



FIRE & POLICE PENSION ASSOCIATION OF COLORADO

## MEMORANDUM

**To:** Police Officers' and Firefighters' Pension Reform Commission

**From:** Fire and Police Pension Association

**Re:** Volunteer Firefighter Plans

**Date:** September 4, 2013

There are a number of issues related to the Colorado Volunteer Firefighter Pension system which need to be addressed. FPPA recommends that these issues be studied along with any other issues that are raised in the process. The PRC has statutory authority to review and propose legislation for the volunteer firefighter pension system. C.R.S. Section 31-31-1001(2)(n).

These issues have come to light through research by the FPPA staff, FPPA consultants, and comments and inquiries made by volunteer departments and their legal counsel. Many of the issues have come to light with the new GASB reporting requirements.

First, here is some background on volunteer firefighter plans in Colorado as they relate to FPPA. FPPA believes there are over 225 volunteer firefighter plans in Colorado. Of these plans, 175 plans are affiliated with FPPA. This would mean that that about 20-25% of the volunteer plans in the state are not affiliated with FPPA. Affiliated plans may choose to disaffiliate as the costs of administration rise under new financial reporting requirements. Volunteer firefighter plans account for 75% of the individual plans administered by FPPA and about 4% of the assets held and invested by FPPA. The costs charged to plans by FPPA will increase, especially plans with smaller assets and plans with larger unfunded liabilities. GASB and other regulators have increased the services required to be provided to individual plans for financial reporting.

The issues which need study or further consideration are as follows:

### Federal and Regulatory Issues

- Whether the IRS recognizes volunteer firefighter plans created under Section 401(a) of the Internal Revenue Code (IRC). Current state law mandates that the plans be created under Section 401(a). If plan assets are not qualified under Section 401(a), there is an impact on how FPPA can invest these funds.
- Federal law does provide for deferred compensation plans for public safety volunteers under IRC 457(e)(11) (Length of service plans or LOSAP). Currently, FPPA does not have authority to administer such plans.
- Have volunteer plans provided benefits to volunteers in excess of what is allowed to paid to volunteers under a myriad of federal laws, including the IRC and Bureau of Labor standards?



Fire & Police Pension Association  
of Colorado

#### State Matching Funds

- Implications for the State of Colorado's financial statements with regard to state assistance under new GASB reporting requirements.
- The state assistance program for volunteer plans is not based on a plan's need for additional funding. Fully funded plans can receive additional state assistance.
- Under current law, the State does not award matching funds to LOSAP plans.

#### Operational Issues

- There is no requirement in state law that volunteer plans complete periodic actuarial valuations. Plans affiliated with FPPA do receive an actuarial valuation every two years as a matter of FPPA practice.
- Under state law, there is no requirement that any contributions to the plans be made, even where additional benefits accrue and an unfunded liability exists.
- No process exists to close volunteer plans or convert plans into an alternate benefit. Such a process could allow annuities, lump sum pay outs, or move to a defined contribution style plan.
- Coordination of benefits between volunteer departments when a volunteer has worked at multiple departments is difficult. It is difficult to track liability for individuals. (Not all volunteer benefits are administered by FPPA.)
- Many departments no longer feel that they are well served by a pension system that requires volunteers to participate 10 or 20 years to receive a benefit at age 50.
- Meeting the burdens for tracking beneficiaries, complying with regulatory requirements, maintaining a local pension board, maintaining records regarding service and eligibility is demanding on local volunteer pension boards.
- Separate local plans have become expensive to administer with increased reporting requirements under GASB.
- A cost-sharing multi-employer plan, whether defined contribution or defined benefit, would function more efficiently than individual local plans. This remains true even with central administration of local plans due to new financial reporting requirements.
- FPPA has no authority to administer any type of plan other than the current statutory local defined benefit plan.

The study required is beyond the scope of FPPA's authority. The issues raised have impacts well beyond FPPA's interests and expertise. FPPA has no funds to undertake the study required to address these issues. FPPA's structure is such that it does not have unencumbered operating money. All of its funds belong to one of the plans it administers. There are significant legal issues involved which will require the expertise of tax counsel. Funding for the work required to address these issues is critical.