



AGENDA

LUCAS Volunteer Firefighter Pension Board

February 9, 2015 6:00 PM

City Hall - 665 Country Club Road – Lucas, Texas 75002-7651

Notice is hereby given that a City of Lucas - Local Volunteer Pension Board Meeting will be held on Monday, February 9, 2015 at 6:00 pm at the Lucas City Hall, 665 Country Club Road, Lucas, Texas at which time the following agenda will be discussed.

Call to Order

Roll Call.

Determination of Quorum.

Reminder to turn off or silence cell phones.

Citizens' Input

The Citizens' Input portion of the agenda is an opportunity for the public to address the LUCAS - Local Fire Department Volunteer Pension Board on any subject. However, in accordance with the Texas Open Meetings Act, the Local Board cannot discuss issues raised or make any decisions at this time but may refer items to City Staff for research and possible inclusion on a future agenda.

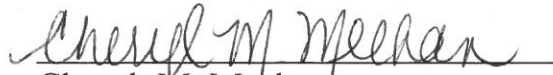
1. Citizens' Input.

Regular Agenda

2. Review and approve minutes of the Texas Emergency Services Retirement System (TESRS) Board meeting November 24, 2014.
3. Consider a presentation by Ms. Barbara Marzean, CIC, President, VFIS of Texas/Regnier & Associates, who will presenting a Length of Service Award Program (LOSAP) prepared by Glatfelter Specialty Benefits designed for the Lucas Fire Department.
4. Define the requirements of the Length of Service Award Program (LOSAP) Pension for the Lucas Fire Department Volunteer.
5. Adjournment.

Certification

I hereby certify that the above notice was posted in accordance with the Texas Open Meetings Act on the bulletin board at Lucas City Hall and on the City's website at www.lucastexas.us by 5:00 p.m. on Friday, February 6, 2015.


Cheryl M. Meehan
HR Manager, Staff Liaison

In compliance with the American with Disabilities Act, the City of Lucas will provide for reasonable accommodations for persons attending public meetings at City Hall.

Requests for accommodations or interpretive services should be directed to Jennifer Faircloth at 972-727-8999 or by email at jfaircloth@lucastexas.us at least 48 hours prior to the meeting.



**City of Lucas
Lucas Volunteer Firefighter Pension
Board
Meeting Date: February 9, 2015**

Name & Title of Requestor: Cheryl M. Meehan, HR Manager

Agenda Item:

Review and approve minutes from the November 24, 2014, 2014 TESRS- Local Lucas Fire Department Volunteer Pension Board Meeting.

Background Information:

N/A

Attachments/Supporting Documentation:

Minutes from the November 24, 2014 TESRS- Local Lucas Fire Department Volunteer Pension Board Meeting.

Budget/Financial Impact:

None.

Action:

Motion to accept the November 24, 2014 Minutes from the TESRS- Local Lucas Fire Department Volunteer Pension Board Meeting as presented.



PUBLIC NOTICE
TESRS - Local Lucas Fire Department
Volunteer Pension Board
November 24, 2014, 6:00 PM
City Hall - 665 Country Club Road
Minutes

Call to Order

Councilmember Millsap called the meeting to order at 6:01 p.m.

Present/Absent

Presiding Trustee Larry Bowman

Trustee Jaime Kilpatrick(absent)

Trustee Wayne Millsap

Trustee David Leonard

Trustee Gerald Reining

Trustee Gary Johnson

Staff:

City Manager Joni Clarke

HR Manager Cheryl Meehan

It was determined that a Quorum was present.

Regular Agenda

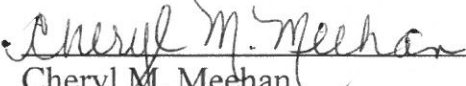
- 1) Review and approve minutes of the Texas Emergency Services Retirement System (TESRS) Board meeting October 6, 2014. Motion to approve the minutes as presented by Trustee Leonard, second by Trustee Millsap. Motion carried unanimously (5-0).
- 2) Review and approve minutes of the Texas Emergency Services Retirement System (TESRS) Board meeting October 20, 2014. Motion to approve the minutes as presented by Trustee Leonard, second by Trustee Millsap. Motion carried unanimously (5-0).
- 3) Presentation of 457(e) Length of Service Award Program (LOSAP) option as alternative to replace current Texas Emergency Services Retirement System (TESRS) pension, provided for City of Lucas Volunteer Firefighters. Motion made by Trustee Millsap to request specifics on 457(e) plan with VALIC Financial Advisors who currently administer our 457(b) program. Motion second by Trustee Leonard. Motion carried unanimously (5-0).

- 4) Review of current Texas Emergency Services Retirement System (TESRS) Reports as of November 13, 2014. Following a review of partially vested members, members that are not vested and the payments that are likely for those vested, a motion was made by Trustee Millsap to cease participation in the TESRS plan effective with the current quarter due and to hold the payment that is due December 2014, to be used in the new plan. Motion second by Trustee Leonard. Motion carried unanimously (5-0).
- 5) Consider pension options for the City of Lucas Volunteer Firefighters. No action taken since the action was previously handled in items 3 and 4.
- 6) Trustee Millsap made a motion to adjourn the meeting at 7:11. Trustee Bowman 2nd the motion. Motion carried unanimously (5-0).

These minutes were approved by a majority vote of the Local Lucas Pension Board on _____.

Presiding Trustee Larry Bowman

ATTEST:


Cheryl M. Meehan
HR Manager, Staff Liaison



**City of Lucas
Lucas Volunteer Firefighter Pension
Board
Meeting Date: February 9, 2015**

Name & Title of Requestor: Cheryl M. Meehan, HR Manager

Agenda Item:

Consider a presentation of the Length of Service Award Program (LOSAP) prepared by Glatfelter Specialty Benefits, designed for the Lucas Fire Department.

Background Information:

As a result of searching for a more accommodating pension plan for our City of Lucas Volunteer Firefighters, we have requested that VFIS of TX assist us in setting up and administering a LOSAP plan that is beneficial for our volunteer firefighters.

Attachments/Supporting Documentation:

1. Presentation from Glatfelter Specialty Benefits, Length of Service Award Programs designed for the Lucas Fire Department.

Budget/Financial Impact:

Our present budget allows for \$36,000 retirement benefit for our Lucas firefighters who are volunteers. Nothing has been spent to date. There are two scenarios for funding the plan. One is amortized for 5 years, the second is over 10 years.

Action:

No Action.



183 Leader Heights Road • P.O. Box 2726 • York, Pennsylvania 17405
(717) 741-0911 • (800) 233-1957 • Fax (717) 747-7069 • www.vfis.com



Length of Service Award Program

Designed For

Lucas Fire Department

Illustration #2

Date Prepared: January 19, 2015

Prepared By:

Jeff Moore
Glatfelter Specialty Benefits
(800) 233-1957 or jmoore@vfis.com
www.glatfelterspecialtybenefits.com

Presented By:

Barbara Marzean
VFIS of Texas
3420 Executive Center Drive, Suite 301
Austin, TX 78731
(800) 252-9435

**THIS PROPOSAL EXPIRES IN 90 DAYS
THE SIGNED PLAN DOCUMENT WILL SUPERSEDE ANY PROPOSAL SPECIFICATIONS**

Lucas Fire Department

Illustration #2

PLAN SPECIFICATIONS

1. **Effective Date:** 02/01/2015
2. **Eligibility:** As provided on your census.
3. **Pre-Entitlement Benefit Formula:**
 - \$10.00 Per month per year of past service
(maximum of 5 Years).
 - \$10.00 Per month per year of future service.
 - 20 Maximum years of service.
 - \$200.00 Maximum monthly entitlement benefit.
4. **Vesting Schedule:** 2/40
5. **Entitlement Age:** Age 65 plus 1 year of Plan Participation. (Participant must sever service with your organization or attain the maximum benefit permitted under the program to commence payment of the award.)
6. **Normal Form of Entitlement Benefit:** Monthly life annuity - (Minimum 120 monthly payments)
7. **Disability Benefit:** Lump sum distribution
8. **Pre-Entitlement Death Benefit:** The greater of \$10,000.00 or the present value of the participant's accrued benefit.

