With the current state of affairs, Americans have been presented with multiple scenarios of how the recent hostilities might affect the economy and, ultimately, the money they have invested for retirement.

Consequently, many Americans who are saving for retirement are taking a closer look at their portfolios, asking themselves: Should wartime affect my investing strategy?

“We can’t know when conflicts start or what its effect will be or how long it will last,” says Roy Komack, president of Family Financial Architects in Natick, Mass.

Komack and other financial planners agree that uncertainty can be unnerving. With that in mind, they offer a few points to remember when the heat of battle threatens your faith in the future.

**History is on your side.** It’s human nature to question the wisdom of your investing strategies in uncertain times. That’s why economics professor Ronald J. Balvers recommends looking back instead of forward.

“Studies have shown clearly that whenever conflict of this sort occurs the stock market initially goes down because of the increase in uncertainty,” says Balvers, who specializes in studying stock market performance when investors have incomplete information. “But as a war ends, the uncertainty has often been resolved and the stock market has tended to go back up.”

The month after the Pearl Harbor attack in December 1941, for example, the S&P 90 index (which later grew into the S&P 500) dropped 4 percent. But that dip was quickly followed by annual returns of 25 percent over the next several years. They were the market’s biggest returns ever until the bull market of the 1990s, which itself followed on the heels of the Persian Gulf War. Of course, past performance is no guarantee of future results.

The Vietnam War broke the pattern, but the economy during that period was burdened by high inflation and interest rates, neither of which is present today.

**Understand the risk of being too conservative.** Balvers’ lesson shows that even in wartime, the stock market has historically rewarded investors. But what would be the harm of being extra cautious and shifting your workplace retirement savings account assets into a relatively stable money market fund until the smoke clears?

“People sometimes forget that being overly conservative has risks of its own,” says Linda Franklin, a financial planner in Larkspur, Calif. “Markets can rebound quickly, and usually with little warning. You can miss out on a lot by sitting on the sidelines.” Plus, she points out, keeping your assets in a money market fund may mean that your earnings won’t keep pace with inflation.

**Time horizon is important.** The risks associated with wartime investing may be lower for long-term investors than for those who will need to tap their assets within five years, Franklin says. And even if you’re preparing to retire, determine when you’re going to need to begin drawing from your 401(k), 403(b), or 457(b) plan account. It may be that you can afford to keep your assets invested for at least several years more before you need to begin taking withdrawals, in which case you might want to shift more slowly into

*continued on page 5*
The recent war in Iraq resulted in thousands of reservists being summoned to active duty to support ‘Operation Iraqi Freedom’. Some of these reservists may be members of the Statewide Defined Benefit Plan, the Statewide Money Purchase Plan, and/or the Statewide Death and Disability Plan. Some questions have arisen concerning benefits for reservists during periods of military leave. This article, specifically addresses the requirements of federal and state law as they affect pension benefits under the statewide plans administered by FPPA.

The reemployment rights of employees on military leave are governed by the Uniformed Services Employment and Reemployment Rights Act (USERRA). USERRA was passed in 1994 to clarify the rights and benefits of reservists returning from Operation Desert Storm. Members must comply with the requirements of USERRA in order to receive the benefits provided under this federal law. Generally, those benefits include reemployment without loss of seniority or pension benefits.

In order for members on military leave to take advantage of the reemployment rights under USERRA, they must notify their employers, either orally or in writing, that they will be absent from work because of military duty. Also, for a veteran to be entitled to the benefits provided under USERRA, the military leave of absence cannot exceed five years and the member must apply for reemployment within a reasonable period following an honorable discharge.

Reemployment
The length of a returning veteran’s military service determines the time period for seeking reemployment following discharge. If the service is for 30 days or less, a veteran must apply for reemployment or report to his or her place of employment no later than the beginning of the first full work period on the first full calendar day following completion of service, plus eight hours to allow for safe transport home. If the military service lasts more than 30 days but less than 181 days, a returning veteran must seek reemployment no later than 14 days following the end of service. For military service periods of 181 days or more, reemployment must be sought no later than 90 days following discharge. In the event of an injury, a veteran generally has up to two years to apply for reemployment.

