior to age 55 once a Member has separated from service. However, depending on the circumstances, the distributions may be subject to a 10% IRS penalty for early distribution.

Funding/Unfunded Liabilities Questions

Q35 | What is the funded status for the Statewide Retirement Plan?

As of the January 1, 2024 actuarial study, the funded status is as follows:

Statewide Retirement Plan	Statewide Retirement Plan: Money Purchase Component
100% (plus $66,419,000 in reserve for adverse experience / potential future COLAs)	Money Purchase plans do not have a funded ratio since there is no promised benefit

Q36 | What steps would FPPA take to secure the Statewide Retirement Plan if, at some point, the plan was not actuarially sound?

The Colorado Revised Statutes provide certain safeguards but do not identify a specific order for their implementation in the event that the Statewide Retirement Plan is determined to not meet the definition of "actuarially sound". "Actuarially sound" is defined as when the contribution rate meets or exceeds the normal annual cost of benefits plus the annual cost of the unfunded liability (if any) amortized over forty years. The following actions may be taken at the Board's discretion:

- May terminate making Cost of Living Adjustments (COLAs)
- May order the Normal Retirement age be increased by one month up to sixty months. The age for eligibility for Normal Retirement under the Rule of 80 would also be increased
- The Board may reduce that the benefit multiplier from 2.5% to as low as 2% for any given year or years (without impacting the past benefits already accrued and earned by Members)
- May terminate allocating surplus contributions to the Money Purchase Component

If the plan remains actuarially unsound after the above actions are taken, as a last resort, the Board has the authority to change Member and Employer contribution rates if the Board finds that such an increase is still necessary to maintain the actuarial soundness of the plan. See more information regarding this process in Question 39.

Q37 | How did so many local old hire plans get unfunded and the FPPA Plan remain well funded?

The origin of these unfunded liabilities predates FPPA. (Employees hired prior to April 8, 1978 are considered Old Hires. Employees hired after that date are New Hires.) In fact, FPPA was created in large part because so many of the local old hire plans had not been adequately funded. At FPPA's inception in 1980, there were 104 plans with unfunded liabilities receiving state assistance. The legislation that mandated proper funding did not require the full actuarially required contribution right away. There were hardship provisions that gradually stepped up the contribution requirements so that the plans were being funded appropriately by 1988. Due to the hardship provisions, unfunded liabilities were legally allowed to continue to grow until 1988.

Through a combination of increased contributions, state assistance, and better-than-expected investment returns produced by FPPA, unfunded liabilities in most of these plans have been eliminated. On the other hand, the Statewide Retirement Plan (called the "Statewide Defined Benefit Plan" at inception) set appropriate contribution rates to cover Members since inception. At no time were contributions ever less than needed to cover each Member from their first day on the job. The Plan conducts an annual actuarial study to make sure that the funding level is on track.

From inception of the plan in 1980 until 2014, the 8% Employer and Member contribution rates did not increase, and the benefits under the plan also improved significantly during that time. However, FPPA received Member feedback indicating a desire to contribute more to their pension to improve the Plan's ability to pay benefit adjustments (also called COLAs) in retirement and to decrease the possibility of future benefit reductions. Following the recommendation of a Member task force, Members of the Statewide Defined Benefit Plan voted in 2014 on a 4% increase to the Member contribution rate, phased in over 8 years at 0.5% per year. That vote passed and the increase began in 2015. The increase is now fully implemented as of 2022.

There are Plan provisions that contribute to maintaining the Statewide Retirement Plan's funded status. For example, when Members purchase service credit, they must pay the full actuarial cost, not an "average, bargain, or subsidized" cost that creates an unfunded liability for the Plan. When necessary, FPPA has created a task force to study aspects of the Plans and their contributions. A result of the Statewide Defined Benefit Plan task force was new legislation effective January 1, 2021, which required an increase in Employer contributions to better fund the Plan. The previous increase in the Member contribution rate adds further protection to the Plan. Many local money purchase plans are already funding their plans well over the FPPA required rate. This change was all done locally, and not required by FPPA.

Finally, the Plan's definitions of base salary (also known as Pensionable Earnings) and HAS (Highest Average Salary) minimize the likelihood of salary spiking, a practice that can have a negative impact on defined benefit plans.

Q38 | Can the FPPA Board reduce percentages of retirement benefits due to the plan being actuarially unsound on their own, or does that take a membership vote?

The Board could only reduce retirement benefits provided by plan modifications (amendments voted in by the Membership, not legislative changes) if the normal cost of the pension benefits plus the amortized cost of the unfunded liability exceeds that funded by the required contribution rate. The benefits which a Member has earned and accrued cannot be reduced. The reduction would only apply to future service credits.