ACTUARIAL FUNDING METHODS & ASSUMPTIONS

9. **Interest Assumptions:** 4.75%
10. **Turnover Table:** N/A
11. **Mortality Table:**

	<u>Pre-Retirement</u>	<u>Post-Retirement</u>
Male	1994 Group Annuity (GAR)	1994 Group Annuity (GAR)
Female	1994 Group Annuity (GAR)	1994 Group Annuity (GAR)
12. **Funding Method:** Entry age normal frozen initial liability

Lucas Fire Department

Illustration #2

ANNUAL RECOMMENDED DEPOSIT

This Length of Service Awards Program has been structured to allow the plan sponsor to systematically set aside funds in relatively level increments as a means to accumulate funds necessary to provide benefits. The Annual Recommended Deposit illustrated in this proposal is based on information provided to us as well as the proposed effective date outlined in Plan Specifications. Any changes to participant specific data, Plan Specifications, or the effective date may cause variations in the illustrations provided below.

The Annual Recommended Deposit will be recalculated each year using current data, assumes first day of plan year contribution, and consists of the following:

	5 Year Amortization	10 Year Amortization
Administrative Fee	\$1,008.00	\$1,008.00
Life Insurance Premium	\$6,958.00	\$6,958.00
Investment Deposit Normal Cost	\$11,562.00	\$11,562.00
Investment Deposit Amortization	\$18,417.00	\$10,272.00
Annual Recommended Deposit	\$37,945.00	\$29,800.00

Administrative Fee

The VFIS annual administrative fee is \$800.00 + \$ 8 per Participant. This fee covers contracted VFIS services, as well as annual certification by an independent, enrolled actuary. The fee noted above is based on 26 Participants on your roster.

Life Insurance Premium

The death benefit illustrated in this proposal is supported by *individual* universal life insurance contracts. Coverage is guaranteed issue for members aged 16 to 65. Members aged 66 and older must go through medical underwriting to be considered for coverage. Coverage may be denied based upon the member's medical history. Life insurance protection is not available in this product for members aged 70 and older.

Investment Deposit Normal Cost ("Normal Cost")

"Normal Cost" is an estimate of the minimum funding necessary for the coming year that will accumulate an investment fund that is sufficient to provide promised benefits at entitlement for all eligible Participants.

Investment Deposit Amortization

"Normal cost" is calculated as if the plan had always been in effect and the sponsor had been making regular contributions up to the plan's effective date. However, since contributions were not made prior to the effective date, the amount that would have otherwise accumulated needs to be funded. As an alternative to paying this amount in a lump sum, it can be amortized over a number of years.



**Lucas Fire Department
Participant Summary Report
Valuation as of 02/01/2015 for the Plan Year Ending 01/31/2016**

<u>Employee Name</u>	<u>Status</u>	<u>Hire Date</u>	<u>Curr Age</u>	<u>Ret Age</u>	<u>Proj Mo Benefit</u>	<u>Accrued Benefit</u>	<u>Vest Pct</u>	<u>Vested Accr Ben</u>
Abston, Larry William	Active	1/1/01	62	65	\$80.00	\$50.00	100%	\$50.00
Bohnenkamper, Tony L	Active	4/1/13	52	65	\$150.00	\$20.00	40%	\$8.00
Bramlett, Doug G	Active	6/8/09	45	65	\$200.00	\$50.00	100%	\$50.00
Brasfield, Kyle J	Active	1/1/12	22	65	\$200.00	\$30.00	60%	\$18.00
Brazeal, Craig T	Active	1/16/11	26	65	\$200.00	\$40.00	80%	\$32.00
Dejong, Scott C	Active	7/11/11	27	65	\$200.00	\$40.00	80%	\$32.00
Evans, Ian C	Active	1/1/12	30	65	\$200.00	\$30.00	60%	\$18.00
Frome, Robert L	Active	1/16/11	49	65	\$200.00	\$40.00	80%	\$32.00
Gant, Lance M	Active	2/28/11	39	65	\$200.00	\$40.00	80%	\$32.00
Hamilton, Sabrina L	Active	4/22/13	34	65	\$200.00	\$20.00	40%	\$8.00
Hines, Benjamin W	Active	4/9/12	23	65	\$200.00	\$30.00	60%	\$18.00
Hurley, Jim L	Active	5/12/10	63	65	\$70.00	\$50.00	100%	\$50.00
Johnson, Gary D	Active	8/14/01	75	76	\$60.00	\$50.00	100%	\$50.00
Leonard, Coy Davld	Active	1/1/01	61	65	\$90.00	\$50.00	100%	\$50.00
Lynch, Dennis C	Active	2/2/07	37	65	\$200.00	\$50.00	100%	\$50.00
Malik, Matthew W	Active	1/1/13	26	65	\$200.00	\$20.00	40%	\$8.00
Mauck, Bobeite	Active	10/21/08	56	65	\$140.00	\$50.00	100%	\$50.00
Orozco, Brian Jt	Active	7/3/14	32	65	\$200.00	\$10.00	0%	\$0.00
Petersen, Cameron Del Var	Active	12/5/10	24	65	\$200.00	\$40.00	80%	\$32.00
Reining, Gerald L	Active	1/8/11	35	65	\$200.00	\$40.00	80%	\$32.00
Robinett, Chad D.	Active	9/15/09	32	65	\$200.00	\$50.00	100%	\$50.00
Sanchez, Maria J	Active	1/1/12	24	65	\$200.00	\$30.00	60%	\$18.00
Tellier, James Edward	Active	1/1/01	64	65	\$60.00	\$50.00	100%	\$50.00
Thompson, Kimberly A	Active	1/10/13	46	65	\$200.00	\$20.00	40%	\$8.00



Wheless, Scott L	Active	7/11/11	24	65	\$200.00	\$40.00	80%	\$32.00
Zale, Craig A	Active	1/1/01	47	65	\$200.00	\$50.00	100%	\$50.00

Member Total: 26

*Life insurance coverage is guaranteed issue for members aged 16 to 65. Members aged 66 and older must go through medical underwriting to be considered for coverage. Coverage may be denied based upon the member's medical history. Life insurance protection is not available in this product for members aged 70 and older.



**GLATFELTER SPECIALTY BENEFITS
DEFINED BENEFIT
LENGTH OF SERVICE AWARDS PROGRAM**

**A PROPOSAL TO:
LUCAS FIRE DEPARTMENT**

Prepared By:
Glatfelter Specialty Benefits
183 Leader Heights Road
York, PA 17402
www.glatfelterspecialtybenefits.com

Presented By:
Barbara Marzean
VFIS of Texas
(800) 252-9435

Glatfelter
Specialty
Benefits™



***THIS PROPOSAL EXPIRES IN 90 DAYS
THE SIGNED PLAN DOCUMENT WILL SUPERSEDE ANY PROPOSAL SPECIFICATIONS OR EXAMPLES***

HISTORY

In 1969 VFIS pioneered specialized insurance coverage designed to meet the unique needs of America's emergency service organizations. The insight of founder Arthur J. Glatfelter, owner of a well established insurance agency, with the professional help of the late Fire Chief Robert W. Little, Jr., formed the foundation of this highly praised program. Today, VFIS insures more than 15,000 volunteer and paid emergency service groups.