Retirement Benefits
USERRA provides that for the purpose of calculating pension benefits, compensation is to be determined as if the leave had not occurred. Also, USERRA requires an employer to fund any accruals to a defined benefit plan and allocations to a defined contribution plan for a returning member as if he or she had never taken leave. However the accruals and allocations are conditioned on the employee making up any required contributions. Thus, an employer will have to make up any unpaid contributions for the returning employee, provided the employee makes up the missed deferrals or contributions. The employee must make up the contributions within a period not exceeding three times the period of military service, but in no case may the period exceed five years.

The employer may choose to continue to submit to FPPA the employer’s normal contributions or allocations while the FPPA member is away on military leave. However, service credit will be awarded to the returning veteran only upon the repayment of employee contributions as required under the terms of USERRA. If the employee does not return to work for the employer after military service or otherwise fails to comply with the reporting and repayment provisions of USERRA, the employer will receive a credit from FPPA for the contributions made on behalf of the veteran.

✓ FPPA asks that employers furnish to FPPA the names of those persons on military leave for whom employer contributions are being submitted and the amount of those contributions.

✓ FPPA also asks that employers notify us immediately upon the employee’s return to work so his or her status is kept current in FPPA’s records, and so he or she can be given the opportunity to make up any unpaid contributions.

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The Statewide Death & Disability Plan

In addition to the normal retirement plan offered through FPPA, FPPA provides disability and survivor pension benefits for its members and their families. Those benefits for members hired prior to January 1, 1997 have been funded entirely by the State of Colorado and not by employer or employee contributions. Benefits for those hired on or after January 1, 1997 are funded through employer and/or member contributions. Benefits are available to active members of the Statewide Death and Disability Plan as well as members who are on an authorized leave of absence from their jobs, including an authorized leave of absence for military duty. Within the contribution reporting process, the employer must notify FPPA which members are on military leave. FPPA Rule 401 requires official certification of leaves of absence in which the employee is on leave of absence for one month or more.

Contributions of 2.4% into the Statewide Death and Disability Plan must continue during the period the member is on an authorized leave of absence. If the employer is paying 100% of this contribution, the employer must continue to remit the D&D contribution on a monthly basis using the member’s latest base salary. If the employer contributes partially or the member pays the entire contribution, the employer will remit the monthly contribution during the authorized leave of absence using the member’s latest base salary. The FPPA Board of Directors strongly encourages the employer to cover the member entirely during a period of military leave, but leaves this to local discretion.

If you have any questions about any of the items discussed in this article, please contact FPPA’s Membership Accounting Supervisor, Charles Duran, at (303)770-3772 in the Denver Metro area or (800) 332-3772 toll free nationwide. Members and employers who have internet access and wish to learn more about USERRA can visit http://www.dol.gov/elaws/userra0.htm.

For those of you who have amended your plan documents to self-direct your DROP accounts, the transition to Fidelity Investments is completed. Fidelity is FPPA’s record keeper and provides investment options for your plans.

Some of you are already reaching retirement and making decisions on how you want to take distribution of your funds. FPPA has been getting phone calls from DROP retirees worried about completing their distribution within 30 days. The reason behind that is that your plan documents stipulate that once you retire and terminate employment you must select a distribution method within 30 days. If no selection is made within 30 days of retirement, the lump sum payment method shall be utilized. Please DO NOT panic and think you must make any sort of irrevocable election. The good news is that one of your distribution options is to defer taking payments from your account until a later date. The date chosen can be any time after you terminate service, but no later than age 70 ½. AND, you can change the date at any time! Simply notify FPPA in writing (within that 30-day period) that you want to defer taking payments to a future date, and that satisfies the requirement in your plan documents. So, never, ever think that you must roll your funds out of your account – there is a simple way to stay right where you are!

