

The Colorado PERA Board of Trustees developed the following proposals to recommend as the legislative package for 2004. The proposals listed below are designed to ensure the financial stability of the PERA trust funds and to spread this burden across all PERA constituencies (members, retirees, employers). Staff will work with Legislators and the Governor's Office to finalize these proposals into bills. Check the Colorado PERA Web site at [www.copera.org](http://www.copera.org) for Legislative Updates after the session begins in early January.

## Suspend MatchMaker by July 1, 2004

The Board voted in July 2003 to seek legislation to discontinue the MatchMaker program as soon as possible in 2004. Depending on the success of this legislation, the MatchMaker could cease at the end of February, or continue through June.

The MatchMaker program provides a match on members' defined contribution accounts such as the PERA 401(k), and employer-sponsored 403(b) and 457 plans. The program began in 2001 as a result of the overfunded status of PERA. Since PERA no longer enjoys an overfunded status, the MatchMaker program will be discontinued until PERA is funded at 110 percent sometime in the future.

This legislation, if passed, would save PERA about \$18 million in 2004.

## Defined Contribution Choice for State Employees

Governor Owens stated, in his veto message of Senate Bill 03-101, that he does not support PERA legislation that does not provide a defined contribution (DC) alternative to PERA for state employees. In an effort to address this concern, the Board of Trustees has directed PERA staff to develop a DC plan alternative that would allow PERA to offer a DC plan option for higher education and high-turnover state employees. Current participants in higher education Optional Retirement Plans (ORPs) would be eligible for PERA membership under this concept. Other terms of the proposal include an employer payment to be used to offset PERA's unfunded liability, a phased-in approach to implementation, and the separation of the State and School Division into two trust funds.

The proposed DC plan, administered by PERA, would use PERA's 401(k) Plan fund offerings, have a five-year graduated vesting schedule, and provide limited ability to switch between PERA's defined benefit plan and the new defined contribution plan. The employer contribution rate to all plans (PERA, ORPs, and PERA's DC plan) would be the same, unlike the existing contribution rates that vary from 10.15 percent (to PERA) and 11.15 percent (University of Northern Colorado ORP).



## Include IRC Section 125 and 132 Deferrals in Salary

The current definition of salary for PERA purposes does not include Section 125 (flexible spending plan) and Section 132 (transportation allowance) deductions.

Benefits of including the Section 125 and 132 deferrals in salary include the following:

- A form of “salary spiking” will be eliminated. Right now, most members discontinue participation in Section 125 and 132 plans to increase HAS before they retire. Under the proposed new method, PERA would have more money to invest because contributions would be paid over the entire career of the member.
- Death and disability benefits, as well as refund amounts, would reflect the contributions made on Section 125 and 132 plans.
- Members may participate in Section 125 and 132 plans until they retire.

Employers and members that participate in these types of plans will have to contribute more to PERA over the term of the member’s participation in these plans than they now contribute. Currently, about 4 percent of salary is being contributed by employees into flexible spending and transportation allowance plans.

This proposal contains an effective date of January 1, 2005, and would increase contributions to the PERA trust funds by about \$21 million a year.

## Reduce Interest Credit on Member Contribution Accounts

Currently, members are paid 7 percent interest on their contributions to PERA. On January 1, 2004, this rate will decline to 6.8 percent. This proposed legislative item allows the PERA Board to establish the rate paid to members’ accounts each year, with 5 percent being the maximum rate.

The Board could set the rate lower than 5 percent if it becomes more critical to reduce liabilities or if the Board’s investment experts believed that returns were likely to be significantly lower than 5 percent in the coming year.

The proposed effective date would be July 1, 2004. The proposal results in a savings of \$40 million per year based on estimated 2004 payrolls.

## Employer Contribution Rate Increases

The gainsharing legislation of 2000 provided for a permanent 1.25 percent of salary reduction in the employer contribution rate. With the unprecedented declines in the financial markets of the past three years, PERA no longer has an overfunded status. Recognizing this situation, the PERA Board sought legislation last year to stabilize employer contribution rates, but that legislation was vetoed. If employer contribution rates are not increased, the funded status of PERA will deteriorate unless the financial markets have sustained long-term performance that substantially exceeds PERA’s assumed rate of return.