Neglected, misunderstood, and even feared by many insurance companies, volunteer and career firefighters were badly in need of specialized coverage. Response to the VFIS program soon brought to light the needs of rescue squads and other equally high-risk emergency service organizations.

As a result, VFIS has become much more than its name implies. Whatever the nature of your emergency service organization and its inherent risks, VFIS has a program to provide you with the coverage you require to keep your organization functioning at peak efficiency.

- A. VFIS is the world's largest insurance agency specializing in coverage for emergency service organizations.
- B. We proclaim our commitment to the emergency service field with memberships in many professional organizations. Some of these organizations include:
 - International Association of Fire Chiefs
 - National Volunteer Fire Council
 - International Society of Fire Service Instructors
 - Professional Insurance Agents
 - National Association of Life Underwriters
 - National Association of Casualty & Surety Agents
 - Congressional Fire Service Institute
 - Volunteer Combination Officers Section of the IAFC
- C. VFIS is the leader in providing Property and Casualty Insurance, Accident and Sickness Insurance, Length of Service Awards Programs, Loss Control, Education and Training, and other Support Services to the nation's emergency service organizations.

We understand the problems and concerns of emergency service organizations and take an active role in programs aimed at ensuring their success. We know our clients and the challenges they face. We appreciate their dedication and approach our jobs with the same enthusiasm and commitment. Our ability to meet the unique needs of the emergency service community has made us the leader in this field. We hold this confidence as a sacred trust.

GENERAL INFORMATION

- Founded in 1969 — over 45 years of experience with emergency service organizations
- Specializes exclusively in emergency service organizations
- Provides insurance, education, training, and consulting in 49 states and Canada
- Over 15,000 emergency service organization clients
- Unequaled client support services

LENGTH OF SERVICE AWARDS PROGRAM (LOSAP) SPECIFICS

- Involvement with LOSAP began in 1980
- Client service is our highest priority
- 500 LOSAP clients in 33 states
- Highly trained administrative staff dedicated exclusively to LOSAP service
- Continued research and analysis of tax and labor issues
- Written service fee agreement with 2 year price guarantee
- Specimen plan document provided to all clients for attorney review
- Annual certification by independent Enrolled Actuary provided at no additional cost

1. WHAT IS A DEFINED BENEFIT LENGTH OF SERVICE AWARDS PROGRAM?

A Defined Benefit Length of Service Awards Program provides a monthly benefit based on years of qualified active service. This benefit commences on the Plan's Entitlement (Retirement) Date.

2. WHAT ARE THE BENEFITS OF THE PROGRAM?

- A. Service Award- lifetime monthly income with a guaranteed minimum of 120 payments
- B. Pre-Entitlement Disability – lump sum benefit
- C. Pre-Entitlement Death – lump sum benefit

3. WHAT IS THE SIGNIFICANCE OF THE EFFECTIVE DATE?

It is the date the program begins.

- A. Service earned before the effective date is considered past service.
- B. It is the date future service benefits begin to accrue under the Plan.
- C. It is the date the initial contribution is assumed to be made.
- D. It establishes the date used to determine life insurance premiums.
- E. It is the life insurance effective date (with receipt of life insurance applications and premium).
- F. It establishes the Plan anniversary date; the date the actuarial valuation is prepared each year; and when life insurance policies renew.

4. WHO IS ELIGIBLE TO PARTICIPATE IN THE PROGRAM?

The emergency service organization (Sponsor) determines eligibility:

- A. Initially, upon submitting a census to Glatfelter Specialty Benefits (GSB) for a proposal.
- B. In future years, eligibility is based on your organization's point system or other methods used to determine who is an active volunteer member. *A point system illustration follows.*

A year of firefighting service shall be credited under a service award program for each calendar year after establishment of the program in which an active volunteer firefighter accumulates at least 50 points. Points are granted in accordance with a system adopted by the program Sponsor. In considering the categories below, all or any portion of this list can be used with additional flexibility in the point maximums. Such systems shall provide points granted for activities designated by the program Sponsor, with activities selected from the following:

I. TRAINING COURSES — 25 point maximum

- A. Courses under 20 hours duration — one point per hour, with a maximum of five points
- B. Courses of 20 to 45 hours duration — one point per hour for each hour over initial 20 hours, with a maximum of ten points
- C. Courses over 45 hour duration — 15 points per course
- D. Courses over 100 hour duration — 25 points per course

II. DRILLS — 20 point maximum

One point per drill, minimum two hour drill

III. SLEEP-IN OR STAND-BY — 20 point maximum

- A. *Sleep-in* — one point each full night
- B. *Stand-by* — one point each — a stand-by is defined as line of duty activity of the volunteer fire company, lasting for four hours, not falling under one of the other categories.

IV. ELECTED OR APPOINTED POSITIONS — 25 point maximum

- A. Elected or appointed position includes line officers, department or company officers and president, vice president, treasurer, and secretary of a fire company or department.
- B. Completion of one year term in an elected or appointed position.
- C. An active volunteer firefighter elected to serve as a delegate to a firefighters' convention shall also be eligible to receive one point per meeting.

V. ATTENDANCE AT MEETINGS — 20 point maximum

Attendance at any official meeting of the volunteer fire company — one point per meeting

VI. PARTICIPATION IN DEPARTMENT RESPONSES — 25 points for responding on the minimum number of calls, as outlined below:

Total number of calls Volunteer Fire Company responds to annually other than emergency rescue and first aid squad calls (ambulance calls)			
0 to 500	500 to 1,000	1,000 to 1,500	1,500 and up
Minimum number of calls volunteer firefighters must run annually in order to receive 25 points credit			
10%	7.5%	5%	2.5%

Total number of calls emergency rescue and first aid squad (ambulance)			
0 to 500	500 to 1,000	1,000 to 1,500	1,500 and up
Minimum number of calls volunteer firefighter must run annually in order to receive 25 points credit			
10%	7.5%	5%	2.5%

VII. MISCELLANEOUS ACTIVITIES — 15 point maximum

Participation in inspections and other activities not otherwise listed

VIII. ACTIVE MILITARY SERVICE — 50 point maximum

Only available for full-time, active military service for up to four years

Non NY

5. WHAT IS THE BENEFIT FORMULA?

The benefit formula determines the monthly income payable at the Plan's Entitlement Date. The following formula illustrates the proposed benefit structure:

- A. A benefit of \$10.00* for each year of service earned **before** the Plan Effective Date.
- B. The Maximum Years of Service to be recognized prior to the Plan Effective Date is 5*.
- C. A benefit of \$10.00* for each year of service earned **after** the Plan Effective Date.
- D. The Maximum Years of Service to be provided under the Program is 20*. This number limits the overall Years of Service recognized under the Program (*both Past and Future Service*).
- E. A Maximum Monthly Benefit of \$200.00* is the highest award permitted by the Plan.

6. WHAT IS THE ACCRUED BENEFIT?

The Accrued Benefit is the monthly benefit earned through the last Plan Anniversary Date.