Q39 | If FPPA had to increase contribution rates or decrease benefits, how would this process work?

The FPPA Board is required to increase contribution rates if the normal cost of benefits plus the amortization payment for the unfunded liability of the Plan, if any, exceeds the required contribution rate. There is the possibility of increased contribution rates in the future if investment earnings fall below the actuarial assumed rate of return for an extended period of time.

This provision of the Plan is not automatically triggered just because the funding level drops below 100% of the accrued liabilities of the Plan. Using the statutory definition of "actuarially sound," the unfunded liability of the Plan must grow to the point that it, plus the normal cost of service credit, cannot be paid over a 40-year amortization period with the required contribution rate.

In such an event, an effective date would be established after which the benefits would accrue at an adjusted lower rate, and a later normal age for retirement would be established. If even with these adjustments, a contribution rate higher than the current required rate is still needed, the Board would then establish a higher contribution rate. However, benefits which a Member had earned and accrued, or purchased, prior to the effective date cannot be reduced. A benefit reduction would only apply to service credits not yet earned. Benefits cannot be reduced for a Member who is retired or for a Member who has separated from service and has applied for a Vested Retirement and is waiting for age 55.

Q40 | The Defined Benefit is a "promise to pay." What guarantee is there that a Member will receive the retirement benefit they are eligible for?

A Member has a contractual and a statutory right to the benefit that they are promised under the terms of the Plan. The contractual right is similar to the right that a person has with a private pension provider; that is, to enforce the benefit of the bargain to be received by the Member. The statutory right is more significant because FPPA, municipalities and districts that participate in these Plans, and the state are all governmental entities. The Member has a property interest in his or her accrued benefit. The U.S. Constitution provides that government cannot deprive citizens of their property without just compensation or due process.

Besides these basic legal protections, the Plan contains several safeguards to ensure the funds are available to pay the benefits. Historic management of the Plan has maintained its well-funded status, with surpluses available to balance the cycles in the investment markets. Although they have never been enacted, there are also controls in the Plan if it becomes actuarially unsound. Investment of the fund by nine independent Board members, oversight of the fund by the legislature, the fund's independent auditor, and the fund's actuary, as well as periodic review by the participating local governments, the State Auditor, and the governor's office also offer protection to the Member that the fund is operating legitimately and in an actuarially sound manner.

Q41 | Are payments from an FPPA Component with a defined benefit guaranteed or can they be reduced by the next recession?

Retirement benefits earned and accrued cannot be reduced. Retiree benefits cannot be reduced. The rate at which future benefits are paid can be adjusted as described in Question 38.

Q42 | What is the difference between participating in a Component in the Statewide Retirement Plan that has a defined benefit and purchasing an annuity with a Money Purchase account balance?

While it is possible to receive a lifetime benefit with either option, there are a few key differences.

In the Statewide Retirement Plan: Defined Benefit Component:

- A Member can easily project what percentage of pay they will receive when at retirement based on the formula in the Plan. Even as a young firefighter or police officer, there is some certainty when planning for retirement and projecting retirement income. Knowing this fact early on helps individuals determine how much they may need to save in other retirement vehicles to meet their retirement goals
- The investment risk in the Plan is pooled and spread over a long (30-year) investment horizon. While market losses impact the Plan, in a pooled investment there is much less risk of an impact on the individual Member's retirement
- There is an ad hoc COLA provision in the Statewide Retirement Plan
- FPPA's investments are directed by investment professionals
- There are no added fees or commissions charged to ensure a lifetime benefit. FPPA does not pay its employees any type of sales commission
- FPPA is a governmental entity that neither earns profits nor has shareholders. Any gain in a Plan directly benefits the Members of that Plan

In a money purchase plan:

- A participant in a money purchase plan will not know until retirement what account balance they might available to purchase an annuity. This uncertainty makes planning more difficult. If the money purchase balance is not sufficient to pay an adequate monthly benefit, it is difficult to correct the problem at this late stage.
- While retirement projections may be run throughout one's career, individual money purchase plan accounts are more sensitive to market downturns since this is an individual account rather than a pooled investment. If losses occur shortly before retirement, the member's "buying power" for purchasing an annuity or paying themselves a monthly benefit is reduced
- The police officer, peace officer, or firefighter assumes the investment risk leading up to retirement
- There are often fees or sales commissions paid by the individual when they convert an account balance to a lifetime annuity. This fee or commission can be substantial. There may be an added premium to purchase a lifetime annuity. There also may be an added premium to build in a cost of living adjustment
- Annuities are most often sold by for-profit organizations, which are organized to pay a profit to shareholders
- It is possible that a member in a money purchase plan may be able to purchase an annuity that pays a monthly benefit that is higher or equal to that provided by a defined benefit plan; however, the uncertainty of the market and the timing of the purchase can make planning very difficult

Q43 | If the State of Colorado oversees this plan through the legislature, how does that preclude the State from using or claiming the FPPA monies as an asset?

