



## THE VOICE OF COLORADO'S CITIES AND TOWNS

1144 Sherman Street, Denver, CO 80203 • (p) 303-831-6411 / 866-578-0936 • (f) 303-860-8175 • [www.cml.org](http://www.cml.org)

---

To: Interested parties  
From: Kevin Bommer, Legislative and Policy Advocate  
Date: August 17, 2009  
Subject: History fire and police pensions in Colorado

---

As public pensions fall under greater scrutiny here in Colorado and across the nation – particularly the recent news that Colorado PERA is only 52% funded as of 1/1/09 – I wanted to share with you a history of fire and police pensions in Colorado and how it has translated into a success story that could prove instructive in the months and years ahead.

Most are aware that local government fire and police pensions were historically mandated by state law, but a study in 1978 found that most of the mandated local plans were underfunded. All plans were closed and the Fire and Police Pension Association was born shortly thereafter. The “old hire” plans that have mostly retirees now have been inching their way to becoming actuarially sound ever since, and the “new hire” plan has become the success story – which will be described in additional detail below.

Attached is a history that I update from time to time that shows the history of fire and police pensions in Colorado and how escalating mandated benefits without proper actuarial assessments led to the closure of the “old hire” plans and the 31-year (and counting) effort to retire the debt. The current level of funding in statute has existed since 1995, and the state’s final payment would have been in 2009 but for skipping payments in 2003-2006 and again in 2009 for another three years.

Initially, there were almost 70 “old hire” plans that chose to affiliate with FPPA in order to receive state assistance and only six remain on the list for state assistance. If the state resumes its payments in FY 11-12, there will be three annual payments of \$25.3 million followed by a final payment of almost \$84 million. This translates into an extra \$27.7 million cost for delaying payments, in much the same way that skipping credit card payments ends up costing a consumer more in interest over time. This is illustrated in the last page of the attachment that shows the range of funding options presented to the Joint Budget Committee and the option that was eventually selected in SB 09-227. Under current statute, the state’s final payment will be in April 2015, at which point any remaining unfunded liability will be solely the responsibility of the individual local governments whether they are currently receiving state assistance or not.

The success story is the “new hire” FPPA Statewide Defined Benefit Plan created as the successor to all the “old hire” plans. Efforts to build in balance between employer and employee interests, as well as statutory safeguards that guard the fund against poor economic times have resulted in lower costs and a **funded ratio on 1/1/2009 of 101%**, all while keeping employer and employee contributions at 8%. As the legislature grapples with PERA reform, the history of FPPA that led to the near end of state assistance to the “old hire” plans and the overwhelming success of the “new hire” plan may prove instructive to the General Assembly.



## **FUNDING OF FIRE AND POLICE PENSIONS: 1903-2009**

The history of the State of Colorado's involvement in local fire and police pension plans dates back to the early 1900's. Through the first 75 years of the last century, a combination of state mandated and locally provided benefits and the inadequate provision of state and local funding to support them left many of the local plans with significant unfunded liabilities.

However, it was not until 1978 that officials from both state and local governments came together and agreed to eliminate the problem. Through a cooperative endeavor, state legislation was passed that created the Fire and Police Pension Association (FPPA). This established a funding mechanism whereby the state, local governments and employees paid to reduce the unfunded liability for police officers and firefighters under the "old hire" plan. It also established the "new hire" plan that is in effect today and is completely self-sufficient.

These same stakeholders then returned to the table in 1994 to develop a sound plan for paying off the unfunded liability twenty years faster than originally planned. The state agreed to contribute \$25.3M per annum until the debt is retired, and reaffirmed that agreement in 2003 when payments were suspended for two years and the extra payments were scheduled for the future due to the economic downturn.

As the state again prepares to delay payments, CML appreciates that the state continues to honor the historical commitment that has been made to our public servants and their employers.

## **Historical perspective of State funding for Fire and Police Pensions**

**1903:** Creation of the fire pension fund in cities having more than 100,000 in population; funded through municipal property tax assessment and mandatory assessment against members of 1% of salary. 1903 Colo. Sess. L. 447.

**1913:** Creation of the police pension fund in cities having more than 100,000 in population; funded through municipal property tax assessment and mandatory assessment against the members of 1% of salary. 1913 Colo. Sess. L. 438.

**1917:** Creation of fire pension fund in cities of less than 100,000 in population: funded entirely through State contributions derived from a tax on insurance (1/2 of tax collected) sold by foreign insurance companies (companies incorporated outside of Colorado); State contributions divided based on population and fire funds in cities over 100,000 in population share in the distribution. 1917 Colo. Sess. L. 235.

**1927:** Creation of police pension fund in cities between 25,000 and 100,000 in population (later expanded to cities under 25,000); funded through State contributions derived from fines collected by courts (1/2 of all such fines); State contributions divided based on population and police funds in cities over 100,000 in population share in the distribution. 1927 Colo. Sess. L. 552.