7. WHAT IMPACT DOES VESTING HAVE ON EARNED MONTHLY BENEFITS?

Each year of active service adds to a Participant's accrued (earned) monthly benefit. Vesting refers to the process by which Participants earn a non-forfeitable right to their accrued benefit. The amount of service or participation required for vesting is chosen by the Sponsor. Once a Participant is 100% vested, benefits are guaranteed to commence at the Entitlement Date assuming the plan remains in force and is properly funded. In addition, accrued benefits are automatically 100% vested in the event of Death or Disability.

8. WHAT VESTING OPTIONS ARE AVAILABLE?

The Sponsor may design the vesting schedule in accordance with their objectives or to comply with any existing legislation. The period of years chosen is based on total Years of Service (*Past and Future Service*).

The proposed vesting schedule used is:

<u>Years of Service</u>	
0 through 1	0% Vested
2	40% Vested
3	60% Vested
4	80% Vested
5 or greater	100% Vested

Non NY

*Used for illustrative purposes. Sponsor chooses plan specifications to suit the needs of the organization.

9. WHAT IS ENTITLEMENT DATE?

- A. Entitlement Date is the point when monthly benefits begin to be paid to a vested Participant.
- B. Entitlement Date is the latter of: the plan's specified entitlement age; one year of service after the commencement date of the plan (future service); or termination from the Plan.
- C. Service Award benefits begin on the month following attainment of the Entitlement Date and subsequent to completion of all necessary paperwork.
- D. Most plan sponsors choose to specify age 65 as the Entitlement Age. While the Plan Sponsor may establish an alternate age, there are three primary reasons why age 65 is usually elected:
 - 1. It allows older Participants more active years to earn a larger benefit.
 - 2. An older entitlement age is initially less expensive because there are more years for funds to accumulate and fewer years to pay benefits.
 - 3. From a tax standpoint, the monthly benefit may be an unwelcome addition to a Participant's income before age 65.

10. WHAT METHOD IS USED TO ISSUE SERVICE AWARD BENEFITS?

Service Award benefits commences at the Entitlement Date selected by the Sponsor. There are two methods used to issue Service Award Benefits.

- A. The standard GSB program contemplates the purchase of single premium annuities owned by the Sponsor naming the entitled Participant as annuitant.
- B. In the early years of the Program it may be necessary to fund service award benefits from the Plan's Group Annuity Contract until sufficient assets are accumulated to support the purchase of single premium annuities.

11. WHAT IS AN INDIVIDUAL ANNUITY?

An individual annuity is an insurance product that guarantees periodic payment to a person named as the "annuitant" in exchange for a premium.

12. WHAT IS THE ADVANTAGE OF USING A SINGLE PREMIUM INDIVIDUAL ANNUITY OVER DISTRIBUTION FROM THE INVESTMENT FUND?

There are various reasons that make the purchase of single premium individual annuities a preferable approach to providing Service Award benefits.

- A. Risk is transferred to the insurance carrier. The insurance carrier assumes the liability associated with how long the annuitant will live. The distribution is guaranteed for life; minimum 10 years.

- B. The insurance carrier will locate the Participant. This eliminates the need for the Sponsor to locate a vested, terminated volunteer at Entitlement Date. This may be years after leaving the emergency service organization.
- C. Interest rate on the investment is “locked-in”. Premium is determined using a 30-year guaranteed rate of return on the investment.
- D. The cost to issue monthly benefit checks, administration, and annual tax reporting forms are “locked-in”. The Sponsor’s concern over what costs may be in the future to provide these services is eliminated.

13. **HOW DOES THE ANNUITY PURCHASE PROCESS WORK?**

When a Participant terminates and is vested or when a Participant reaches Entitlement Date, annuity paperwork is prepared by GSB and sent to the Plan Sponsor. The paperwork includes a Sponsor authorization form that verifies Participant benefit information and authorizes GSB to purchase an annuity using Plan assets.

14. **WHAT METHOD IS USED TO DISTRIBUTE DEATH BENEFITS?**

The Sponsor is the owner and beneficiary of the universal life insurance Policy insuring the life of a Plan Participant. In the event of an insured death claim, life insurance policy proceeds are deposited into the Plan’s investment account.

A Pre-Entitlement Death Benefit is issued from the investment account to the deceased Participant’s named beneficiary in accordance with the Plan document. This is a seamless process that requires minimal administration on the part of the Sponsor.

15. **WHAT DOES THE INSURED DEATH BENEFIT PROVIDE?**

- A. An insured Participant’s beneficiary receives the greater of the face amount of life insurance provided by the Plan or the actuarial equivalent lump sum value of the Participant’s accrued benefit. This lump sum benefit is payable upon death from any cause. **The benefit is not limited to an emergency duty.** This benefit applies to all Participants age 65 and younger (*without evidence of insurability*) as well as those Participants over age 65 (*who qualify for life insurance*).
- B. A non-insured Participant’s beneficiary receives the lump sum value of the Participant’s earned benefit or their earned benefit payable for 10 years.

16. WHY IS THE INSURED PRE-ENTITLEMENT DEATH BENEFIT IMPORTANT?

GSB believes in the overwhelming benefits of an insured Pre-Entitlement Death Benefit. Our experience throughout the years confirms the overall importance of this benefit. There are four critical reasons to provide this benefit:

- A. **Participant ownership of life insurance policy with cash value intact upon termination or at Entitlement Date.** As an additional motivation to provide service for a requisite number of years, ownership of the life insurance policy can be transferred to the Participant (providing the Sponsor chooses this option).
- B. **Provide a meaningful death benefit in the event a Participant does not live to receive his service award.** One of the basic purposes of the awards program is to provide Participants an additional incentive to remain active for many years. It is important for a Participant to know that his family will receive some benefit from the program if he does not reach his Entitlement Date. The alternative to an insured Pre-Entitlement Death Benefit is the Participant's accrued benefit. For a young Participant with very few years of service, this could result in a participant's beneficiary receiving a few hundred dollars.
- C. **Protect Plan assets from mortality risk.** An alternative to an insured death benefit is a significant non-insured death benefit. However, with this approach several deaths in the early years of the Plan could bankrupt the Program. Therefore, it makes sound financial sense to insure a minimum death benefit so any potential mortality risk to Plan assets are transferred to an insurer for a reasonable mortality cost.
- D. **Produce a lump-sum actuarial gain if an insured Participant dies before receiving his monthly benefit.** Under the GSB death benefit definition, the deceased Participant's beneficiary receives the greater of 1) the present value of the accrued benefit or 2) the Plan's insured death benefit. The lesser of those amounts remains a Plan asset, which may eventually be used to enhance the Plan or reduce annual recommended deposits.

17. HOW CAN THE LIFE INSURANCE BE CONTINUED WHEN A PARTICIPANT LEAVES THE PROGRAM?

There are two options available to the Sponsor regarding continued life insurance coverage for former Participants.

- A. **Option #1:** Upon termination from the Plan for any reason other than disability, ownership of the Life insurance contract is transferred from the Sponsor to the Participant with cash value. The Participant must complete the number of Years of Service required by the Sponsor or attain Entitlement Date to qualify for policy transfer with cash value. Upon transfer of ownership, the insured is responsible to pay future premiums to the insurance company to maintain coverage.

Note that transfer of policy with cash value is a taxable event to the Participant.

- B. **Option #2:** A Participant who terminates from the Plan for any reason other than disability may request that ownership of the Life insurance contract be transferred from the Sponsor to the Participant. The cash value is surrendered from the policy prior to policy transfer and is returned to the Sponsor, because the policy's cash value is an asset of the Plan. The insured can assume ownership of the policy by completing the appropriate forms and paying at least a quarterly premium. The insured may either:

1. Repay the cash value into the policy to reinstate the policy face amount to its original value; or
2. Choose not to repay the cash value into the policy thereby accepting a policy with a reduced face value.