By continuing to invest your DROP account with FPPA and Fidelity, you take advantage of the wide range of investment options; direct how your account is invested, and build an investment portfolio that matches your unique risk tolerance as a retiree. Low fees remain at the $20/year, the same as when you were active. You can continue to manage your account through the Internet, the automated phone service line, or Fidelity's retirement service specialists. Also, please be assured that FPPA staff will continue to be involved with you throughout your retirement. We monitor the investment options and services that our members and retirees receive from Fidelity, and we can assist you if there are ever any problems with your retirement account.
Every year the State of Colorado contributes money to volunteer fire departments for their pension funds. State contributions are equal to 90% of all amounts paid into the pension plan in a calendar year. The state contribution shall not exceed one-half mill on the current valuation for assessment assuming 100% collection. (FPPA will contact each employer in the event the state is unable to provide matching funds for 2003 due to the current budget crisis facing Colorado.)

Retirement benefits are no longer subject to a maximum amount. However, if the board pays pension benefits in excess of $300 per month, the department is subject to the state contribution limitation. This limitation requires that a municipality or district that was levying an amount necessary to pay pensions in excess of $300 per month will receive state contributions in an amount not to exceed one-half mill on the current valuation for assessment, but will be based upon the greater of the mill levy that would be actuarially required to pay a pension of $300 per month or the actual state contribution received by the department during the calendar year 2001. In addition, state contributions cannot exceed the limit as described in the first paragraph above.

If your plan exceeds the $300 per month maximum pension, an actuarial study based on the following limitations on pension benefits will be required in order to calculate your matching funds.

- Normal pension of $300 per month,
- Short-term disability monthly annuity of $150 per month,
- Service accrual retirement pension of $200 per month,
- Survivor benefit of $150 per month,
- Funeral benefit of $100 per month.

If the district is putting in an amount equal to one-half mill, the state contribution minimum will be $1,000.

FPPA mails out applications for matching funds every year in late April or early May. Affiliated departments must fill out the application, sign it, notarize it, and return it to FPPA by the deadline. The deadline is the last Friday in August.

Departments who are affiliated with FPPA need to send financial statements the first year they affiliate. FPPA does not need financial statements thereafter. Non-affiliated departments must submit an annual audit or the ‘application of exemption from audit and certification by the State Auditor’s office’ with their application.

If the application and supporting required documentation are not returned to FPPA by the deadline, your plan will not receive matching funds for that year. FPPA will only process applications for the current year matching funds. No applications for prior years will be accepted.

Contributions to the pension plan must be received in the calendar year that you are applying for matching funds. Adjustments will be made to your matching funds amount if your budgeted contribution from the prior year application does not equal the actual contribution to the plan.

FPPA bills the state for matching funds in late September/early October. If your department is affiliated with FPPA, your department’s state funds will be transferred directly into the pension fund in late-October. Non-affiliated departments will be mailed a check for their portion of state funds. State matching funds are shown on the department’s allocation report under “state funding/affil.”

Any questions about the matching funds may be directed to FPPA at (303) 770-3772 in the Denver Metro area or toll free (800) 332-3772 statewide or visit our web site at www.fppaco.org. FPPA

An affiliated volunteer fire department is a department that has affiliated with FPPA to manage its pension fund investments. FPPA invests the pension fund’s money and pays retirement benefits to any retirees and survivors of that department who are eligible for pension benefits.
lower-risk, income-producing investments. A long time horizon also increases the importance of “dollar cost averaging,” or investing a set amount at regular intervals, such as the money from each paycheck that you contribute to your workplace retirement savings account. By spreading out your purchases, you’re ensuring that you will be buying at the bottom of the market cycle as well as at the top, which tends to smooth out the effects of fluctuating prices.*

Avoid chasing fads. This suggestion is always important, but especially so in wartime, when heightened fears tend to fuel a herd mentality among investors. Bonds, for example, have been a hot investment in the past few years as interest rates have fallen and bond-fund prices have increased. “There’s not a lot of room for interest rates to continue falling,” Franklin cautions. “If they go up, the value of your bond fund shares may drop, even if the interest rates you’re earning stay the same,” she notes. “Bond fund prices can fluctuate just like stock fund prices.”

