We make our investment decisions based on our expectations for markets over a 10-20 year time horizon. We understand that in any such period there will be crises which may negatively impact markets, and we take this into account in our projections and planning.

As most people are aware, even prior to the terrorist attacks of September 11, the world was in the midst of a significant economic slowdown. Many economists believed that we were already in, or about to enter, the first recessionary period since the early 1990s. Stock markets worldwide had also turned sharply negative prior to September of this year.

Not surprisingly, the events of September 11 and their aftermath have exacerbated an already difficult economic and investment environment. The economy is now, by most accounts, in recession. The projected time frame for an economic recovery has been extended from the first quarter of next year until the second half of 2002. Similarly, many investment experts do not expect equity markets to have a sustained rebound until sometime next year. More importantly, perhaps, there remains a great deal of uncertainty about these forecasts because there remains much uncertainty about the US response to the attacks and the possibility of more terrorist attacks.

FPPA’s investment portfolio, like all large institutional portfolios, has been negatively impacted by these trends and events. The domestic equity stock market, (as measured by the Russell 3000 Index), was down -8.8% in September alone and -20.8% since the beginning of the year. The FPPA domestic equity portfolio was also down significantly, but did manage to beat the broad market by over 3%, with a return of -17.4%. The story is similar for international stocks where FPPA’s portfolio returned -23.8% verses -26.1% for the market index (MSCI ACWI ex US), year to date. Fortunately, FPPA’s total portfolio is well diversified, with exposure to a number of different asset classes other than stocks. The core domestic bond portfolio has returned in excess of 8% year to date and the real estate portfolio in excess of 3%.

This is obviously not a great result, but it reflects the realities of the difficult investment environment in which we find ourselves. Even with the losses incurred thus far this year, the return of FPPA’s total portfolio, since inception, is in excess of 11.3% per year. This is well ahead of our actuarial and real rate of return objectives.

A question posed by a number of our members and employers is whether we will change our investment strategies in light of recent events. Clearly, we are always concerned
Investing in Difficult Times
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about shocks to the world financial markets and we want to understand the longer-term implications of such events. We will, therefore, continue to monitor the situation closely and may make some short-term tactical adjustments to the portfolio. For example, we have proceeded cautiously in rebalancing back to our long-term equity target, resulting in a temporary overweight to bonds.

FPPA, however, invests for the long-term. We make our investment decisions based on our expectations for markets over a 10-20 year time horizon. We understand that in any such period there will be crises which may negatively impact markets, and we take this into account in our projections and planning. Consequently, while we will continue to monitor the situation closely and may make short-term tactical adjustments, we do not intend to alter our basic long-term investment strategy for the fund.

Ultimately, we believe in the fundamental strengths of the US economic system and we remain optimistic about the long-term investment environment. FPPA

FPPA will be submitting to employers and active plan members four proposed amendments to the Statewide Defined Benefit íNew Hireî Plan. An election is being planned for the first part of 2002 to determine whether the proposed amendments will be adopted.

All íNew Hireî police officers and firefighters (hired on or after April 8, 1978) covered by the Statewide Defined Benefit plan and their employers are eligible to vote. For all active members of the Statewide Defined Benefit Plan, this election represents your fourth opportunity in history to change some of your future pension benefits. Active and retired old hire members of local pension plans and members of money purchase plans are unaffected by the election and will not participate. Additionally, retired members already receiving benefits under the Statewide Defined Benefit Plan do not vote, as their benefits will not change regardless of the outcome of this election.

The purpose of this New Hire plan election will give participating members and employers an opportunity to consider improving pension benefits by the following four no-cost proposed amendments.

Amendment #1 - Retirees and beneficiaries may receive a Cost-of-Living Adjustment (COLA) to their pension benefits of an amount up to 3% a year to be determined by the FPPA Board.

Current Plan Provision - Retirees and beneficiaries may receive a Cost-of-Living Adjustment (COLA) to their pension benefits of an amount not more than the lesser of the Consumer Price Index (CPI) or 3% a year to be determined by the FPPA Board.