In summary, including life insurance to fund the pre-entitlement death benefit becomes a win—win proposition for Plan Participants and the Plan Sponsor.

18. HOW CAN THE PROGRAM PROVIDE SUCH A SUBSTANTIAL DEATH BENEFIT?

The Pre-Entitlement Death Benefit is supported by a universal life insurance policy. In the event of a death claim, the life insurance policy proceeds are used for benefit distribution. Without the guarantee of a life insurance policy, the financial solvency of the Plan would be at risk if anything more than the actuarial equivalent value of the Participant's accrued benefit were awarded. This is particularly true in the early years of the Plan or if a catastrophic event would occur.

19. WHAT TYPE OF POLICY IS USED TO INSURE THE PRE-ENTITLEMENT DEATH BENEFIT?

Participants are insured by an interest-sensitive, universal life policy underwritten by Combined Insurance Company.

20. WHO IS ELIGIBLE FOR COVERAGE UNDER THIS POLICY?

Coverage is guaranteed issue for ages 16 through 65. This means Participants in this age group are insured regardless of their health. Participants over age 65 must apply for medical underwriting approval.

21. HOW DOES GROUP TERM INSURANCE COMPARE WITH UNIVERSAL LIFE INSURANCE TO PROVIDE THE DEATH BENEFIT?

GSB encourages you to purchase the maximum amount of group term life insurance available outside your LOSAP. The overwhelming majority of Americans are grossly under-insured thereby making additional coverage a welcome benefit. Within the LOSAP, we believe universal life insurance makes more sense.

An awards program is a long-term commitment to your volunteers. Group term insurance best suits a specific need over a short period of time.

- A. When analyzing the net cost of insurance for 20 or 30 years, group term insurance with its increasing premiums, may exceed the cost of universal life (UL). The UL premium is based on the age of the Participant when the policy is issued. The UL premium does not increase with age and remains the same as when the policy was originally issued.
- B. Another advantage of UL is the option of continuing coverage beyond Entitlement Date or termination with no conversion necessary. The universal life policy is transferable without proof of insurability and in many instances the annual premium will remain as stated when the policy was originally issued. Group term insurance may be available, but only in an alternative form of insurance, such as whole life. Whole life is more expensive than group term and the premium would be stated as of the age of the insured at the time the policy is converted.

- C. Group term insurance coverage typically reduces or terminates at age 65 or 70.
- D. Universal life provides coverage and contains a savings element. Term life insurance usually provides only insurance protection. In contrast, universal life insurance not only provides insurance protection, it also builds interest-sensitive cash value that functions as a savings element. Cash value that is returned to the Plan investment account upon policy surrender or transfer results in an actuarial gain to the Program and may serve to reduce the annual recommended deposit.
- E. The universal life insurance policy can be transferred to terminated or entitled Participants with cash value intact as an additional Plan benefit (*subject to any applicable federal or state regulations, laws, and limitations*). Group term insurance has no cash value.

22. DOES THE FEDERAL DEATH BENEFIT, WORKER'S COMPENSATION, OR A SUPPLEMENTAL ACCIDENT POLICY PROVIDE ADEQUATE DEATH BENEFITS?

All of these benefits are important to the emergency service volunteer. However, because these benefits are limited specifically to either emergency responses or department activities, a large gap in coverage exists. Some deaths are hard to attribute to an emergency duty and fall outside the scope of coverage. By providing a 24-hour, on and off duty benefit, the Participant's beneficiary is assured of receiving a reasonable death benefit regardless of the cause of death.

23. WHAT HAPPENS IF A VESTED PARTICIPANT TERMINATES AND THEN DIES PRIOR TO ENTITLEMENT DATE?

If an annuity has been purchased to provide the Participant's benefit, there is a death benefit built into the annuity equal to the net present value of the annuity. If no annuity was purchased, the named beneficiary will receive the actuarial equivalent of the Participant's vested earned benefit payable in a lump sum.

24. WHAT IS THE PROGRAM'S DEFINITION OF PRE-ENTITLEMENT DISABILITY BENEFIT?

The Plan uses the Social Security definition to establish total and permanent disability. This definition requires "the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment". This definition, while strict, ensures that Participants are entitled to their earned benefit based on an objective definition determined by a third party.

25. WHAT DOES THE PRE-ENTITLEMENT DISABILITY BENEFIT PROVIDE?

If a Participant becomes totally and permanently disabled before reaching Entitlement Date and is eligible to receive disability benefits under the Federal Social Security Act the following benefits apply:

- A. The Participant is entitled to a cash distribution equal to the actuarial equivalent of the Participant's accrued benefit.
- B. The life insurance contract is maintained by the Sponsor if the Participant is certified disabled by a physician.

26. WHAT METHOD IS USED TO DISTRIBUTE PRE-ENTITLEMENT DISABILITY BENEFITS?

A Pre-Entitlement Disability Benefit is issued from the investment account in a manner defined in the Plan documents.

27. WHAT HAPPENS TO PARTICIPANTS WHO TERMINATE FROM THE PLAN BEFORE REACHING THE PLAN'S ENTITLEMENT DATE?

Participants terminating before becoming vested forfeit all rights to benefits from the Plan. Vested Participants will begin receiving the vested accrued monthly benefit at the Plan's Entitlement Date.

At the inception of the plan, the Sponsor elects one of two options to manage a terminated vested member's benefit:

Option #1 - an amount is withdrawn from the Plan's investment fund to purchase a single premium deferred annuity from the insurance company. The insurance company then assumes all responsibility for keeping the Participant's payment information and issuing benefit checks when the Participant reaches their Entitlement Date. **Purchasing a deferred annuity provides three important advantages to the Plan Sponsor:**

- A. It eliminates the need for the emergency service organization to maintain records on terminated Participants.
- B. It ensures that Participants cannot outlive their monthly Service Award benefit by transferring both the mortality and investment risk to an outside carrier.
- C. It reduces the yearly per-participant administrative fee.

In most cases, funding constraints may limit the utilization of Option 1 in the early years of the LOSAP.

Option #2 - the Plan elects not to purchase a deferred annuity and agrees to monitor the Participant's location and assume responsibility for completing the necessary paperwork to purchase the annuity immediately prior to the Participant's Entitlement Date. (If this option is selected the Participant's benefit remains a liability of the plan until the annuity is purchased at Entitlement Date.)

28. WHAT ARE THE TAX CONSEQUENCES TO PLAN PARTICIPANTS?

- A. Accumulation Period — It is the opinion of our legal counsel that there are no tax consequences to Plan Participants as the funds accumulate on their behalf.
- B. Service Award Benefit — The benefit is taxed as ordinary income when a Participant begins receiving it at Entitlement Date.
- C. Pre-Entitlement Disability Benefit — If a Participant becomes disabled, the benefit is taxed as ordinary income.
- D. Pre-Entitlement Death Benefit — If a Participant dies, the death benefit, whether insured or non-insured, is taxed as ordinary income to the named beneficiary. Because of the structure of service

awards programs, the proceeds of any insurance policy are first paid to the Sponsor as owner and beneficiary of the policy. The Sponsor then issues a check to the Participant's named beneficiary.

The material presented above is provided for informational purposes only and should not be construed as tax advice. Changes to federal or state tax code through legislation, regulation, or rulings may warrant modification of the interpretations presented herein.

