Colorado Legislative Council Staff

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LEGISLATIVE DECISION-MAKING AND COLORADO'S PENSION PLANS

by Kerry White

Like other states, Colorado offers retirement benefits to its employees through a variety of pension plans. The state's pension plans are established in law and include both employee and employer contributions, which are made in lieu of contributions to the federal Social Security program. The state's two public pension systems are the Public Employees' Retirement Association (PERA) and the Fire and Police Pension Association (FPPA). This issue brief provides information on the state's pension plans and discusses how decisions made by the General Assembly have addressed both challenges and opportunities in these plans and in the state's budget.

Background

Colorado's public pension systems. Both systems offer a defined benefit (DB) plan and a defined contribution (DC) plan. DB plans promise a specified monthly benefit at retirement that is calculated using a plan formula that considers an employee's salary and years of service. DC plans allow an employee to control his or her investments, without the promise of a specific benefit. Contributions for both plans are the same, but may vary for certain employees. For instance, the state contributes more for judges and troopers than for other types of employees.

In both systems, the overall goal of the pension plan is to ensure that, with contributions, investments, and interest earnings, there is sufficient revenue to pay for accrued (current) and projected plan liabilities. Governmental Accounting Standards Board regulations and state law currently require that pension obligations be amortized, or spread out, over a period of no more than 30 years. When the liabilities will take more than 30 years to pay, a plan is considered underfunded.

Colorado PERA

Membership and contribution rates. Established in 1931, PERA is a statutory public entity that has over 500,000 members within its divisions and two health care trusts. The state is fiscally responsible for the state and judicial divisions, while member local governments and school districts are responsible for the other divisions. Employer contributions sustain the health care trusts. Because the structure and requirements for PERA are established in state law, the General Assembly must pass legislation to make any changes in contributions, benefits, or other plan requirements for any of the PERA divisions. Table 1 shows current contribution rates (as a percentage of employee salary).

Table 1
Current Contribution Rates to PERA

Division	Employee Contribution	Employer Contribution
State	8.0%; 10.0% for troopers	10.15%; 12.85% for troopers
Judicial	8.0%	13.66%
Local Gov't	8.0%	10.0%
School	8.0%	10.15%, 13.75% for Denver Public Schools (DPS)

Source: Section 24-51-401, C.R.S.

Table 2, below, shows the minimum age and years of service that are generally required for full retirement benefits under the DB plan.

Table 2
Requirements for Full Retirement

Date of Hire	Minimum Age	Years of Service
Before June 30, 2005	50	30
Between July 1, 2005 and December 31, 2006	55	30
After January 1, 2011	58	30
Troopers	50	25

Source: Section 24-51-602, C.R.S.

Legislative action. In recent years, the General Assembly has enacted legislation to address fiscal opportunities and fiscal crises.

Surplus years for PERA. During the 1990s, the General Assembly increased cost-of-living adjustments (COLAs) for PERA retirees from 3 percent to 4 percent and allowed for early retirement at age 50 for members with 25 years of service. It also allowed members to purchase years of service credit and established matching for 401(k) plans.

Fiscal challenges for PERA and the state. In response to two recessions, in the 2000s the General Assembly passed legislation to help shore up the fiscal condition of PERA. In 2004, it eliminated state-matching contributions to 401(k) plans, increased the mandatory years of service and age requirements to retire, and implemented new contributions through amortization equalization disbursement (AED) payments. In 2006, the General Assembly increased payments by establishing supplemental AED contributions (SAED). AED contributions are made by the employer, and SAED contributions are made from employer moneys that would have otherwise been provided as salary increases.

During the recent recession, the state struggled to balance its budget. As a result, the General Assembly passed bills to temporarily increase contributions of PERA members by 2.5 percent of salary, reducing the state's costs by about $37.2 million in FY 2010-11 and $58.3 million in FY 2011-12 when appropriations to institutions of higher education were also reduced.

Also in 2010, AED and SAED payments were increased for certain PERA divisions, adjustments in how salary is used to calculate benefits (known as anti-spiking provisions) were made, and COLAs were capped at the lesser of 2 percent or the rate of inflation. Current and future AED and SAED contribution rates (as a percentage of employee salary) are shown in Table 3.

Table 3
AED and SAED Contribution Rates to PERA

Division	AED Rate	SAED Rate
State	3.4% as of 2013; 5.0% as of 2017	3.0% as of 2013; 5.0% as of 2017
Judicial	2.2%	1.5%
Local Gov't	2.2%	1.5%
School	3.4% as of 2013; 4.5% as of 2016 for DPS, by 2018 for other schools	3.0% as of 2013; 5.5% as of 2018

Source: Colorado PERA.

Colorado's FPPA

Payments to the FPPA plans. Until 1978, all fire and police pension plans in Colorado were administered and funded by local governments. In 1977, the General Assembly studied the fiscal condition of these plans and determined that the unfunded liability of these plans was in excess of $500 million. FPPA was established to support these plans on January 1, 1980. State financial support was then codified to provide funding for "old hire" plans whose members were hired before April 8, 1978. Between 1980 and 2013, the state provided funding for 52 such plans using insurance premium taxes that would have otherwise been credited to the General Fund. However, during periods of fiscal instability, the General Assembly has reduced payments to help balance the state budget. For instance, the state reduced payments by $35 million in FY 2011-12 and FY 2012-13. Conversely, when the economy began to recover, in 2013, the General Assembly passed legislation to pay off the state's entire obligation, reducing payments by $39.2 million.