**1935:** State contributions to police pensions changed to lump sum \$250,000 among cities with population over 25,000; amount given to a municipality depends on the number of full-time officers employed by the municipality. Local firefighters pension contribution increases through the tax on insurance policies. 1935 Colo. Sess. L. 915.

**1937:** Legislature extends authorization of pension funds for police officers to include all municipalities and enacts statewide levy of 0.2 mills on all property for distribution to police pensions in municipalities having one or more full-time paid police officers.

**1947:** Cities between 50,000 and 100,000 in population authorized to levy ½ mill property tax and assess members 3% of salary to assist in funding fire pensions (extended to cities under 50,000 in population in 1959). 1947 Colo. Sess. L. 864.

**1955:** State contributions to fire pensions changed from foreign insurance tax, because of declining revenues, to lump sum (\$400,000) from the general fund. 1955 Colo. Sess. L. 927. Legislature eliminates statewide mill levy for police pensions and establishes an annual State appropriation.

**1957:** Mandatory matching member contributions to police pensions in cities having a population of less and 50,000. 1957 Colo. Sess. L. 840.

**1969:** Mandatory matching member contributions to fire pensions in cities having a population of less and 100,000. 1969 Colo. Sess. L. 1169.

**1978:** Following 1977 interim committee report finding many fire and police pensions plans were significantly under funded, legislature enacts part 8 of article 30, title 31, requiring fully funding of pension plans on a actuarially sound basis. SB 79 establishes the Fire and Police Pension Association, and creates a new statewide pension plan “new hire plan” and a new statewide death and disability plan. SB 46 requires municipalities to begin funding of Fire and Police pensions plans at certain levels, and provides for State assistance to such plans, and freezes “old hire” plan provisions.

**1987:** Because of budget issues annual state appropriation to assist old hire plans cut for the year, C.R.S., 31-31-1014(5) (Cum. Supp. 1993); Employers “held harmless” with respect to the necessity of increasing the contributions in order to cover the one year loss of state assistance, C.R.S., 31-30-805(2.5)(Cum. Supp., 1993).

**1995:** State enacts legislation to increase the amount of state contributions (\$25.3 million) to the old hire plan to reduce the years (by 15 years) to pay off the debt (originally estimated to be paid off in 2009). The cities and the employees agree to fully fund Death and Disability without financial assistance from the State as was done in the past.

**2003:** In response to the need for the state to cut general fund appropriations in the midst of a continuing economic downturn, the state enacts legislation (SB 03-263) to defer the state contributions to old hire plans for two and a half years and to extend the final payment date from no later than September 2009 (FY 09-10) to no later than April 2013 (FY 12-13). Local governments and employees secured the addition of a requirement that the state would also be responsible for paying for the additional unfunded liability directly resulting from the state’s delay in payment.

**2005:** State resumes scheduled general fund appropriations toward the state’s portion of unfunded liability for FY 05-06. Because of the 2003 changes, the payment date is April 2006. General Assembly places budget referenda on the ballot that, if passed, will authorize the state to issue up to \$175 million to retire the state’s obligation of the remaining unfunded liability. While Referendum C passed, allowing a timeout from TABOR spending limits, Referendum D failed and the state was forced to continue paying off its obligation in one-year increments.

**2007-2008:** Thanks to Referendum C, the state accelerates its payments by an additional \$9 million in order to pay off its obligation by FY 2011-2012.

**2009:** Faced with another economic downturn, legislation is enacted (SB 09-227) deferring the state contributions to old hire plans for three years and extending the final payment date from no later than April 2012 (FY 11-12) to no later than April 2015 (FY 14-15). The state would also be responsible for paying for the additional unfunded liability directly resulting from the state’s delay in payment, and language is included to allow local governments up to an additional 20 years to retire new Old Hire unfunded liability resulting from the recession.

The final state payment in FY 14-15 is estimated to be nearly \$84 million.