29. HOW IS THE ANNUAL RECOMMENDED DEPOSIT DETERMINED?

Our goal is to assist you in funding your Program on an actuarially sound basis. The Annual Recommended Deposit is calculated using a series of actuarial assumptions and an accepted actuarial funding method. The combination of the assumptions and funding method allow us to project relatively level, predictable recommended deposits not only in the current year, but in subsequent years as well. As the Sponsor of the Plan you have the right to request alternative actuarial assumptions and are responsible for the timing and amount of your contribution. Many Sponsors elect to contribute higher than the recommended deposit to accelerate the funding status of the Plan. Please refer to question 33 for a detailed explanation of the funding method.

30. WHY IS THE ASSUMED INTEREST RATE USED?

The most important actuarial assumption in the funding of your program is the assumed interest rate. This rate is used to project the performance of the investment fund account and serves to discount the Program's liabilities. Since an awards program is a long-term commitment to your volunteers, the assumed interest rate must be considered reasonable for the long term duration of the plan. Over the last thirty years, the rate of return earned on long term, low risk, fixed income investments has been approximately 5%.

31. WHAT IS THE RISK OF ASSUMING AN AGGRESSIVE RATE OF INTEREST?

Establishing an overly aggressive interest rate assumption may result in an underestimate of the contribution necessary to meet your Plan's liabilities. The impact of not attaining your assumed interest rate over the long term is an increase to deposit recommendations in future years to meet Plan liabilities.

The use of a conservative interest rate assumption can protect your Plan fund by minimizing the impact of unpredictable investment results. If actual investment experience is more favorable than the assumption used, the excess interest earnings will be an actuarial gain to the Plan.

32. WHAT ARE ACTUARIAL GAINS AND HOW DO THEY AFFECT FUTURE RECOMMENDED DEPOSITS?

Actuarial gains represent plan experience greater than the actuarial assumptions used to fund the program. The most notable actuarial gain is interest earned in excess of the assumed rate. Plan participants who terminate without a vested benefit also create an actuarial gain. Actuarial gains benefit the Plan Sponsor by reducing plan liabilities.

33. HOW DOES THE FUNDING METHOD WORK?

The funding method used in this proposal is Entry Age Normal with Frozen Initial Liability. Under this funding method, the following steps take place in calculating the recommended annual deposit:

- A. The amount required at Entitlement Age to guarantee each Participant's projected monthly benefit payable for life, with a minimum of 120 payments, is calculated. This future value amount is called the maturity value.
- B. An annual amount is calculated that, if contributed annually starting from the Participant's date of membership through Entitlement Age, would accumulate at the assumed interest rate to equal the maturity value. This annual amount is the Plan's Normal Cost.
- C. Since no contributions were made prior to the Plan's effective date, the total value that would have accumulated needs to be contributed. This accumulated value is known as the Frozen Initial Liability (FIL).
- D. The FIL may be paid off as a lump sum or amortized (spread) over future years to ensure that necessary funds are available to pay the Participant's benefits. Various amortization periods are available based on the average age of the Participants. A longer amortization period generates a lower annual recommended deposit. However, it will take longer to fully amortize the FIL.

The annual recommended deposit is determined by adding the Plan's normal cost and the amortization of the FIL. Under this method, any actuarial gains and losses will be spread over the Plan's future deposits in order to minimize year to year fluctuations in the recommended annual deposit.

It is important to note that the period to fund benefits is the expected active career of the volunteers. Benefits may be earned at a more rapid rate than funded. The ratio of assets to Present Value of Accrued Benefit represents the percentage your Plan is funded. In the early years (particularly when past service is awarded), the ratio is relatively low. However, as the plan matures and any Frozen Initial Liability is paid off, the ratio will increase. If at any point in time the Plan is terminated prior to 100% of the benefits being funded, the Plan will either have to make up the difference or reduce the benefit promised to Participants.

The above explanation is a description of the funding method in the simplest terms and is not meant to be a complete description.

34. HOW CAN SUBSEQUENT YEARS' DEPOSITS BE DETERMINED?

The valuation method utilized by GSB is designed to provide level and predictable recommended deposits assuming a stable participant roster. Actuarial gains or losses and variations in roster will result in fluctuations to the recommended deposit from year to year. Generally speaking, once the FIL is paid in full, the recommended deposit will decrease. At this point, the Plan Sponsor may look at the feasibility of certain plan enhancements such as increasing benefit levels or reducing the Plan's entitlement age. A strong advantage of using the Frozen Initial Liability funding method is the predictability of deposits.

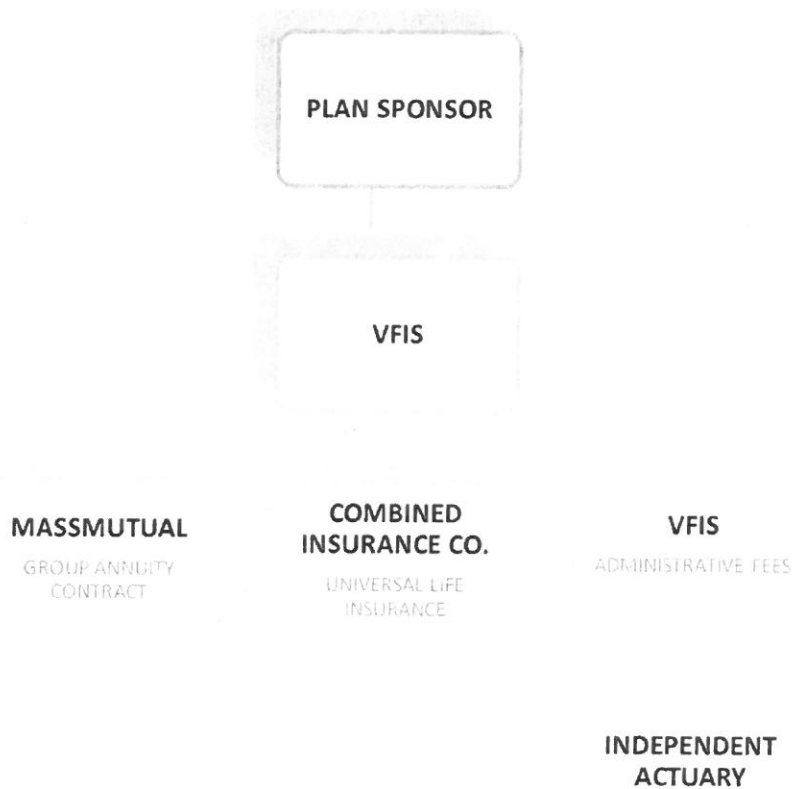
35. HOW IS THE ANNUAL RECOMMENDED DEPOSIT USED?

The majority of your deposit is invested in a Group Annuity Contract underwritten by MassMutual Financial Group. The investment contract is utilized for its safety, competitive interest rate, and liquidity.

A portion of the deposit is used to insure the Pre-Entitlement Death Benefit offered through the Plan. The product used for this purpose is an interest-sensitive Universal Life Policy underwritten by Combined Insurance Company.

Finally, a small portion is used to pay for Plan administration and actuarial certification costs. The administrative services provided by GSB are described in the Administrative section of this proposal. The annual actuarial certification of the plan is performed by an independent enrolled actuary. GSB coordinates the actuarial certification on behalf of the Plan sponsor by contracting with an independent actuarial firm. We believe that this structure is preferable in assuring an unbiased approach to the certification.