Oversight of the statewide plans, the Old Hire Plans, and all other activities of the FPPA is provided by the Colorado Legislature. Oversight of the Plan, however, is not the equivalent of control of the Plan.

In fact, no state funds have ever been contributed to the Statewide Retirement Plan. It is difficult to imagine any legal argument that these funds are "assets of the state." These funds have been accumulated entirely from Member and Employer contributions and the earnings from those contributions. The statute creating the trust fund provides, among other protections, that "the funds shall be held and distributed for the purpose of [the provision of pension benefits] and for no other purpose whatsoever" (C.R.S. 31-31-203). This language is a required element of the Plan under the Internal Revenue Code, which grants the "qualified plan" status and allows the contributions going into the Plans to be non-taxable. This section cannot be removed legislatively without dire tax consequences to the municipalities who have contributed to the Plan. There is no statutory or constitutional authority that provides for the state to use or claim the funds held under these Plans.

The FPPA Board acts as the trustee of these funds and the funds are held in trust for the benefit for the Members of the Plan. The Board, and the individual members of the Board, are fiduciaries to the Plan. It would be a breach of the Board's fiduciary duty to allow the state to gain control over the assets of the Plan.

In summary, any attempt of the state to use or claim the assets of the Plan would require legislative changes that are 1.) approved by a majority of both houses of the legislature and 2.) approved by the governor. These approvals would have to be made over the objections of the FPPA Board, the firefighters and police officers that are Members of the Plan, the municipalities that participate throughout the state, and the Internal Revenue Service. Even if legislation was passed, given the structure of the Plans and the body of law governing trusts and qualified plans, in FPPA's legal opinion it is extremely unlikely that such legislation would be sustained in the subsequent court challenge.

Q44 | If there is a shortfall in the Statewide Retirement Plan fund, could money be transferred from the Money Purchase Component to the Statewide Retirement Plan fund?

No, FPPA could not take money from the Money Purchase Component if there is a shortfall in the Statewide Retirement Plan fund. There is no provision in the plan document to take money from the Money Purchase Component for any reason. All Member dollars, and all Employer dollars (if the Member is vested), are vested in the employee's Money Purchase Component from the day they are contributed to the account. FPPA could not conceivably touch these vested dollars. FPPA could not touch the non-vested dollars either. The non-vested dollars are held there in trust, in anticipation of the Member vesting.

Service Credit Purchase Questions

Q45 | If a Member elects the Statewide Retirement Plan's Defined Benefit Component, Hybrid Component, or Social Security Component and has a balance in the Money Purchase Component, what are their service credit purchase options?

In this instance, a Member would have the following options:

- The Member may choose not to purchase any service credits
- The Member may convert all the 401(a) assets transferred from the prior recordkeeper to purchase defined benefit service credit, even if this conversion buys more service than the Member worked at the current employer. See Question 47 below regarding rules for how much time the Member must be in the plan before they can do so
- If the conversion of these 401(a) assets does not buy all eligible service, other sources (457, IRA, etc.) previously rolled into the money purchase account or held in other accounts may be used. See Q46 for more detail on funds that can be used to purchase service credit
- Any funds left in the Money Purchase Component are managed by the Member

Q46 | Regarding vesting, do the years of service start accruing from the time the group enters the FPPA Statewide Retirement Plan or do the years carry over?

Money Purchase Component: Years of service are based on combined years of service in the local plan and the FPPA Statewide Retirement Plan: Money Purchase Component. Members retain their original hire date with their Employer. Regarding the Member's current Money Purchase Account, all Members (vested and non-vested) will be fully vested in the Employer Transfer Account upon entry into the Statewide Retirement Plan.

Defined Benefit, Hybrid Components and Social Security Component: Years of service credit must be worked or purchased. In other words, service begins accruing toward the defined benefit of the Component at the entry date into the plan. However, Members may purchase service credit for past service after accruing one year of service credit in the Statewide Retirement Plan (many Members use their Money Purchase Component assets to purchase service credit in whichever Component with a defined benefit that they elect). For instance, a Member could purchase four years of service credit and be vested immediately, or they could work the five years to become vested, or a combination of the two. In any case, the defined benefit percentage will be determined based on a Member's combined service credit worked and purchased.

Q47 | What type of funds can be used to purchase service credits?

