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**Policemen's and
Firemen's Pension
Reform Commission**

**Report to the
COLORADO
GENERAL ASSEMBLY**

**Colorado Legislative Council
Research Publication No. 384
December 1993**

RECOMMENDATIONS FOR 1994

**POLICEMEN'S AND FIREMEN'S PENSION
REFORM COMMISSION**

**Report to the
Colorado General Assembly**

**Research Publication No. 384
December 1993**

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LEGISLATIVE COUNCIL

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DENVER, COLORADO 80203-1784
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November 22, 1993

To Members of the Fifty-Ninth General Assembly:

Submitted herewith is the final report of the Policemen's and Firemen's Pension Reform Commission. This commission is a statutory committee established under Section 31-30-901, C.R.S.

At its meeting on November 15, the Legislative Council reviewed the report of this committee. A motion to forward this report and the bill therein for consideration in the 1994 session was approved.

Respectfully submitted,

/s/ Representative Paul D. Schauer
Chairman
Legislative Council

PDS/eg

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POLICEMEN'S AND FIREMEN'S PENSION REFORM COMMISSION

Members of the Commission

**Senator Ray Powers,
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Senator Tom Blickensderfer

Senator Mary Anne Tebedo

Senator Ray Peterson

Senator Paul Weissmann

**Representative Tom Ratterree,
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Representative Vickie Agler

Representative Ken Chlouber

Representative Mike Coffman

Representative Jim Dyer

Representative Lewis Entz

Representative Daphne Greenwood

Representative Tony Hernandez

Representative Vi June

Representative Peggy Reeves

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POLICEMEN'S AND FIREMEN'S PENSION REFORM COMMISSION REPORT

Statutory Authority and Responsibilities

In 1978, Senate Bill 46 (Parts 8 and 9, Article 30, Title 31, C.R.S.) created a statutory policemen's and firemen's pension reform commission to study and develop legislation relating to the funding of police and fire pensions and the benefit designs of such plans.

Commission Activities and Recommendations

At its meeting on October 25, 1993, the commission heard reviews of the 1992 annual financial report and 1993 financial data from the executive director of the Fire and Police Pension Association (FPPA). FPPA investments in 1992 achieved a 6.1 percent annualized rate of return. For the period January 1 through September 30, 1993, investments achieved a 14.4 percent annualized rate of return. As of September 30, 1993, the market value of FPPA assets available for member benefits totaled \$1,048,205,290.

The commission considered legislation requested by the FPPA board of directors. Following debate, Bill 1 was recommended for consideration in the 1994 legislative session. The commission also heard a request from members of various firemen's and policemen's retirement plans for legislation to revise the limitations on investments in defined contribution pension trusts (sections 15-1-304 and 31-30-1012 (5), C.R.S.). Plan members testifying before the commission wanted the 50 percent cap on investments eliminated. The commission did not act on the request.

Bill 1 — Withdrawal From the Statewide Defined Benefit Plan

Bill 1 extends from six to nine months the minimum period between the date of an employer's resolution to withdraw from the statewide defined benefit plan and the effective date of such withdrawal. The employer is required to obtain member approval of a decision to withdraw no later than June 1 of the year preceding the effective date of the withdrawal.

The employer's share of the employer contribution reserve in the new hire benefits account and all member contributions are to be transferred to a short-term investment fund after the actuary determines that the withdrawal will not have an adverse financial impact on the soundness of the new hire benefits account. The bill requires that the actuarial reports be updated at least 60 days prior to the effective date

of the withdrawal and that adjustments be made to the amount transferred to the short-term investment account. The employer or the members are permitted to terminate the withdrawal within 30 days of receipt of the updated actuarial report, and procedures for such termination are established.

The board of the Fire and Police Pension Association is authorized to prescribe rules and regulations concerning withdrawal and termination of a decision to withdraw. Vested members are permitted to opt out of the decision to withdraw and, if such withdrawal is approved, to become inactive members of the statewide benefit plan.

MATERIALS AVAILABLE

The following materials relevant to the Policemen's and Firemen's Pension Reform commission meeting are available from the office of the Legislative Council.

1. Summary of meeting, October 25, 1993, and relevant letters distributed at the meeting.
2. Comprehensive Annual Financial Report of the Fire and Police Pension Association of Colorado, FPPA, December 31, 1992.
3. Fire and Police Pension Association Supplementary Financial Data, FPPA, October 25, 1993.

BILL 1

A BILL FOR AN ACT

101 CONCERNING WITHDRAWAL FROM THE STATEWIDE DEFINED BENEFIT PLAN
102 FOR POLICEMEN'S AND FIREMEN'S PENSIONS.

Bill Summary

(Note: This summary applies to this bill as introduced and does not necessarily reflect any amendments which may be subsequently adopted.)

