Signed into Law

Bill Number: SB 10-001

Short Title: Eliminate PERA's Unfunded Liability

Sponsors: Sen. Shaffer B.

Status: Signed into Law

Rep. Kerr A.

The act modifies (PERA) employee and employer contributions and retiree benefits to attempt to bring the PERA trust funds to a 100 percent funded ratio within 30 years. The act modifies calculation of, and eligibility for, future retirement benefits that will be received by current nonvested workers and creates new contributions and guidelines for working retirees. The act also eliminates the current statutory automatic 3.5 percent retiree annual benefit increase, also known as the cost of living adjustment (COLA), and replaces the fixed annual benefit increase with a variable annual benefit increase.

## Appropriations:

The act requires a reduction in the General Fund appropriation to the Judicial Department of \$81,989 for FY 2010-11. Elimination of the retiree March 31, 2010, COLA will reduce retiree income by approximately \$100 million and state income tax collections by approximately \$3 million. The impact on the General Fund is estimated to be a reduction of approximately \$1 million in FY 2009-10, and approximately \$2.1 million in FY 2010-11.

### Signed into Law (Cont.)

Bill Number: SB 10-001 (Continued) Short Title: Eliminate PERA's Unfunded Liability

Sponsors: Sen. Shaffer B. Status: Signed into Law

To assist in the reduction of the unfunded liability of PERA's trust funds, current law requires additional contributions from PERA employers called the "amortization equalization disbursement (AED)" and the "supplemental amortization equalization disbursement (SAED)." The SAED contributions are paid from funds that would otherwise be used for salary increases for employees of PERA member employers. Prior to the enactment of Senate Bill 10-001, the AED and SAED were each scheduled to gradually increase to a total of 3 percent of salary, totaling an additional contribution of 6 percent of salary in 2013.

## **Employer Contributions**

Rep. Kerr A.

- The act extends AED increases for employers in the state division by 0.4 percent per year between 2013 and 2017, for an additional 2 percent of total payroll by 2017:
- extends AED increases for employers in the school and Denver Public Schools (DPS) divisions by 0.4 percent per year between 2013 and 2015, and 0.3 percent in 2016, for an additional 1.5 percent of total payroll by 2016;
- freezes AED increases for employers in the local government and judicial divisions at the 2010 rate of 2.2 percent of total payroll;
- sets parameters for adjusting the AED contribution of a division based on its actuarial funded ratio; and
- eliminates scheduled increases in the employer contribution rate for employers in the school and DPS divisions that, under current law, take effect on January 1, 2013.

### **Employee Contributions**

- The act extends supplemental amortization equalization disbursement (SAED) increases for the state division by 0.5 percent per year between 2014 and 2017, for an additional 2 percent of total payroll by 2017;
- extends SAED increases for the school and DPS divisions by 0.5 percent per year between 2014 and 2018, for an additional 2.5 percent of total payroll by 2018;
- freezes SAED increases for the local government and judicial divisions at the 2010 rate of 1.5 percent of the employer's total payroll; and
- sets parameters for adjusting the SAED contribution of a division based on its actuarial funded ratio.

### Signed into Law (Cont.)

Bill Number: SB 10-001 (Continued) Short Title: Eliminate PERA's Unfunded Liability

Sponsors: Sen. Shaffer B. Status: Signed into Law

Rep. Kerr A.

### Annual Cost of Living Adjustments for Retirees

- The act reduces the fixed retiree COLA (which is currently 3.5 percent, or the lesser of 3 percent or inflation depending on date of hire of the PERA member) to the lesser of 2 percent or inflation for 2010, and requires the inflation calculation to be based on periods in 2009, resulting in a 0 percent COLA in 2010;
- limits the COLA to 2 percent in 2011 and future years, unless PERA experiences
  a negative investment return, in which case the COLA will be calculated as the
  lesser of the inflation from the preceding 3 years or 2 percent;
- provides for COLA adjustments to be made with the July benefit, and requires persons retiring after January 1, 2011, to receive benefits for at least 12 months before receiving a COLA adjustment; and
- sets parameters for adjusting the COLA based on PERA's actuarial funded ratio.

## Changes in Benefit Eligibility and Calculations

- Retirement benefits under PERA's defined benefit plan are based on a PERA member's age, years of service, and "highest average salary" (HAS). A member's HAS is calculated as an average of the member's highest annual salaries associated with three consecutive 12-month periods. The act imposes an 8 percent cap on the amount of salary increase from each year to the next ("spiking limit") that will be counted toward calculation of the HAS;
- specifies the conditions for receiving a 50 percent employer matching contribution for members who receive a refund of their PERA account;
- creates new age and years-of-service requirements for members to retire with a full benefit based on their date of hire, including the "rule of 88" and the "rule of 90" (age plus years of service); and
- requires PERA to provide written notice to current and inactive members about the
  possibility of a future actuarial necessity, and that the General Assembly can modify
  the benefits allowed to members in the defined benefit plan.

## Signed into Law (Cont.)

Bill Number: SB 10-001 (Continued) Short Title: Eliminate PERA's Unfunded Liability

Sponsors: Sen. Shaffer B. Status: Signed into Law

Rep. Kerr A.