In summary, deposits are allocated as follows:



36. WHAT IS THE PLAN SPONSOR'S RESPONSIBILITY IN THE ONGOING OPERATION OF THE LOSAP?

The Plan Sponsor is responsible for all decisions regarding funding, who is eligible for benefits, and ongoing changes. GSB will assist you by providing support to minimize your administrative duties. With your written direction, GSB will coordinate all investment transactions and reporting, entitlement distributions, death and disability claims, life insurance policy maintenance, and general administrative responsibilities. It is your responsibility to review and understand the information that we provide. We welcome questions and offer service calls upon request to review information provided and answer any questions your designated Plan Contact (Plan Administrator) may have.

37. WHY SHOULD YOU CHOOSE GLATFELTER SPECIALTY BENEFITS?

GSB is committed to providing its agents and clients a level of service beyond what would be expected. We support this commitment by recognizing the value of an independent agent to provide the client with the local support necessary to ensure a successful LOSAP for many years. Working together with the independent agent we provide the following services to our valued clients:

SUPPORT

- ✓ Staff of experienced associates committed to the sales and administration of LOSAP
- ✓ Designated single point of contact for day-to-day administration
- ✓ Technical support

INSTALLATION ASSISTANCE

- ✓ Enrollment assistance
- ✓ LOSAP administration package including all necessary forms
- ✓ Specimen plan documents
- ✓ Explanation of benefits for Plan Participants
- ✓ Detailed service fee agreement
- ✓ Investment contract
- ✓ Sample point systems

FIXED GROUP ANNUITY CONTRACT

The Length of Service Awards Program assets are invested in MassMutual Financial Group's General Account through a Fixed Group Annuity Contract. This account guarantees both principal and accrued interest. The staff responsible for the Contract consists of research analysts, portfolio managers, economists, and securities traders. They employ a fundamental, disciplined approach to the selection and management of securities. This gives MassMutual access to some of the best values among the universe of public bonds, private placements and mortgages. This, in turn, gives our clients the advantage of above-average return for each dollar invested. The objective of the General Account is to maximize the long-term rate of return consistent with a goal of ensuring the safety of principal of invested assets.

I. HOW DOES THE GROUP ANNUITY CONTRACT MEET THE RESPONSIBILITY OF PRUDENT PLAN ASSET INVESTMENT?

The primary objective of the plan's investment account is to accumulate funds in a manner that will ensure the ability to pay promised benefits to plan Participants. Many plan Sponsors prefer a low-risk investment earning an attractive rate of return. GSB believes the Group Annuity Contract is a perfect fit to meet these objectives by offering the following:

- A. Significant investment flexibility;
- B. Meaningful guarantees, such as guarantee of principal and guaranteed minimum interest rate;
- C. Consistently attractive investment results.

II. WHAT ARE SOME OF THE ADVANTAGES OF THE VFIS GROUP ANNUITY* CONTRACT?

- A. Excellent long term record;
- B. Access to best values in the market;
- C. Book value accounting;
- D. Constant market presence;
- E. Increased yield through joint participation with other investors— assets are pooled in an effort to generate greater returns on investment and provide protection from volatility in the markets;
- F. Guarantee of principal.

III. WHAT ARE SOME OF THE FEATURES OF THE VFIS GROUP ANNUITY* CONTRACT?

- A. Guarantee of principal and credited interest;
- B. Interest credited daily from date of deposit to date of withdrawal;
- C. Minimum lifetime interest guarantee of 3%;
- D. All clients in the same contract will have the same rate of interest;
- E. Participant tax reporting provided annually at no additional fee;
- F. Periodic reports of results;
- G. Benefits paid at book value;
- H. No additional fees for transactions (deposit, withdrawal, etc.);
- I. Check issuance provided at no additional fee.

IV. WHAT IS THE HISTORIC RETURN OF THE VFIS GROUP ANNUITY CONTRACT?

VFIS Group Annuity*

10/01/01-12/01/03	5.55%
12/01/03-07/01/05	5.20%
07/01/05-06/01/08	4.85%
06/01/08-04/01/10	4.60%
04/01/10-03/01/11	4.25%
03/01/11-02/01/12	4.00%
02/01/12-03/01/13	3.75%
03/01/13-03/01/14	3.50%
Effective 03/01/14	3.00%

*Offered through MassMutual Financial Group

V. HOW DOES THE INVESTMENT CONTRACT OPERATE?

- A. The Contract accepts periodic deposits. The emergency service organization is able to make deposits in a time frame consistent with their fiscal constraints.
- B. Deposits are sent to GSB for bulk remission to MassMutual. GSB coordinates all transactions with MassMutual easing administration for the emergency service organization.
- C. Individual sub-accounts are established for each emergency service organization. Although funds are pooled with all other assets in the General Account for greater investment power, each emergency service organization is provided individual customer service.
- D. MassMutual produces annual fund statements for each emergency service organization. This is important because tracking of all sub-account activity is available.
- E. All benefits are withdrawn from the fund at book value. All funds deposited and the growth on those funds (100%) is used to benefit your LOSAP Participants without withdrawal penalty or fee.
- F. The VFIS Group Annuity Contract is provided for full disclosure of contract application, conditions, and provisions. Each participating emergency service organization should sign an acknowledgement form to ensure proper understanding of the contract.

VI. HOW IS WITHDRAWAL DUE TO PLAN TERMINATION HANDLED?

Withdrawals on account of cessation of a Participating Emergency Service Organization's participation in the Group Annuity Contract due to Termination or Involuntary Annexation of the Participating Emergency Service Organization's Length of Service Awards Program will be made at book value in a lump sum.

VII. HOW IS WITHDRAWAL DUE TO CONTRACT DISCONTINUANCE HANDLED?

If the Plan remains active and the Participating Emergency Service Organization discontinues the funding arrangement, withdrawal on account of cessation of participation in the Group Annuity Contract will be subject to the Discontinuance provisions of the Contract. Two options are available:

Option 1: 100% of the Withdrawal at Discontinuance

At the discretion of MassMutual, this amount may be paid in a lump sum or in level installments (spread provision) over a period not to exceed five years. If the spread provision is invoked, interest will be credited on the unpaid balance at a rate per annum produced by the formula stated in the Contract.

Option 2: Withdrawal at Discontinuance with Market Value Adjustment

The market value of the Withdrawal at Discontinuance will be made in a lump sum. MassMutual will determine the market value of the Withdrawal at Discontinuance in accordance with the Market Value Adjustment Formula stated in the contract. MassMutual may defer such payment for a period not exceeding ninety (90) days from the date MassMutual receives proper notification.

VIII. HOW IS THE MARKET VALUE ADJUSTMENT DETERMINED?

The market value of a Withdrawal at Discontinuance will be derived by multiplying the amount of Withdrawal at Discontinuance by the Market Value Adjustment Factor determined as follows:

- A. If the average yield in the current market place is greater than the interest rate credited under this Contract, the market value adjustment formula will produce a distribution less than book value.
- B. If the interest rate credited under this Contract is greater than or equal to the average yield in the current market place, the market value adjustment formula will produce a *distribution* equal to or greater than book value.

Dear Cheryl:

I am in receipt of your e-mail to Barb dated January 9th regarding questions about the VFIS Length Of Service Awards Program. Prior to addressing your specific questions, it might be appropriate to discuss the structure of a Length of Service Awards program.