**Fire & Police Pension Association of Colorado  
Funding for State Assisted Old Hire Plans**

SB  
04-227

	A	B	C	D	E	F	G	H	I	J	K	L
Annual FPPA Payments	Original Schedule per CRS	Actual (and anticipated) per CRS	Make up in 2009	Delay 1 year, final payment in 2012	Delay 1 year, extend payments 3 years	Delay 2 years, final payment in 2012	Delay 2 years, extend payments 3 years	Delay 3 years, final payment in 2012	Delay 3 years, extend payments 3 years	Delay 3 years, extend	Half amount for 2 years	Half amount for 3 years
Apr-06	\$25,321,079	\$25,321,079	<del>\$25,321,079</del>	\$25,321,079	\$25,321,079	\$25,321,079	\$25,321,079	\$25,321,079	\$25,321,079	\$25,321,079	<del>\$25,321,079</del>	<del>\$25,321,079</del>
Apr-07	25,321,079	34,774,141	<del>34,774,141</del>	34,774,141	34,774,141	34,774,141	34,774,141	34,774,141	34,774,141	34,774,141	<del>34,774,141</del>	<del>34,774,141</del>
Apr-08	25,321,079	34,777,172	<del>34,777,172</del>	34,777,172	34,777,172	34,777,172	34,777,172	34,777,172	34,777,172	34,777,172	<del>34,777,172</del>	<del>34,777,172</del>
Apr-09	25,321,079	25,321,079	<del>4,082,447</del>	0	0	0	0	0	0	0	<del>12,660,540</del>	<del>12,660,540</del>
Apr-10	25,321,079	25,321,079	<del>25,321,079</del>	25,321,079	25,321,079	25,321,079	25,321,079	25,321,079	25,321,079	25,321,079	<del>12,660,540</del>	<del>12,660,540</del>
Apr-11	25,321,079	25,321,079	<del>25,321,079</del>	25,321,079	25,321,079	25,321,079	25,321,079	25,321,079	25,321,079	25,321,079	<del>12,660,540</del>	<del>12,660,540</del>
Apr-12	75,017,180	48,262,620	<del>75,017,180</del>	80,159,888	25,321,079	109,694,394	25,321,079	137,041,159	25,321,079	25,321,079	<del>25,321,079</del>	<del>25,321,079</del>
Apr-13			<del></del>		25,321,079		25,321,079		25,321,079	25,321,079	<del>25,321,079</del>	<del>25,321,079</del>
Apr-14			<del></del>		25,321,079		25,321,079		25,321,079	25,321,079	<del>25,321,079</del>	<del>25,321,079</del>
Apr-15			<del></del>		12,199,833		49,404,806		83,853,854	25,321,079	<del>10,717,634</del>	<del>27,936,159</del>
Apr-16			<del></del>							25,321,079	<del></del>	<del></del>
Apr-17			<del></del>							25,321,079	<del></del>	<del></del>
Apr-18			<del></del>							16,853,167	<del></del>	<del></del>
Total Paid	\$226,943,654	\$219,098,249	<del>\$224,614,777</del>	\$225,674,438	\$233,677,620	\$229,887,865	\$245,561,514	\$231,913,551	\$254,689,483	\$263,652,033	<del>\$232,190,421</del>	<del>\$286,753,406</del>
Difference	\$0	(\$7,845,405)	<del>(\$2,329,477)</del>	(\$1,269,216)	\$6,733,966	\$2,944,211	\$18,617,860	\$4,999,897	\$27,745,829	\$36,708,379	<del>\$5,245,767</del>	<del>\$9,809,752</del>

The Present Value Calculations in these examples used the following assumptions/Information:

- 1) Colorado Revised Statutes 31-30.5-307 on State Contribution
- 2) 8% Interest
- 3) 1994 Group Annuity Mortality Table

FPPA's Actuary (Gabriel, Roeder, Smith) has prepared the above information and, if action must be taken, recommends consideration of the funding options that are highlighted, in which annual payments are reduced but not eliminated. FPPA has not taken a position with respect to these options, but notes that all deferrals increase the ultimate cost. FPPA's Actuary also made the following comments regarding the State delaying/reducing its contribution schedule:

- 1) Delaying or reducing the contribution levels would have a negative impact on the funding of these Plans. The combination of having zero or low contribution levels during a time of significant asset losses compounds the effect either would have on the Plan on its own (low contributions vs poor investment performance). For example, if a plan earns 8% in a given year, that may be enough to cover the benefit payments that are paid from the plan so that the asset values at the end of the year would be as high as they were at the beginning of the year even if contributions were delayed. Likewise, if the Plan were to experience an asset loss, then the contributions made during the year may offset those losses, again helping to keep the asset balance at the end of the year in an upward trajectory. A plan experiencing both in the same year puts significant downward pressure on the funding status. FPPA's Actuary notes that two of their clients went from 90%+ funded to less than 60% funded during the 2001-2003 market downturn, and in both cases it was because they also had reduced their contributions from what was actuarially required during that period. And unlike most plans, these two never recovered back to a 80-90% funded status in the market run up through 2007 because their asset base was not there to help create more earnings.
- 2) Part of pension funding is dollar cost averaging, making contributions periodically through time, sometimes buying at a high and sometimes a low so that the long term investment experience will be close to long term averages. By not contributing when the market is down (2003-2005, 2009), the plan is missing out on opportunities to buy low, potentially reducing the long term realized investment return.
- 3) If the State were to delay or reduce their payments, FPPA's Actuary will research and may recommend changing the current contribution methodology by the participating employers. The current level dollar schedule may not be adequate to keep the plan trading water, as discussed in #1 above.