Amendment #2 - Allow members to self direct the SRA monies in their accounts in any investment option offered by FPPA, once the members have retired (Normal, Early, or Vested Retirement) or entered DROP.

Current Plan Provision - SRA monies are commingled for investment purposes in the Fire & Police Membersí Benefit Fund and earn investment return based on the performance of that fund.

Amendment #3 - Allow members to self direct the Deferred Retirement Option Plan (DROP) monies in their accounts in any investment option offered by FPPA once the members have entered the DROP.

Current Plan Provision - DROP monies are commingled for investment purposes in the Fire & Police Membersí Benefit Fund and earn investment return based on the performance of that fund.

continued on the next page
Amendment #4 - Allow members who meet the requirements for Early Retirement (age 50 OR 30 years of service) and members who meet the requirements for a Vested Retirement (at least 10 ñ 24 years of service and age 55) to participate in the Deferred Retirement Option Plan (DROP).

Current Plan Provision - Members who meet the requirements for Normal Retirement (age 55 with 25 years of service) can participate in the DROP.

In order to become effective, each amendment must be approved by an affirmative vote of at least 65% of active plan members and more than 50% of their employers. As election plans become final, FPPA will furnish complete information to all participating members and employers.

The FPPA Board of Directors has set the 2002 Separate Retirement Account contribution rate for members of the Statewide Defined Benefit Plan at 1.5%. This is the percentage of salary that will be added to the accounts of new hire members. The new SRA contribution rate will go into effect January 1, 2002.

A Separate Retirement Account (SRA) balance is calculated in the following way. After the 16% combined employee and employer contributions are received to fund the Statewide Defined Benefit Plan and after all of the plan costs are paid, any surplus amount is allocated from employer contributions to an SRA account in each member’s name. Each member’s SRA will have earnings or losses posted to his/her account on a monthly basis.

The SRA allocation will vary from year to year based on the cost of the Statewide Defined Benefit Plan from the previous year.

Colorado state statute establishes the criteria for a cost of living adjustment (COLA) to statewide plans administered by FPPA. The criteria states that it is the determination of the FPPA Board of Directors whether a COLA is granted and what amount a COLA may be. The criteria also states that the maximum amount a COLA may be is either the consumer price index or 3%, whichever is less.

Since the consumer price index was 3.5%, the Board of Directors granted the maximum allowable cost of living adjustment of 3% for benefits paid from October 1, 2001 to October 1, 2002.

COLA adjustments are effective every year on October 1. Each percentage announced is cumulative and compounds upon the previous year’s percentage. As an example: a January 2000 retiree will receive a 3% increase to their retirement benefits from 2001; a retiree from January 1990, due to compounding, will receive a 35.1% increase to their original retirement benefits from 1990.

Statewide Defined Benefit Plan Retirees
The 3% COLA for 2001 will be granted for all retirees of the Statewide Defined Benefit Plan who were retired before October 1 of last year. Those who retired after October 1 of last year will have their benefit adjusted by the COLA percentage announced next October.

Statewide Death and Disability Plan Members and Survivors
Under the Statewide Death and Disability Plan, totally disabled members and survivors are guaranteed a COLA, while occupationally disabled members and survivors may be granted a COLA at the discretion of the FPPA Board of Directors. The 2001 COLA announced for both totally and occupationally disabled members and their survivors is 3%.
The Pension Reform Commission (PRC) is the state legislative oversight committee set up to review and recommend legislation governing fire and police pension plans in Colorado. In the recent fall meeting with the PRC, FPPA staff members presented three proposed bills which they asked the PRC to sponsor during the 2002 legislative session. The three bills, summarized below, were approved by the PRC and will be introduced when the legislature convenes in January.