Stay focused on the issues at hand. The current state of affairs is coming at a time when many investors are feeling particularly vulnerable. A three-year market decline coupled with a weak economy and a spate of corporate scandals has shaken investor confidence. But Franklin urges her clients to keep those issues out of their thinking about the current situation.

“The bubble has burst and market valuations are back to where they should be, or even below where they should be,” she says. “Plus most of the accounting scandals may already be priced into stocks, and the economy is showing signs of recovery. So I think it may be a mistake to allow those things to add to your anxiety.”

Ease your mind without changing your strategy. If post-war issues are compelling you to take action, there is a way you can follow your instincts while leaving your long-term investment strategy largely intact.

“Diverting the flow of your retirement account contributions into more-conservative investments until the uncertainty passes is not a bad thing if it makes you feel better and helps you sleep at night,” says Roy Komack. “But I would advise against moving assets that are already invested out of their current allocation, assuming that the allocation strategy was well conceived in the first place.”

Keep contributing to your plan. Above all, Komack and Franklin advise 401(k), 403(b) or 457(b) investors to continue contributing, at the very least at the level of any employer match. The tax advantages of a workplace retirement savings account can make a big difference in your current-year tax bill while allowing your assets the potential to grow tax-deferred until you need them in retirement. Of course, taxes will be due when you withdraw money from your plan account.

Taking into account your time horizon, risk tolerance and financial needs, these types of accounts may still be the best investment for most American workers, during wartime or not, Franklin says. “Investments are like a pendulum,” she says. “The economic headlines may not be as bright as we would like, but historically things have tended to often times turn around. That’s why they call it a cycle.”

Rick Sauder is a freelance writer based in Lancaster, Pa. and a frequent contributor to Stages® magazine.

*Investing in this manner does not ensure a profit or guarantee against loss in declining markets. Since dollar cost averaging involves continuous investment in securities regardless of their changing price levels, you should consider your financial ability to continue your purchases even if your income level should change, or if other factors should affect your ability to continue with steady investing.

The statements and opinions expressed in this article are those of the author or the third party quoted and not those of The Fire & Police Pension Association.
The following information summarizes legislative bills which are of interest to the FPPA membership from the current Colorado General Assembly.

The first three bills were introduced by FPPA and sponsored by the Pension Reform Commission. The next three bills are additional pieces of legislation which affects FPPA and its members, and were sponsored by others.

To view a “plain language” version of the three bills introduced by FPPA visit our web site at www.fppaco.org and click on the blue button Legislation then the link to State Legislation and then the link to 2003 Legislative Session. Or call FPPA at (303) 770-3772 in the Denver Metro area or (800) 332-3772 toll free nationwide and ask for more information.

For the actual technical legislative language of all of the following bills visit the Colorado State web site at www.colorado.gov. Once there scroll down and click on the Colorado Legislature Homepage link. Then click on either the House or Senate Bills link which will take you to each of the bills by number.

Bills introduced by FPPA and sponsored by the Pension Reform Commission.

**Senate Bill 2003 – 57**
This bill, which has now become law, creates two new defined benefit plan alternatives for police and fire departments with money purchase plans. Beginning in 2004, these departments will be allowed to re-enter the existing Statewide Defined Benefit Plan or alternatively enter a new Statewide Hybrid Plan. The new Statewide Hybrid Plan, now being designed, will offer a combination defined benefit and defined contribution benefit. The specifics of the benefits and the procedures for departments to follow to opt into these alternatives will be available later this year. Existing members of departments re-entering the Statewide Defined Benefit Plan will pay an increased contribution rate in order to prevent adverse actuarial impact to existing Statewide Defined Benefit Plan members. The increased rate will be determined later this year after an actuarial study is conducted. This bill also decreased the vesting period for the Statewide Defined Benefit Plan to five years in order to bring a consistent vesting period to the statewide plans and facilitate the reentry of members from money purchase plans. The cost of this improvement was 0.04% of payroll. If you are interested in following the progress of the implementation of these plans, you can subscribe to the mailing list used to periodically update interested persons by sending an email to JThompson@fppaco.org.