### Changes for Working Retirees

- The act requires a retiree who returns to work for a PERA employer to make a contribution to PERA equal to the member contribution;
- specifies that working retiree contributions are not credited to the retiree's member contribution account;
- specifies conditions where increases in work limits are allowed for certain retirees;
- prevents working retirees who suspend their retirement benefit and return to work for a PERA employer from adding to their service credit, and requires that each period of service for a PERA employer following retirement be calculated as a separate benefit segment under the benefit structure in place at the time of retirement; and
- clarifies how new benefit segments are calculated and paid.

The act also requires the PERA board of trustees to calculate the actuarial funding status of PERA as a whole prior to calculating the funding status of a division separately, and to submit a report concerning the plan's funding status to the General Assembly on January 1, 2016, and every five years thereafter.

## Signed into Law (Cont.)

Bill Number: SB 10-146

Short Title: PERA Contribution Rates

Sponsors: Sen. Keller

Status: Signed into Law

Rep. Pommer

The act makes a one-year 2.5 percent reduction in the state's Public Employees' Retirement Association (PERA) contribution and offsets the reduction by increasing the employee contribution rate for employees in the state and judicial divisions of PERA by 2.5 percent. For FY 2010-11, salary-based PERA contribution rates will change as follows:

#### State division

- state troopers will increase their member contribution rate from 10 to 12.5
  percent, while the employer contribution rate will decrease from 12.85 to 10.35
  percent; and
- all other employees will increase their member contribution rate from 8 to 10.5 percent, while the employer contribution rate will decrease from 10.15 to 7.65 percent.

#### Judicial division

 all employees will increase their member contribution rate from 8 to 10.5 percent, while the employer contribution rate will decrease from 13.66 to 11.16 percent.

## **Appropriations:**

The act reduces the state's PERA contribution for FY 2010-11 for state and judicial division employees by 2.5 percent and simultaneously raises the employee contribution for employees in these two divisions by 2.5 percent. This will effectively reduce employee salaries in the two divisions by 2.5 percent for that fiscal year, equivalent to a \$37.2 million savings for the state. Of this amount approximately \$20.4 million in savings will be a reduction in General Fund expenditures, approximately \$8.5 million in cash funds, approximately \$3.7 million in reappropriated funds, and approximately \$4.6 million in federal funds. The reduction in income of state division and judicial division employees will reduce state income tax collections by \$1.1 in FY 2010-11. The act will require the appropriation of \$5,138 to the Department of Personnel and Administration for contracted accounting work.

### **Postponed Indefinitely**

Bill Number: **HB 10-1153** 

Sponsors: Rep. J. Kerr Status: Postponed Indefinitely

As introduced, this bill would have altered the makeup of the 15-member PERA board of trustees to create a majority of trustees who are non-PERA members, and who have experience in certain fields. The bill would have allowed current trustees to finish serving their terms and reduced the number of trustees who represent each of the PERA divisions and retirees as their terms expire until the board was composed of:

- 8 trustees appointed by the Governor and confirmed by the Senate who are not PERA members or retirees, 5 of whom are appointed after January 1, 2011, and have significant experience and competence in investment management, finance, banking, economics, accounting, pension administration or actuarial analysis;
- the State Treasurer;
- 2 members of and elected by the school division;
- 1 member of and elected by each of the state, local government, and judicial divisions; and
- 1 elected retiree.

The bill did not eliminate the ex officio trustee from the Denver Public Schools Division. The bill would have required that the terms of the 5 trustees appointed by the Governor after January 1, 2011, be staggered in 1-year, 2-year, and 3-year terms. The bill specified that no more than 4 appointed trustees could be of the same political party.

## Appropriations:

Short Title:

The bill was expected to increase PERA's costs for conducting meetings of the board of trustees. The amount of increase would have depended on the number of meetings held and the actual expenses incurred by the new trustees.

**Modify Composition of PERA Board** 

## Postponed Indefinitely (Cont.)

Bill Number: HB 10-1207 Short Title: Modifications to PERA

Sponsors: Rep. Lambert Status: Postponed Indefinitely

Sen. K. King

HB 10-1207 would have modified contributions to and benefits paid from the Public Employees' Retirement Association (PERA). Among other things, it would have eliminated new enrollment in the existing PERA defined benefit plan as of January 1, 2011. HB10-1207's provisions are described in greater detail below:

## **Employer Contributions (All Divisions)**

- The bill would have repealed the AED as of January 1, 2011; and
- modified contribution rates beginning on January 1, 2011, so that employers contribute 10 percent of each employee's salary, and any increase in this rate is to be matched by a corresponding increase in the employee contribution rate.

### **Employee Contributions (All Divisions)**

- The bill would have repealed the SAED as of January 1, 2011; and
- modified contribution rates beginning on January 1, 2011, so that each employee contributes 10 percent of their salary, and any increase in the employer's contribution rate would be matched with an equal employee rate increase.

#### Annual Cost of Living Adjustments (COLA) for Retirees

 The bill would have allowed the General Assembly to increase the COLA percentage for members within a specific division if that division's trust funds are funded at or above 90 percent.

### Creation of a new Defined Contribution (DC) Plan

- The bill would have establishes a new DC plan, and required the transfer of all existing DC plan members and enrollment of new employees into the plan as of January 1, 2011;
- allowed the member to opt to reduce the employee and employer contribution levels, make investment decisions, and rollover contributions from another plan; and
- clarified that members of the new DC plan are not PERA members or retirees, although they may purchase optional life, long-term care, and health care insurances and participate in the voluntary investment program.

## Appropriations:

The bill would have required state expenditures of approximately \$31 million in FY 2009-10 from multiple unspecified sources.