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COLORADO PERA REFORM LEGISLATION

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This issue brief provides a brief description of the Colorado Public Employees Retirement Association (PERA) and summarizes key provisions of Senate Bill 06-235, which modifies PERA's board of directors and attempts to improve its financial situation. Overall, the bill increases the flow of money into PERA's trust funds and reduces its future liabilities.

Colorado PERA manages retirement benefits for PERA members and retirees, who numbered 378,454 as of November 2005. The employees represent 390 Colorado governmental entities including state government, school districts, state universities and colleges, the judicial branch, many Colorado municipalities, and state troopers. For most of its members, PERA is a substitute for Social Security.

Efforts to change the makeup of the PERA Board of Trustees, and to adjust contribution and benefit levels available from the PERA defined benefit plan, grew out of concerns about PERA's assets: reports showed that PERA's assets were insufficient to cover the costs of future retirement benefits. The funding ratio of a PERA trust fund is the ratio of the trust fund's assets to its future liabilities; an unfunded liability occurs when the funding ratio is less than 100 percent. The funding ratio of PERA's state division and school division trust funds (combined) has fluctuated between 57 percent and 105 percent over the last 35 years. As of December 31, 2004, PERA reported a funding ratio of 73.2 percent for the State and School Division.

Governance

Senate Bill 06-235 reduced the size of the PERA Board of Trustees by one member—from 16 to 15 members. Table 1 compares the current board's membership with the structure established in SB 06-235. The most significant change allows the Governor to appoint three members of the board with investment management or financial backgrounds.

Table 1 — PERA Governance

PERA Board Representation	Current Law	SB 06-235
(Ex-officio)		
State Auditor	1	N/A
State Treasurer	1	1
Elected		
School Division	5	4
State Division	4	3
Local Government Division	2	1
Judicial Division	1	1
Retirees	2	2
Governor Appointees with Investment Management or Financial Background	0	3
Total Board Membership	**16**	**15**

PERA Member Retirement Eligibility

Senate Bill 06-235 requires PERA members hired after January 1, 2007, to meet the "Rule of 85," i.e., they may retire at age 55 with full benefits when their age and years of service total 85. Currently, PERA members hired before July 1, 2005, must meet the "Rule of 80", i.e., they may retire at the age of 50 with 30 years of service credit. PERA members hired between July 1, 2005, and January 1, 2007, must also meet the "Rule of 80," however, employees hired in this time period must be 55 years of age to retire with full benefits. Table 2 provides examples of retirement eligibility with full benefits. Retirement eligibility for state troopers and Colorado Bureau of Investigation peace officers were not changed by the bill.

"Anti-Spiking" Provisions. Retirement benefits under PERA's defined benefit plan are based on the member's age, years of service, and "highest average salary" (HAS). A member's HAS is calculated as a monthly amount equal to 1/12th of the average of the member's highest annual salaries that are associated with three consecutive 12-month periods. The member's three 12-month periods may not necessarily be the member's final three years of employment.

Under current law, HAS increases over the prior year may not exceed 15 percent if any of the three periods used in calculating HAS occur in the member's final three years of employment. This provision limits the "spiking" of salaries in a member's last three years. Senate Bill 06-235 further limits these HAS increases to 8 percent for employees hired after January 1, 2007.

Table 2
PERA Retirement Eligibility by Age and Hire Date

Age	Current Law - Hired before July 1, 2005 (Rule of 80) - Service Years to Retire	Current Law - Hired after July 1, 2005 (Rule of 80) - Service Years to Retire	SB 06-235 - Hired after January 1, 2007 (Rule of 85) - Service Years to Retire
	May retire with full benefits when age plus years of service ***total 80 at age 50***.	May retire with full benefits when age plus years of service ***total 80 at age 55.***	May retire with full benefits when age plus years of service ***total 85 at age 55.***
Any Age	35	35	35
50	30	May not retire until age 55	May not retire until age 55
55	25	25	30
60	20	20	25
65	5	5	5

PERA Member Contribution Rates

Most PERA members pay 8 percent of their salary into the PERA trust funds, whereas most PERA employers currently contribute 10.65 percent of their employees' salary to the PERA trust funds. To assist in the reduction of the unfunded liability of PERA's trust funds, current law requires an extra contribution from PERA employers called the "amortization equalization disbursement (AED)." The AED will gradually increase to 3.0 percent of salary over the next six years.

Senate Bill 06-235 puts in place an additional contribution to help reduce the unfunded liability called the "supplemental amortization equalization disbursement (SAED)." The SAED begins at 0.5 percent in 2008, and gradually increases to 3.0 percent of salary. The SAED contributions will be paid from funds that would otherwise be used for salary increases for PERA employees.

Combined, both the AED and the SAED will provide an additional 6.0 percent of total payroll into the PERA trust funds by the year 2013. The additional contributions may be reduced for a particular PERA division when that division's funded ratio reaches 100 percent. Table 3 summarizes the disbursements.

Table 3
AED and SAED PERA Trust Payments

Year	Current Law AED - % of Total Payroll	SB 06- 235 SAED - % of Total Payroll	Total AED and SAED - % of Total Payroll	% of SAED from Annual Salary Increases
2006	0.5 %	0.0 %	0.5 %	0.0 %
2007	1.0 %	0.0 %	1.0 %	0.0 %
2008	1.4 %	0.5 %	1.9 %	0.5 %
2009	1.8 %	1.0 %	2.8 %	0.5 %
2010	2.2 %	1.5 %	3.7 %	0.5 %
2011	2.6 %	2.0 %	4.6 %	0.5 %
2012	3.0 %	2.5 %	5.5 %	0.5 %
2013	3.0 %	3.0 %	6.0 %	0.5 %

Post-Retirement COLAs

Current PERA retirees and members hired before July 1, 2005, receive 3.5 percent annual "cost-of-living adjustments" (COLAs) in their retirement benefits. PERA members hired on or after July 1, 2005, receive inflation up to 3 percent. Under SB 06-235, employees hired after January 1, 2007, will not receive guaranteed annual COLAs to their retirement benefits. For this group the bill establishes a reserve consisting of 1 percent of employee contributions to be the sole source of funding for COLAs. Other conditions for granting COLAs to new hires are also established.

Reduction in Amortization Period

Current law sets a maximum 40-year amortization period for deeming each PERA trust fund (State, School, Local Government, and Judicial) actuarially sound. SB 06-235 reduces the period from 40 to 30 years, which requires a higher ratio of assets to liabilities.

Expansion of Higher Education Options

SB 06-235 allows all higher education employees hired after January 1, 2008 — including new faculty and exempt professionals — the option to participate in either PERA's defined benefit or defined contribution plans, the State Defined Contribution Plan, or the institution's "optional retirement plan" (ORP). Previously faculty and exempt professionals did not have access to any plan except the ORP, and classified staff did not have access to the State Defined Contribution Plan.