PERA proposes that employer contribution rates increase by 0.5 percent of salary each year, beginning July 1, 2005 (January 1, 2005, for employers with a calendar year budget). Maximum rates would be:

- State and School Division      13.15 percent
- State Troopers                      15.85 percent
- Municipal Division                13.00 percent
- Judicial Division                    15.00 percent

The increased employer contribution rate (0.5 percent) represents an increase of approximately \$29 million each year.

## Due Date for Contributions

Current law requires employers to pay contributions to PERA by the 10th of the month following the month in which the employees are paid. Legislation proposed in 2003 to change the due date for contributions to the 5th day after employees are paid was vetoed as part of SB 03-101. Moving up the due date will expedite posting of contributions to PERA member accounts and speed up the retirement and refund processes.

The proposed effective date is July 1, 2004. This item will not result in any significant savings, but will result in the delivery of more efficient services to PERA members.

## Employer Contributions on Retirees' Salaries

This proposal only affects PERA retirees who return to work for a PERA-affiliated employer. Right now, retirees may work up to 110 days per calendar year without impacting their benefit. One of the issues that PERA is concerned about is that employers are using retirees (because no PERA contribution is required) instead of hiring new employees. Unless an employer declares a "critical shortage" of employees, PERA retirees' salaries are not subject to PERA contributions. So, PERA "loses" the employer contribution that would be paid if a new employee were hired instead of a PERA retiree.

Proposed effective date would be July 1, 2005, and save an estimated \$10 million each year.

## Reallocate Portion of Future Employer Contribution to the Health Care Trust Fund

The Health Care Trust Fund (HCTF) was created in 1985 to help offset retirees' health care costs. The HCTF receives 1.1 percent of salary right now, and although the HCTF is underfunded, the liabilities can be amortized in 24 years (unlike the PERA pension plan liabilities, which at current contribution rates, cannot be amortized). By increasing the HCTF amortization period to 30 years, the employer contribution to this fund can be reduced to 1.02 percent, with the remaining 0.08 percent going toward liabilities in the pension plan. The HCTF would remain actuarially sound.

The HCTF was bolstered by legislation passed in 2003 that would require that a percentage of the cost of purchased service be transferred from the pension plan when members that purchased service credit retire or when survivor benefits become payable.

Additional funding from this proposal amounts to \$4.6 million a year. The effective date would be July 1, 2004.

## Reduce Early Retirement for New Hires

Members who join PERA after July 1, 2005, would still be able to retire at age 50 with 30 years of service, but would be entitled to a reduced retirement benefit, and not a full service retirement, as is the case now. A new hire who retires at 50 years of age with 25 years of service would receive 43.8 percent of HAS the same as the benefit for current members. Those new hires who elect to retire at age 50 with 30 years of service would receive 52.5 percent of HAS. This can be compared to the current 75 percent of HAS that members receive at age 50 with 30 years of service.

This provision would be effective for PERA members hired after July 1, 2005, and would decrease liabilities in the decades to come.

## Reduce Annual Post Retirement Benefit Increase for New Hires

The annual increase in retirement benefits is one of the most costly features of any retirement plan, and PERA is no exception. Members hired after July 1, 2005, who become eligible for PERA retirement benefits in the future, would have annual increases on their retirement benefits limited to the lower of 3 percent or the actual increase in the Consumer Price Index.

This provision would be effective for PERA members hired on or after July 1, 2005, and reduce PERA's liabilities over the long term.

## *Other Changes Not Requiring Legislation*

### Charge the Full Actuarial Cost for Service Credit Purchases

The cost to purchase service credit increased on November 1, 2003, to 18.1 percent for members under age 50, and to 22.1 percent for members age 50 and older. Different rates apply to Troopers and Judges. These higher rates still do not reflect the entire cost to the plan of service credit purchases. The average cost to purchase service is nearly 28 percent of highest average salary. In order to take steps to ensure the financial stability of the PERA trust funds, the Board is increasing the rates to purchase service credit to the "actuarial cost." This action does not need legislative approval and will be effective for service purchases on or after November 1, 2006.

Savings to the PERA trust funds are estimated at \$44 million in 2007.