**Statewide Death & Disability Plan Bill**

This proposed bill will accomplish the following:

- Creation of a "permanent occupational disability" with a flat 50% of base salary benefit with:
  - No prognosis for improvement
  - No reexamination
  - Regular offsets for SRA and Money Purchase balances and for earned income

- Creation of a "temporary occupational disability" with a flat 40% of base salary benefit with:
  - Periodic reexamination required
  - Board may require treatment, counseling or therapy
  - Burden on the member to show compliance with Board direction and continuing disabling condition
  - 5 year maximum benefit
  - May be upgraded to permanent occupational or total disability
  - No SRA or Money Purchase offsets to benefit
  - Family is eligible for survivor benefits if member dies while on temporary occupational disability
  - If the disability ceases to exist and the member is restored to active service, FPPA will transfer from the death and disability fund the contribution required to fund the defined contribution plan or to fund service credit under the defined benefit plan for period of time the member was on temporary occupational disability (16% per year maximum. If a defined contribution planís normal contribution amount is above 16%, the employer will make up the difference.)
  - If the member reaches age and service, including time on disability, under a defined benefit plan while on temporary occupational disability, FPPA will transfer from the death and disability fund the final contributions necessary for member to earn full service credit and the member will be granted a normal retirement in lieu of continued disability retirement (16% per year maximum. If a defined contribution planís normal contribution amount is above 16%, the employer will make up the difference.)

- Family option on total and permanent occupational disability to specifically include adult dependent incapacitated children

- Determination of disability can include consideration of any relevant evidence by Board

- Annual cost of living adjustments up to 3 % to be determined by the Board with no consumer price index limitation for occupational disability and survivor benefits and an automatic 3 % benefit increase for total disability

- Offsets for local SRAIs for total and permanent occupational disability benefits and survivor benefits

- Permanent occupational disability benefit payment options would be the same as total disability benefit payment options

- Statute of Limitations for applying for a disability benefit would be 180 days from the last day on the payroll

- Member can waive their right to reinstatement during application process

- Employers submit statement of reason for service termination with application

- Employers submit statement of additional basis for disability with application

- No earned income offset for total disability

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The FPPA annual public hearing to consider changes to the association's rules and regulations was held on Wednesday, August 22. Most of the amendments adopted by the FPPA Board are designed to bring FPPA rules in line with recently adopted state and federal legislation. Other changes resulted from suggestions made by individual members, employer representatives and FPPA staff. While many of the changes are relatively minor and technical in nature, the following is a brief overview of just some of the amendments to the rules and how they may affect the membership.

Amended Rule 101.09 - As amended (in italics), this rule adds to the definition of a dependent child to read, an unmarried child under the age of 19 or, if enrolled as a full-time student at a secondary school or an accredited institution of higher education, under the age of 23 or, if the Board so determines, any child of whatever age and marital status who is so mentally or physically incapacitated that they cannot provide for themselves. By broadening the definition for a dependent child the criteria now covers more conceivable situations for benefits.

Amended Rule 304.10 - As amended, this rule allows for the flexibility of the commencement date for distribution of the separate retirement account of a member who dies prior to termination of employment. By allowing for the deferral of benefits, a surviving spouse and/or dependent children may avoid certain tax penalties.

New Rule 406.01 & 406.02 - These new rules will streamline initial disability and uncontested survivor benefit applications by being approved (after administrative review) by the CEO of FPPA, without further hearing by the Board of Directors. In certain cases, these two new rules will expedite the disability approval process.

A current copy of the rules may be obtained by calling the FPPA office at (303) 770-3772 in the Denver Metro area or (800) 332-3772 toll free nationwide. The rules and regulations are also available on our website at www.FPPACO.org for viewing and/or downloading. Any questions concerning the amendments to the rules should be directed to Kevin Lindahl, FPPA General Counsel.
In August, FPPA conducted a Retiree Health Insurance Survey to learn what features and programs you would find most beneficial in an optional insurance plan. We also asked for your interest in additional health insurance coverage. What a tremendous response we received - at last count, we had received more than 2,100 responses. Thank you for your participation!

According to the survey, the #1 concern many of you have is health insurance. That is also the most difficult for us to resolve. We are addressing it and hope to bring you some news in a couple of months. In the meantime, we are able to immediately address the second most mentioned concern, Dental Insurance.