Unlike Qualified Programs for Employer Employee Groups whether in the public or private sector, LOSAP falls under a difference section of the Internal Revenue Code. Essentially, Section 457 of the Internal Revenue Code describes a volunteer and authorizes LOSAP programs for governmental entities having volunteer emergency service personnel. The provisions exempt the plans from the provisions of Section 457 and if properly structured defer taxes on the contributions until constructively received by the volunteer. In essence the plans are structured more like a non-qualified plan with all rights and decision making made by the Sponsor. To avoid immediate taxation, Participants cannot elect to receive their benefit early or late, have no decision making authority on investments, nor can they roll any distributions to an IRA. The two doctrines governing these programs are constructive receipt, and economic benefit doctrine. While I am not an attorney nor can VFIS provide legal advise the basic premise of these doctrines is there is no taxable event on contributions or accumulations until the member/participant can receive them.

- Investments.

- **What types of investments does the program work with?**

Investments- The VFIS LOSAP incorporates the use of a Group Annuity Contract issued by Mass Mutual. It offers a guarantee of Principal, Minimum Interest Guarantee, and benefit distributions at book value. Please refer to ____ of the previously issued proposal for a more detailed explanation

- **Does the plan decide or does the volunteer choose, similar to a 457B where there are a varied amount of mutual funds and indexes?**

As stated above, volunteers have no ownership or discretionary authority under the plan. The sponsor elects the investment option for all participants. In the VFIS LOSAP the investment is the Group Annuity Contract.

- Defined Contribution Amount.

- **Can contributions be made quarterly or semi-annually rather than just once a year?**

Your question regarding contributions is the same whether you elect a Defined Benefit or Defined Contribution Program. You as the sponsor elect when contributions are to be made on behalf of the Participant. The only point is in the case of a Defined Benefit program periodic contributions increases the deposit based on theoretical interest lost since the

deposit assumes an annual contribution in advance. In the case of a Defined Contribution plan the participants would receive less interest credited to their "bookkeeping account".

- o **Can the amount of the contribution be prorated by months in that period? For example, let's say we contribute \$50 for each month or \$600 for the year, if we are allowed to pay quarterly can we put \$50, 100 or 150 base on the number of months they were active during that period.**

I believe this questions is geared towards a Defined Contribution program. It is rare for a plan to reward volunteers if they do not meet the annual service requirement to be considered a participant of the plan. If you equate it to a Qualified Plan it would be similar to the 500 or 1,000 hour rule where either you earn a year of service or you don't. While it is theoretically possible to have contributions based on less than a year of service, we would need to learn your goal and see if your systems could accommodate it.

- o **Can we include other defined contribution amounts that correlate to the level of expertise of the volunteer? This would be similar to a certification pay amount set yearly for different levels.**

See 4 above, while you can have different levels based on some objective criteria it does create additional administrative complexity. We have quoted plans where there may have been two or three levels of qualification so a member either received \$500, \$1,000 or \$1,500 depending on how many points he/she earned. While not asked if you the proposal you'll note a point system. I've included a sample with this e-mail. The overwhelming majority of our clients use some type of objective system to ascertain eligibility and contributions. Either Barbara or I could explain this in greater detail over the phone.

- Vesting.

- o **We were discussing a vesting of 40% after 2 years, with an increase of 20% each year till they reach 100% vesting at 5 years.**

Vesting is entirely your call. Keep in mind that unlike a qualified plan 5 year or 10 year cliff vesting is acceptable and in many cases preferred. It eliminates the plan having to issue inconsequential checks for individuals who have less than 5 or 10 years of service. Also if the withdraw doesn't occur until retirement age those funds would have to be on deposit and an administrative fee charged for a significant number of years with no benefit to the sponsor

- o **Should a volunteer in the system be hired by the City of Lucas, they would not be eligible anymore for the contributions. Can we allow them to increase their vesting % by the time that they work for Lucas, up to the 100% level of 5 years combined service?**

If your goal is to reward volunteers who become career members of your department the vesting schedule could be 100% if the volunteer becomes a career member and remains a career member for a certain number of years. This is non discriminatory

- Startup Contribution (buyback) by City
 - **Can we have a one-time buyback for those volunteers that were previously in our current pension program, but have not vested at any percent? They will receive 0 benefit for their time that they have already accumulated. This amount would be calculated by the City on an individual basis for the volunteers. This also may include previous volunteers that were already hired by the City of Lucas.**

This is a two part answer, If you are considering a Defined Benefit System it is very easy to provide past service for non vested and vested members of your department. In the case of a Defined Contribution Stem it is possible but we would need to work out a non discriminatory and equitable method of funding the benefits

- Benefit Payments
 - **Do we set the age at which they can start payments?**

In both a Defined Benefit and Defined Contribution program you establish entitlement or retirement age. I do recommend you consider an age such as 65 and termination of active service.

- **How does your LOSAP calculate the payments?**

LOSAP benefit payments are based on the type of program, under a Defined benefit Program they are based on the formula you select, under a Defined Contribution approach it is the value in the individual's account (contributions +interest less any administrative fee).

- **Is it a defined payment of is it a percentage of your account value?**

See above, if you are 100% vested in a Defined Contribution Plan, it is 100% of the value. In a Defined Benefit Plan, it is the benefit multiplied by the years of credited service. So if the formula was \$10.00 per year and the individual had 20 years, they would receive \$200.00 per month, at the normal retirement age, for life.

- **What if the vested amount is small? Let's say less than \$5,000.**

If the vested amount is small (the Sponsor determines) the plan can be written to lump sum the amount. I do caution you that if the amount is of any size (e.g. \$500 or greater) you could provide your volunteers with an incentive to quit so they can get the money.

- **Non-Participating Volunteers that have left service and have a vested %, account balance.**
 - **Can we allow them to take this with them?**
 - **Can they take a payout with potential penalties?**
 - **Can they roll their balance into their own retirement account? For example: 457B or IRA's.**

The funds are only available at the designated retirement age. They cannot be rolled into a qualified plan due to the structure of these LOSAP's. We can provide more detail if you are interested.



**City of Lucas
Lucas Volunteer Firefighter Pension
Board
Meeting Date: February 9, 2015**

Name & Title of Requestor: Cheryl M. Meehan, HR Manager

Agenda Item:

Define the requirements of the Length of Service Award Program (LOSAP) Pension for the Lucas Fire Department Volunteers.

Background Information:

Review of the current Texas Emergency Services Retirement System (TESRS) Pension Program has determined that we have to need to create a new pension program. The Board voted to discontinue affiliation with Texas Emergency Services Retirement System (TESRS).

Attachments/Supporting Documentation:

Supporting documents from the previous Agenda Item will be used in this process.

Determination of the requirements of the plan. Items that need to be addressed are:

- Vesting percentages and time
- Type of Plan – Benefit based or Contribution based.
- Service requirements for contributions to be made on Volunteer's behalf.
- Death Insurance tied to plan.
- Disability Benefit
- Age at which monthly payment may be drawn.
- Availability of funds, to people who discontinue service to the City of Lucas.
- Pre funding for those who were in the TESRS Plan and were not vested.
- Allowance of time credit to allow vesting for those who participated in TESRS.
- Other items as required.

Budget/Financial Impact:

Until the plan is defined and accepted, we will not know the actual cost of the LOSAP pension plan on a yearly basis. The Board intends to keep the funding similar to the amount that is currently funded. We anticipate no initial funding requirement based upon our criteria.

Action:

I make a motion to have VFIS of Texas and Glatfelter Specialty Benefits create the City of Lucas LOSAP Pension Plan for Volunteers based upon the Boards directions. VFIS of Texas and Glatfelter Specialty Benefits will return with the actual plan and costs for the Boards review at a later meeting.