**House Bill 2003 – 1009**
This bill, which has now also become law, created the authority for FPPA to create and implement a Health Care Defined Benefit Plan. Now that legislation has passed, FPPA will proceed with drafting the plan, studying the alternatives, and determining the defined benefit amount to be paid. Once the plan is prepared, a vote will be held of all statewide plan members (Statewide Defined Benefit Plan, Statewide Money Purchase Plan, and Statewide Hybrid Plan). If the vote passes the membership by 65%, all members of the statewide plans would contribute 1% of their salary. If less than the majority of a department’s members vote in favor of adopting the plan, the employer may elect not to participate in the plan. Neither the state nor employers will have any liability for the plan.

**Senate Bill 2003 – 56**
This bill, which has been signed by the Governor, is commonly known as the FPPA Membership Bill. This legislation allows, but does not require, part-time firefighters and
police officers to participate in FPPA retirement and disability plans, allows support staff of fire districts to become members of FPPA retirement plans with their department, and allows County sheriff departments to participate in FPPA supplemental social security plans for defined benefits and death and disability. Under the legislation fire and police members of the PERA pension plan would not be eligible to participate in the Statewide Death and Disability Plan because there is no ability to offset benefits. This bill was amended in the House of Representatives to also clarify that the FPPA Board has an obligation to provide documentation regarding state money held by FPPA required by the state auditor in conducting legislative audits.

Bills which were not introduced by FPPA and yet affect FPPA and its members.

**Senate Bill 2003 – 263**
This bill, has passed both houses and is on its way to the governor for consideration, suspends state contributions to the remaining eight old hire plans with unfunded liabilities for two years, further delays the date of annual payment from September 30 to April 30, extends the annual contributions from fiscal year 2009-10 to fiscal year 2011-12, and leaves the state responsible for any unfunded liability accrued as a result of the suspension of the state contributions.

**House Bill 2003 – 1104**
This bill, which has been signed by the Governor, allows old hire plans to be amended by the old hire pension board, without a vote of the members, for amendments that are required under state or federal law. It also allows retired old hire members to serve on old hire pension boards.

**House Bill 2003 – 1204**
This bill, which has also been signed by the Governor, requires business relationship disclosures to be made to FPPA by investment marketing firms who also provide investment analysis on products they market.

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### Investment Returns as of March 31, 2003

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*As of March 31, 2003 FPPA’s total assets exceeded $1.974 billion.*
In This Issue
1. Investing During Or After Wartime
2. Members On Leave Of Absence Including Military Leave
3. DROP Distribution Deadline After Retirement
4. State Matching Funds To Volunteer Fire Pension Funds
5. Legislative Update
6. Investment Returns
7. Upcoming Seminars
8. Direct Deposit

Upcoming Seminars
Investment Strategy Workshop • Thursday August 28th
This seminar is specifically for members in the FPPA 457 Deferred Compensation Plan, Statewide or affiliated money purchase plans or the DROP Plan.
FPPA has selected Fidelity Investments® to present this seminar. This workshop will provide important techniques for investing.
For more information about these seminars, call Rory Mammen at the phone numbers listed above, or log on to www.fppaco.org and click on the Calendar button.

Direct Deposit
90% of our retirees are “out and about” enjoying their retirement.

It’s secure, convenient & reliable!
Help us close the gap on the growing number of retirees who already enjoy the security and convenience of direct deposit for their retirement benefits. Over 90% of our retirees are currently enrolled in the reliable and safe alternative to waiting for their checks in the mail and having to drive to the bank to make a deposit. The FPPA Direct Deposit / Electronic Funds Transfer (EFT) Program is available to you and actually saves time and money.

Joining our Direct Deposit/ Electronic Funds Transfer Program is easy!
1) Simply call Ali Lone at (303) 770-3772 in the Denver Metro area or (800) 332-3772 toll free nationwide to request an EFT Form. Or log on to our web site at www.fppaco.org and click on Forms and then on Forms For Retired Members.
2) Fill out the form and return it to FPPA.
2) Then sit back while your benefit payments are quickly and safely transferred to your bank account each month.
What will you do with all of the time you saved?