FPPA is pleased to announce that we are negotiating a much-improved dental insurance program with one of the largest insurance companies in the world. Retirees will have true freedom of choice and may go to any dentist they want, nationwide. The enrollment packets should have arrived in your homes by mid-October and need to be returned to FPPA no later than December 10th. It is very important that you enroll during the open enrollment period, since we were successful in bringing benefits of this caliber to you by assuring the carrier that this benefit is in demand by our retirees and that you would support it by enrolling. They are requiring a minimum enrollment to offer the plan. So please, if you are considering coverage, enroll during the open enrollment period!

We also asked for your input on all types of insurance you are interested in. This is what you said, ranked from highest interest level to lowest:

- Health insurance
- Dental benefits
- Vision benefits
- Medicare supplement
- Long-term care (nursing home and home health care)
- Life Insurance

FPPAís service agency, The Benefit Companies, currently has access to the following INDIVIDUAL types of insurance plans:

- Individual health insurance, medically underwritten
- Medicare supplement
- Long-term care (nursing home and home health care)
- Life Insurance

For more information about these INDIVIDUAL plans and to see if you qualify for coverage, please call Julie Talley at The Benefit Companies ñ FPPA Member Direct Line (303) 400-0726 in the Denver Metro area or toll free 1-(877) 642-3671 nationwide.

Stay tuned for additional news as we continue our search to provide affordable insurance options for retirees. FPPA
Governor Bill Owens named two new members to the Fire and Police Pension Association Board of Directors. They are Joseph G. Ortiz of Sedalia, representing retirees as a retired police officer, and Todd A. Bower of Denver, representing full-time paid firefighters. At the September 26th Board meeting both Mr. Ortiz and Mr. Bower officially began their terms, which will both extend until September 1, 2005.

Joseph G. Ortiz retired from the Denver Police Department with over 25 years of service. Within his career he held the position of Division Chief for the following divisions; Patrol, Criminal Investigations, Traffic, Community Services, and Staff Services. Currently Mr. Ortiz is the Chief of Police for Auraria Campus Police and Security Department. As an FPPA Board Member, Ortiz will represent all retired FPPA members during his four year term.

Todd A. Bower currently is a Lieutenant with the Denver Fire Department. In addition to having been with the Denver Fire Department for over 8 years, Mr. Bower also holds a law degree and practices as an attorney in a local Denver law firm. He will be representing for the first time in FPPA history the rapidly growing “New Hire” segment of the membership. “New Hires” are all full-time employees of participating firefighter or police departments in Colorado hired on or after April 8, 1978 and are covered under the Statewide Defined Benefit Plan administered by FPPA.

Fellow FPPA Board of Directors and FPPA staff would like to extend a heartfelt thanks to outgoing members, Randy Atkinson and David McConnel. Randy Atkinson served on the FPPA Board of Directors and represented full-time paid firefighters for 13 years. He leaves the post with our gratitude for his outstanding service to the membership. David McConnel served his 4 year term representing retired firefighters. We want to also thank David for his contribution to the membership while serving in this position.

The FPPA Board of Directors accomplishes its business at regular meetings, held monthly at the Association’s Greenwood Village offices. All meetings are open to the public.

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**Investment Returns as of September 30, 2001**

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<th>5 Years</th>
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*As of September 30, 2001 FPPA’s total assets exceeded $2.20 billion.*
When you log on to the FPPA web site you will find links to publications, benefits and legislation. Under Publications and through the link labeled Forms, we’ve recently added packets of forms for both retired and active members.

As an example, retired members may download and print a copy of the Direct Deposit Form. Once filled out and returned to FPPA, retirement checks are deposited directly to a retired member’s bank account. This form may also be used if any current direct deposit banking information has changed.

Active members will find on the Forms page, various form packets for situations such as retirement, entering DROP, and disability. The form packets are designed with complete instructions to aid in filling out each form for submission.

The Benefits link has publications divided by each of the plans administered by FPPA. As an example, under each plan listed are links to the same publications we hand out during field visits to each department throughout Colorado. In addition there are links to the Colorado Revised State Statutes which are the governing authority for FPPA.

Visit our web site often and take a moment to bookmark our location. We welcome your comments and suggestions for ways to make our web site more useful to you. FPPA

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