

Police Officers' and Firefighters' Pension Reform Commission

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Police Officers' and Firefighters' Pension Reform Commission Report to Legislative Council

Committee Charge

The Fire and Police Pension Association (FPPA) was established in 1980 and administers two funds: the Fire and Police Members' Benefit Investment Fund and the Fire and Police Members' Self-Directed Investment Fund. Assets in these funds are used for a number of pension plans including the Statewide Defined Benefit Plan, the Statewide Death and Disability Plan, and numerous separate "Old Hire" plans for police officers and firefighters throughout the state of Colorado. Pursuant to Section 31-31-1001, C.R.S., the Police Officers' and Firefighters' Pension Reform Commission has the responsibility to study and develop proposed legislation relating to funding of police officers' and firefighters' pensions in this state and the benefit designs of such pension plans. The statute directs the commission to study, review, and propose legislation related to these issues including, but not limited to, the following subjects:

- normal retirement age and compulsory retirement;
- payment of benefits prior to normal retirement age;
- service requirements for eligibility;
- rate of accrual of benefits;
- disability benefits;
- survivors' benefits;
- vesting of benefits;
- employee contributions;
- post-retirement increases;
- creation of an administrative board;
- creation of a consolidated statewide system;
- distribution of state funds;
- coordination of benefits with other programs; and
- the volunteer firefighter pension system.

Commission Activities

The commission held one meeting during the 2013 interim. At this meeting, the FPPA informed the commission on the state's involvement in fire and police pension plans and recent activities of the FPPA Board of Directors (FPPA board). The FPPA presented its annual report and discussed the recent investment performance of the Statewide Defined Benefit Plan, noting that the net return investment is 7.13 percent year to date. In addition, the FPPA discussed changes to the pension plans, the upcoming membership election regarding contribution rates, the financial investment program, and the volunteer firefighters' pension plans.

FPPA pension plans. The FPPA provided a summary of the pension plans, specifically the Statewide Defined Benefit Plan and the state-assisted old hire fire and police pension plans. The commission was given a brief history of the state's requirement to make payments to the FPPA old-hire pension plans. Until 1978, all fire and police pension plans in Colorado were administered and funded by local governments. Although the state provided some assistance, there was no statutory requirement that these plans be funded on an actuarially sound basis. By the mid-1970s, it became apparent that many of these local plans were underfunded.

A 1977 study by the General Assembly concluded that these plans had an unfunded liability in excess of a \$500 million. In 1978 and 1979, the General Assembly adopted legislation to reform the pension system. The purpose of the reform was to ensure that local pension plans were actuarially sound and included state financial assistance conditioned on increases in both employer and employee contributions. Since 1980, the state has contributed more than \$500 million to 110 local police and fire agencies. Pursuant to Senate Bill 13-234, state contributions to old hire plans have concluded as of May 31, 2013. Due to the change in funded status of plans offered by the state contribution, actuarial studies and contributing schedules identified under current law may be obsolete. As a result of the discussion, the commission recommends Bill B, which modifies the administration of the old hire pension plans.

The reform legislation of 1978 established the Statewide Defined Benefit Plan, also known as the new hire pension plan. This plan is funded by member and employer contributions and is administered by the FPPA.

Election on contribution rates. A pension plan member task force, created by the FPPA in 2011, recommended that the FPPA hold an election to increase contributions from individual members. The election will not affect employer contributions. The FPPA board accepted the recommendation to hold an election and passed a resolution to increase contributions by 0.5 percent each year for eight consecutive years (cumulative increase of 4.0 percent). The election will be held in April 2014 and requires the approval of 65 percent of pension enrollees. A majority of employers must also approve the plan.

Financial assets and investment program. The FPPA informed the commission that net investment assets totaled \$3.7 billion at the close of 2012. These assets are held in the Fire and Police Members' Benefit Investment Fund (\$3.40 billion) and the Fire and Police Members' Self-Directed Investment Fund (\$0.32 billion). The investment returns are up about 10 percent to date, resulting in higher investment fund balances.

The FPPA discussed the impact of the financial crisis in 2008, which resulted in a 29.4 percent decrease that year. The FPPA has changed the structure of the investment program portfolio in order to protect against downside risk by limiting purchasing participation during high and low periods of the markets.

Volunteer firefighters' plans. Local fire departments may establish volunteer firefighter pension plans, which may be administered by FPPA as an "affiliated plan," or by the local government independently. Volunteer firefighter pension plans are governed by statutes addressing distribution of state funds and the administration of plans. FPPA informed the commission that it has identified various ambiguities and conflicts affecting its 175 affiliated plans. As a result of the discussion, the commission recommends Bill A, which clarifies statutes related to volunteer firefighters' pension plans.

Commission Recommendations

As a result of commission deliberations, the commission recommends two bills for consideration during the 2014 legislative session.

Bill A — Volunteer Firefighter Pension Plans. Bill A amends existing statutes related to the administration of volunteer firefighter plans affiliated with the FPPA. Specifically, the bill:

- directs the Department of Local Affairs to distribute any state moneys for volunteer firefighter pension plans to be credited to the assets of the plan for which they were transferred;
- specifies the responsibilities of the volunteer firefighter pension plan governing body that is affiliated with the FPPA;
- specifies the responsibilities of the FPPA in connection with the volunteer firefighter pension plans with which it is affiliated; and
- specifies how the volunteer firefighter pension plan governing body may terminate its association with the FPPA.

Bill B — Modifications to Old Hire Plans. Bill B amends existing statutes related to the administration of an employer's old hire police officers' and firefighters' pension plans. Specifically, the bill:

- clarifies the acceptable use of plan moneys when none of the plan members are active participants in the plan;
- repeals provisions regarding the transfer of money from the state General Fund and contributions from associated employers to fund a plan's unfunded liability;
- repeals provisions regarding the annual distribution of state moneys;
- modifies requirements for actuarial studies of old hire plans;
- specifies the FPPA's and the old hire pension plan board's responsibilities in connection to plans affiliated with the FPPA;
- clarifies that an employer's resolution to affiliate with a plan must be approved by the FPPA; and
- specifies that the amount of annual contributions to state assisted plans must be in amounts that are sufficient to achieve a specified authorization period.