Tax-deferred money from any of the following plans can be used to purchase service credit: 401(a) plans, 401(k) plans, 457 Governmental Deferred Compensation plans, 403(b) Tax Sheltered Annuities, Traditional IRAs, and/or SEP and Simple IRAs. A Member may also use after-tax money (for instance, money in a savings or checking account) to purchase service credit. A ROTH account may not be used to purchase service credit. If a Member uses after-tax money to purchase service, FPPA will track that money as after-tax dollars and those funds will not be taxed when they are paid out in retirement.

Q48 | When would Members entering the Statewide Retirement Plan be eligible to purchase service credit?

Members at affiliating Social Security Employers must adhere to the Statewide Retirement Plan's general rules for purchasing service credit unless they have accrued prior time in the Plan from a previous employer.

After one year of service credit in the Statewide Retirement Plan, Members may purchase any public employment time for which they are not eligible for a retirement benefit, and/or up to five years of military time for which they are not eligible for a retirement benefit, or for which they were not eligible to submit pension contributions under USERRA.

Members must be in the Statewide Retirement Plan for five years before they can purchase up to five years of private sector employment. (Certain IRS restrictions apply.)

Q49 | How is the cost to purchase service credit determined?

The cost of service credit is determined by the FPPA Board on an actuarially equivalent basis. The formula includes a Member's age and highest annual base salary (also known as Pensionable Earnings) for any calendar year in the Statewide Retirement Plan at the time of purchase. Therefore, the cost to purchase service generally increases for each month they age and as their salary increases.

FPPA & Fidelity Services and Investments Questions

Q50 | Is Fidelity the permanent recordkeeper for the Money Purchase Component or could it change at a future date?

The FPPA Board has the discretion of changing the recordkeeper/service provider at any time if they feel the services are not meeting the needs of the Membership.

Q51 | What extra fees and minimums are associated with the BrokerageLink Account offered by FPPA/Fidelity?

Fees: There are no plan level fees charged to participants. There may be trading fees.

Minimums: Members must keep at least 5% of their account invested in the standard plan options; the remainder can be invested through the BrokerageLink (self-directed brokerage window.)

For more information on Fidelity BrokerageLink or to establish a BrokerageLink account, please call a Fidelity Service Center Representative at (800) 343-0860, Monday - Friday, 6:30 am - 10:30 pm MST.

Q52 | Can the Fidelity BrokerageLink Account be continued into retirement?

Yes, a Member can continue their BrokerageLink Account into retirement and maintain all the account features. If a distribution is taken, all assets would flow through the retirement plan, and the money would come directly from Fidelity, the Plan's recordkeeper.

Q53 | Can FPPA offer a broader range of investments than currently exists in the Money Purchase Component?

FPPA can offer additional investment options at its discretion. The issue of adding/replacing investment options is continually reviewed by FPPA's Self-Directed Plans Committee, Fidelity, as well as its third-party consultant. FPPA strives to balance the Member's needs/demands/requests by providing a meaningful list of fund options without overwhelming Members with too many choices. This strategy also helps ensure that Members receive the appropriate information on the fund options offered. If a fund is not meeting performance and/or operational standards set by the FPPA Investment Policy, the fund may be replaced.

FPPA also offers a BrokerageLink account for investors willing to take on additional monitoring responsibilities and risk with their investments. It allows Members to invest their Money Purchase Component and/or DROP account balances in a broad range of Fidelity and non-Fidelity mutual funds plus a wide range of individual securities not offered within the standard plan account options.

Loan Questions

Q54 | Does FPPA accept the outstanding loans from Money Purchase Plan accounts?

Yes. However, no new loans are permitted after entry date. Existing loans can be transferred to Fidelity. The Member will be able to continue to repay that loan through Fidelity via ACH from a checking, savings, or money market account designated by the Member.

Divorce Questions

Q55 | How does FPPA handle Domestic Relations Orders (DROs)?

FPPA must comply with the agreement set forth in the Domestic Relations Order. In the case of a defined benefit, the alternate payee cannot receive payment until the Member is also eligible to do so. In the case of a money purchase plan, the alternate payee may receive distributions while the Member is still active. More information can be found on the DROs page at **FPPAco.org**.

Additional Questions?

Q56 | Whom do I contact to find out more, or if I'd like to start the partial affiliation process?

Visit **JoinFPPA.org** to learn more, especially if you'd like to see what purchasing service credit in a particular Component might cost your current active Members.

For additional questions, or to start the reentry process, please contact the Relationship Management team at FPPA at **fielded@fppaco.org**, or **(303) 770-3772, ext. 6450**.

FPPA Fire & Police Pension Association of Colorado

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