Extends the minimum period of time between the filing date of an employer's resolution to withdraw from the statewide defined benefit plan and the effective date of such withdrawal. Requires that an employer obtain member approval of a decision to withdraw no later than June 1 of the year preceding the effective date of the withdrawal.

Provides that, if the actuary determines that the withdrawal will not have an adverse financial impact on the soundness of the new hire benefits account, the employer's share of the employer contribution reserve in the new hire benefits account and all member contributions shall be transferred to a short-term investment account. Requires that the actuarial reports be updated at least 60 days prior to the effective date of the withdrawal and that appropriate adjustments be made to the amount transferred to the short-term investment account. Permits the employer or employee members to terminate the withdrawal within 30 days of receipt of the updated actuarial report and establishes procedures for such termination.

Authorizes the board of the fire and police pension association to prescribe rules and regulations concerning withdrawal from the statewide defined benefit plan and the termination of such withdrawal. Extends the date by which an employer must make required additional payments to the new hire benefits account. Makes conforming amendments to provisions which permit vested members to elect that their contributions remain with the statewide defined benefit plan and, if withdrawal becomes effective, to become inactive statewide benefit plan members.

Makes the act applicable to withdrawals initiated on or after July 1, 1994.

1 *Be it enacted by the General Assembly of the State of Colorado:*

2 **SECTION 1.** 31-30-1003.1 (2) (a), (2) (d), (4) (a), (5) (a), and
3 (6), Colorado Revised Statutes, 1986 Repl. Vol., as amended, are amended
4 to read:

5 **31-30-1003.1. Withdrawal into statewide money purchase plan.**

6 (2) (a) The employer may initiate withdrawal from the statewide defined
7 benefit plan by filing with the board a resolution adopted by the employer
8 pursuant to paragraph (b) of this subsection (2) no less than ~~six~~ NINE months
9 prior to the effective date of withdrawal unless a shorter waiting period is
10 approved by the board. The effective date of withdrawal shall be January
11 1 of the year following the waiting period.

12 (d) The board shall promulgate rules and regulations relating to
13 standards for disclosure of all ramifications and procedures for obtaining the
14 member approval provided for in paragraph (c) of this subsection (2), BUT
15 SUCH APPROVAL MUST BE OBTAINED NO LATER THAN JUNE 1 OF THE YEAR
16 PRECEDING THE EFFECTIVE DATE OF WITHDRAWAL.

17 (4) (a) (I) The board shall determine the amount of reserves
18 required as of the effective date of withdrawal to maintain current benefits
19 payable by the association to benefit recipients and to preserve the vested

1 rights of inactive members. Said amount of reserves shall be determined by
 2 the board utilizing certified actuarial reports prepared by the actuary for the
 3 statewide defined benefit plan. Any such actuarial report shall also certify
 4 that the EMPLOYER'S withdrawal shall not have an adverse financial impact
 5 on the actuarial soundness of the new hire benefits account. IF THE
 6 ACTUARY DETERMINES, IN ACCORDANCE WITH ACCEPTED ACTUARIAL
 7 PRINCIPLES, THAT THE WITHDRAWAL WILL NOT HAVE AN ADVERSE
 8 FINANCIAL IMPACT ON THE ACTUARIAL SOUNDNESS OF THE NEW HIRE
 9 BENEFITS ACCOUNT, THE BOARD SHALL TRANSFER SUCH EMPLOYER'S SHARE
 10 OF THE EMPLOYER CONTRIBUTION RESERVE IN THE NEW HIRE BENEFITS
 11 ACCOUNT, AS DETERMINED BY THE ACTUARY, AND ALL MEMBER
 12 CONTRIBUTIONS FOR THE EMPLOYER'S ACTIVE MEMBERS TO A SHORT-TERM
 13 INVESTMENT ACCOUNT. If the actuary determines, in accordance with
 14 accepted actuarial principles, that the withdrawal shall have an adverse
 15 financial impact on the actuarial soundness of the new hire benefits account,
 16 the employer shall not be permitted to withdraw.

