

Police Officers' and Firefighters' Pension Reform Commission

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Police Officers' and Firefighters' Pension Reform Commission Report

Commission Charge

Pursuant to Section 31-31-1001, C.R.S., the Police Officers' and Firefighters' Pension Reform Commission (commission) has the responsibility to study and develop proposed legislation relating to funding of police officers' and firefighters' pensions in the state and benefit designs of such pension plans. 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 Defined Benefit System, the Statewide Death and Disability Plan, and numerous separate "old hire" plans for police officers and firefighters throughout the state of Colorado. The law 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 administration 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 2014 interim, on August 19, 2014. Senator Tochtrop, the committee chair, presided over the meeting.

At this meeting, the FPPA informed the commission about the state's involvement in fire and police pension plans, as well as the FPPA's statewide death and disability plan, and about recent activities of the FPPA board of directors. The FPPA presented its annual report and funded status. The presentation included discussions of the following subjects.

FPPA pension plans. Old hire pension plans are the member benefit plans that existed prior to reform legislation effective April 8, 1978. Over 99 percent of enrollees in old hire pension plans are in retired status. State contributions to old hire plans concluded May 31, 2013. Due to the change in funded status of old hire contribution plans offered by the state, actuarial studies and contributing schedules identified under current law may be obsolete.

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 recommended that the FPPA hold an election to increase contributions from members. The election did 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 percent).

The member election was held in June 2014, and the resolution was approved by 68 percent of pension enrollees, above the required 65 percent.

Financial assets and investment program. The FPPA investment fund had a total of \$4.4 billion as of December 31, 2013, divided between the members' benefit investment fund and the self-directed investment fund.

Annual returns were impacted by the financial crisis in 2008, resulting in a 29.4 percent decrease. 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.

Job transitions and FPPA plans. The commission discussed problems associated with police officers and firefighters who change jobs during their career. Under current law, a career police officer or firefighter may not be eligible to purchase service credit in an FPPA plan due to residual benefits or a lack of adequate funding in the pension plan in his or her prior job. Bill A addresses issues associated with the accounting of service credit when an individual transfers funds into the FPPA statewide defined benefit plan.

Merging fire departments also result in new members under the FPPA statewide defined benefit plan. Career firefighters beginning an FPPA plan at an older age create liabilities that are not currently accounted for in FPPA practices. Bill C creates a process to account for the actuarial impact of merging fire departments.

The employer of a police or fire department chief may offer the chief a retirement plan other than a FPPA-administered plan. Federal and state law contemplate that police and fire department employees not covered by an FPPA retirement plan will participate in other retirement plans but may enroll in other FPPA plans. Bill D specifies retirement plan requirements and other FPPA coverage available to police and fire departments with Social Security employees.

Accounting and regulatory impacts to FPPA plans. The commission received testimony from FPPA officials concerning accounting practices and accounting costs associated with various FPPA plans. Currently, the cost of audits and certain other regulatory compliance activities for plans are not assessed by the FPPA. However, such costs are increasing due to new government accounting standards. In addition, the FPPA lacks statutory authority to assess interest on unpaid member contributions. Bill B provides the FPPA the authority to assess costs and interest associated with its plans.

Continuing a discussion that began at the commission's 2013 meeting, FPPA officials advised that a significant number of questions have arisen regarding the regulatory and financial adequacy of volunteer firefighter pension plans in Colorado. As outlined in a memo presented to the commission, the FPPA recommends a study of volunteer plans. However, the FPPA administers only a portion of the volunteer plans and cannot coordinate a comprehensive study. Bill E initiates the recommended study.

Commission Recommendations

As a result of commission deliberations, the commission recommends five bills for consideration during the 2015 legislative session.

Bill A – Transfer Pension Plan Funds To FPPA. Bill A provides specific authority for a member of the FPPA defined benefit plan to transfer funds and, under certain circumstances, receive service credit for participation in a pension plan not administered by FPPA.

Bill B – FPPA Board Assess Administrative Charges. Bill B authorizes the FPPA to assess interest on unpaid contributions to member plans and costs of accounting and regulatory compliance to individual plans.

Bill C – FPPA Beginning Member Contribution Rates. Bill C requires members who enter the FPPA statewide defined benefit plan due to fire department mergers to contribute to the plan in the same manner as members reentering the plan, specifically by paying the continuing uniform rate of contribution established by the FPPA board.

Bill D – FPPA Plan Employee Participation Requirements. Bill D specifies the coverage in FPPA plans available to a fire chief who is exempted from the FPPA statewide defined benefit plan because he or she participates in Social Security or in a FICA replacement plan. The bill also requires all Social Security employers enrolled in the FPPA statewide death and disability plan to also participate, by January 1, 2017, in the FPPA Social Security supplemental plan.

Bill E – Volunteer Firefighter Pension Plan Study. Bill E directs the State Auditor to coordinate a study of volunteer firefighter pension plans in the state, which will include analysis of compliance of current plans with federal law and potential alternatives to the current structure of volunteer firefighter plans. The study will be contracted to a law firm with recognized expertise in the subject matter and presented to the Police Officers' and Firefighters' Pension Reform Commission in the 2015 interim.