



At this early stage in the session, PERA is already a hot topic among Legislators. This update will outline each issue currently affecting Colorado PERA.



## **Rep. Stengel Introduces Bill to Close PERA Defined Benefit Plan**

The House Minority Leader, Rep. Joe Stengel (Littleton), introduced HB 06-1083, which is designed to overhaul PERA in line with the goals of the Americans for Prosperity, a Washington-based group.

The bill would require all new employees hired by PERA employers to join a Defined Contribution (DC) plan beginning in 2008. It would also eliminate the current PERA Board. The new Board would consist of seven gubernatorial appointees, as well as the State Treasurer and State Auditor, who would be ex-officio (but voting) members. Other features of HB 1083 are:

- The Legislature may reduce benefits as needed for all members not eligible for retirement to attain an amortization period of 30 years or less.
- "Actuarial necessity" is defined as an amortization period in excess of 30 years.
- Current members who are not eligible for retirement could switch to a DC plan and take their member contribution accounts plus a 50 percent match.

- DC members could enroll in PERACare if they select a life payment option as their DC distribution option. Their premium subsidy would be based only on their years of service in the DB plan.
- The PERA Board would administer the DC plan and be charged with selecting "companies from which investment products shall be purchased." DC participants would have at least five investment options. Employer contributions to the DC plan would fully vest over the first 5 years of a participant's service.
- Maintains PERA's status as an instrumentality of the state, but subjects PERA to administrative direction by the State Treasurer.

PERA expects this bill will have a substantial fiscal impact on the state budget.

**Status:** HB 1083 was referred to the House Business Affairs and Labor Committee. The bill has no Senate sponsor.

**PERA's Position:** Oppose.

## **Senator Owen Introduces Senate Bill 06-162**

This bill recommends the following:

- Change the eligibility for unreduced service retirement for new hires, and for current members under age 40 and not vested by January 1, 2007, to require 30 years of service at age 60, or 5 years of service at age 65, for unreduced benefits.
- Prevent any annual increases in the PERA monthly benefits to members hired on or after January 1, 2007, unless PERA is overfunded (assets equal to at least 100 percent of liabilities) and at least two-thirds of the PERA Board approves the increase.
- Allow new-hired members of PERA, even those outside of the State Division, to join the defined contribution plan instead of the PERA defined benefit plan.

- Preclude the PERA Board from using in-house counsel or independent outside counsel for legal advice. Legal advice to the Board would have to come from the Attorney General.
- Change the PERA Board to an 11-member board, including five members elected by PERA members and retirees, four appointed by the Governor, and the State Auditor and State Treasurer.

**Status:** SB 162 has been assigned to the Senate State Veterans & Military Affairs.

**PERA's Position:** No position until Board consideration.

## Senate Bill 06-174 PERA Proposed Legislation

Introduced by Sen. Paula Sandoval (Denver), the following is a summary of PERA's proposed legislation:

### Changes Affecting Current Members

- Limit "spiking" of salaries for Highest Average Salary (HAS) calculation.
  - Include members' voluntary pre-tax contributions to IRC Section 125 and 132 plan expenses as salary for PERA purposes.
  - Tighten the limit on salary increases included in the calculation of the three-year HAS, applicable to benefits that become effective on or after January 1, 2009.
- For current PERA members under age 45, and for new members, limit PERA's subsidy toward retiree health premiums prior to age 65 to a maximum of \$115, with an effective date of January 1, 2007.

### New PERA Benefits for PERA Members Hired January 1, 2007, or Later

- Called "PERA Centennial"
  - 2.1 percent of HAS per year of service
  - HAS based on highest 5 years of salary
  - No guaranteed annual increase after retirement. A portion of the employer contribution (0.5 percent of salary) is earmarked for a fund to provide future COLA increases
  - PERA Centennial members will contribute 7 percent of salary
  - Safeguards included to ensure PERA Centennial plan remains actuarially sound into the future
- Employees hired before January 1, 2007, remain in "PERA Pioneer"
  - 2.5 percent of HAS per year of service
  - HAS based on highest 3 years of salary
  - Automatic increase of 3.5 percent per year after retirement; (lower of CPI or 3 percent per year for members hired July 1, 2005, through December 31, 2006)

- PERA Pioneer members continue contributions of 8 percent of salary

### Funding of PERA Benefits

- Accelerate current phase-in of employer Amortization Equalization Disbursement (AED) payments
  - Make scheduled increases 0.5 percent of salary rather than 0.4 percent of salary for each year 2008–2011, and add a 0.5 percent of salary AED increase for 2012
- Change statute on unfunded liability amortization period to reflect that a maximum amortization period of 30 years shall be deemed actuarially sound
- Safeguards are included to ensure actuarial soundness for PERA Centennial. Contributions by PERA Centennial members and employers increase in tandem if the funded ratio for PERA Centennial benefits declines below 90 percent. If member contributions eventually reach a maximum of 10 percent of salary, the General Assembly would have the authority to reduce future benefits for PERA Centennial members
- Eligible State employees hired in 2007 or later who elect a defined contribution plan (either the State DPA's plan or PERA's) contribute 7 percent of salary to their plan and receive a matching amount from the employer contribution.

**Status:** SB 174 has been assigned to the Senate State Veterans & Military Affairs.

**PERA's Position:** Support.

## Senate Bill 6: Deny PERA Employment to Convicted Felons

This bill would clarify PERA's ability to include a criminal background check of job applicants with other checks that are part of the PERA employment process. Currently, except in a limited number of cases, having a felony conviction, in and of itself, does not preclude an applicant from public employment. This bill would clarify that PERA may consider an applicant's criminal history when making employment decisions. The bill is being sponsored by the

Legislative Audit Committee and prime sponsors are Sen. Stephanie Takis (Aurora) and Rep. Al White (Winter Park).

**Status:** This bill was heard on Monday, January 23, before the Senate Judiciary Committee, and has been forwarded to the full Senate for consideration.

**PERA's Position:** Support.