17 (II) AT LEAST SIXTY DAYS PRIOR TO THE EFFECTIVE DATE OF THE
 18 WITHDRAWAL, THE ACTUARIAL REPORTS SHALL BE UPDATED AND
 19 ADJUSTMENTS MADE, AS APPROPRIATE, TO THE AMOUNT OF RESERVES
 20 TRANSFERRED BY THE BOARD TO THE SHORT-TERM INVESTMENT ACCOUNT
 21 ON BEHALF OF THE EMPLOYER. WITHIN THIRTY DAYS OF THE RECEIPT OF
 22 SUCH UPDATED REPORTS, THE WITHDRAWAL MAY BE TERMINATED BY

1 EITHER:

2 (A) THE EMPLOYER FILING WITH THE BOARD A SUBSEQUENT
 3 RESOLUTION REVOKING THE EMPLOYER'S RESOLUTION OF INTENT TO
 4 WITHDRAW; OR

5 (B) MORE THAN THIRTY-FIVE PERCENT OF THE EMPLOYER'S
 6 ACTIVE MEMBERS WHO ARE ELIGIBLE TO VOTE FILING WITH THE BOARD
 7 BALLOTS INDICATING THAT THEY NO LONGER WISH TO WITHDRAW.

8 (III) IF A RESOLUTION OR A SUFFICIENT NUMBER OF BALLOTS IS
 9 TIMELY FILED WITH THE BOARD PURSUANT TO SUBPARAGRAPH (II) OF THIS
 10 PARAGRAPH (a), THE WITHDRAWAL SHALL BE TERMINATED AND THE BOARD
 11 SHALL RETURN TO THE HEW HIRE BENEFITS ACCOUNT ANY AMOUNTS
 12 TRANSFERRED TO THE SHORT-TERM INVESTMENT ACCOUNT PURSUANT TO
 13 SUBPARAGRAPH (I) OF THIS PARAGRAPH (a). If no resolution or an
 14 insufficient number of ballots is timely filed, the withdrawal shall proceed
 15 in accordance with the provisions of this section.

16 (IV) THE BOARD SHALL PRESCRIBE THE FORM OF THE BALLOT TO
 17 BE SUBMITTED BY MEMBERS INDICATING THAT THEY NO LONGER WISH TO
 18 WITHDRAW AND ANY OTHER RULES AND REGULATIONS NECESSARY FOR THE
 19 IMPLEMENTATION OF THIS SUBSECTION (4).

20 (5) (a) In the event that the amount of the reserves required
 21 pursuant to the provisions of subsection (4) of this section exceeds the
 22 amount of the employer's share of the employer contribution reserve in the,

1 new hire benefits account as calculated by the actuary, ~~then~~ the employer
2 shall make an additional payment ~~on~~ NO LATER THAN TEN WORKING DAYS
3 AFTER the effective date of withdrawal in an amount equal to the difference
4 between the amount of reserves required and the amount of reserves on
5 deposit.

6 (6) (a) Members who are not vested under the statewide defined
7 benefit plan and who are ~~employees of~~ EMPLOYED BY an employer ~~which~~
8 WHO has withdrawn from the statewide defined benefit plan shall have their
9 member contributions credited to the statewide money purchase pension plan
10 as set forth in section 31-30-1005.3.

11 (b) (I) Members who are vested under the statewide defined benefit
12 plan and who are ~~employees of~~ EMPLOYED BY an employer ~~which~~ WHO has
13 ~~withdrawn~~ FILED A RESOLUTION OF INTENT TO WITHDRAW from the
14 statewide defined benefit plan may elect that, IF THE WITHDRAWAL BECOMES
15 EFFECTIVE, their contributions remain with the statewide defined benefit plan
16 by giving written notice to the association ~~prior to the effective date of~~
17 ~~withdrawal~~ NO LATER THAN THE DATE ESTABLISHED FOR COMPLETION OF
18 THE MEMBER ELECTION PROVIDED IN PARAGRAPH (c) OF SUBSECTION (2) OF
19 THIS SECTION;

20 (II) Members who ~~make~~ HAVE MADE such an election shall become
21 inactive statewide defined benefit plan members entitled to vested benefits
22 upon termination and attainment of vested retirement age;

1 (III) ~~Such~~ Members WHO HAVE MADE SUCH AN ELECTION shall not
2 be entitled to withdraw any amounts from their separate retirement account
3 until they have terminated their current employment; and

4 (IV) If ~~such~~ members WHO HAVE MADE SUCH AN ELECTION die or
5 become disabled prior to termination of employment, neither they nor their
6 survivors shall be eligible for benefits under the statewide defined benefit
7 plan, but rather they shall be limited to those benefits provided in sections
8 31-30-1007 and 31-30-1008.

9 (c) Members who do not elect to leave their contributions with the
10 statewide defined benefit plan PURSUANT TO PARAGRAPH (b) OF THIS
11 SUBSECTION (6) shall have their member contributions credited to the
12 statewide money purchase pension plan as set forth in section 31-30-1005.3.

13 **SECTION 2. Applicability.** This act shall apply to withdrawals
14 initiated on or after July 1, 1994.

15 **SECTION 3. Safety clause.** The general assembly hereby finds,
16 determines, and declares that this act is necessary for the immediate
17 preservation of the public peace, health, and safety.