REPORT HIGHLIGHTS

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PTA PENSION TRUSTEE ADVISORS

KEY FACTS AND FINDINGS

- **There is a high risk that the Plans do not comply with the tax qualification requirements of the Internal Revenue Code (IRC).**
- **While the vast majority of Plans comply with the Fair Labor Standards Act (FLSA), as many as 33 Plans may warrant further analysis to assure compliance.**
- **The majority of the $4.1 million of annual State funding toward Plans is going toward those which are fully funded or to provide benefits in excess of $300 per month.**
- **The structure of the current Plans may not provide adequate incentives to encourage firefighters to serve as volunteers;**
- **While a majority of the Plans do not have any unfunded liability and generally follow best practices with respect to actuarial calculations and plan contributions, at least 101 of the Plans are underfunded, with a majority of these providing benefits in excess or $300 per month. Policymakers should consider benefit levels and funding practices in relation to state funding for plans.**
- **Alternatives exist which would allow the Plans to comply with the IRC and FLSA, and could also address funding and administrative concerns. Most of these alternatives would require an amendment to the Pension Act.**

BACKGROUND

In Colorado, pension plans for volunteer fire departments (Plans) are established under the Volunteer Firefighter Pension Act (Pension Act).

Normal Retirement Pensions may be granted to a volunteer firefighter who has maintained a minimum training participation in the fire department of thirty-six hours each year during twenty years of active service and is at least 50 years of age. Certain other benefits may also be provided.

At least 235 Plans currently operate in the State. The Fire and Police Pension Association (FPPA) administers 174 of these plans. The others are administered locally. 210 of the 235 Plans receive funding from the State.

ALTERNATIVES TO THE CURRENT PLAN STRUCTURE

A. Master and Prototype Plan Document under a Central Administrator – Makes available an IRS compliant plan document that each volunteer firefighter department would adopt. Plans would be pooled and managed by a state entity such as FPPA (pursuant to its own master and prototype document) or an outside vendor (pursuant to the vendor's master and prototype document).
B. Length of Service Plan – Converts all plans to a DC approach through a Length of Service program, which qualifies under section 457(e)(11) of the IRC rather than 401.
C. Single DB System Administered by a Central Organization – The various Plans would be merged into a single defined benefit "system" operated by a central organization, such as the FPPA.
D. Annuitize Current Benefits through a Private Vendor – Requires each volunteer firefighter department to purchase annuities from the private market for benefits accrued to date plus benefits earned each year.
E. New Traditional Defined Benefit Plan with an "Offset" Formula – Develops an IRS compliant master plan document that each current Plan would adopt. The current Plans would be frozen and act as an offset to the new plan benefit levels. The new plan would be sponsored and solely administered by a central organization, such as the FPPA.
F. New "Cash Balance" DB Plan with Future Service Accruals – A cash balance plan operates under many of the same principles as a defined contribution plan but is considered a defined benefit plan under the IRC. Current Plans would be frozen or terminated. For current Plans that are terminated, funds could be "rolled over" into the new the cash balance plan.