

PERA reform breakthrough: Accord reached on vast majority of issues

New legislation was introduced on Wednesday, April 26, and amended by the Senate on May 1, that bridges most of the gaps between key parties and would put Colorado PERA back on a strong financial footing.

Colorado Senate Bill 06-235 is the product of many months of discussions involving PERA, public employer and employee groups, and elected officials. The Senate Committee on State, Veterans and Military Affairs voted (4-1) to approve the bill and send it to the full Senate.

If passed by the Colorado General Assembly and signed into law by the Governor, the bill would completely eliminate PERA's unfunded liability over time. While the bill differs significantly from PERA's original reform proposal (contained in Senate Bill 06-174), the new bill incorporates constructive suggestions brought to the table by other parties.

PERA's Board of Trustees has endorsed SB 06-235 because it is a fiscally prudent solution that would benefit taxpayers, PERA members and retirees.

On Wednesday, April 26, the bill was endorsed by representatives of public employee and employer groups. The bill also takes a similar approach to eliminating PERA's unfunded liability as the proposal that was drafted based on input from Gov. Bill Owens.

The most significant difference between SB 06-235 and the Governor's proposal relates to proposed changes in the PERA Board of Trustees. SB 06-235 would expand the Board of Trustees to 20 members by adding five Trustees appointed by the Governor. The State Treasurer and 14 Trustees elected by PERA members would remain on the PERA Board. The alternative proposal supported by the Governor (SB 06-162) would reduce the board to nine members, including five Trustees elected by PERA members, three appointed by the governor and the State Treasurer. All Trustees would continue to have fiduciary oversight of the PERA trust funds and responsibility to act in the best interest of PERA's beneficiaries.

PERA's Board of Trustees endorsed the changes in SB 06-235 because they preserve the balance of different employee groups currently represented on the Board while adding the experience of new members who have backgrounds in fields such as finance, economics and accounting.

Other key elements of the SB 06-235 proposal include:

- Requiring that all PERA members contribute more toward their retirements by foregoing 0.5 percent of annual wage increases each year for six years to reduce PERA's liabilities. This additional 3 percent contribution to PERA would be discontinued when each of PERA's trust funds is fully funded.
- For members hired on or after January 1, 2007, eliminating the current "Rule of 80" and replacing it with a "Rule of 85" where age and years of service must equal a minimum of 85 years for PERA members 55 years of age or older to become eligible for a full service retirement benefit.
- Maintaining the current 2.5 percent of Highest Average Salary (HAS) as the benefit formula based on three years of highest salary with increases limited to 8 percent per year for members hired on or

after January 1, 2007. There is also implementation of a new cost of living adjustment (COLA) fund for members hired on or after January 1, 2007, with the lower of a 3 percent or CPI increase. The COLA would be awarded to retirees age 60 and who have reached the age and service requirements under the Rule of 85, and have been retired for at least one year. The annual increase is limited to a percentage of available dollars in the COLA fund.

- Requiring the General Assembly to contract for an actuarial study before future benefit enhancements are granted.
- Putting into law that the purchase of prior service credits must be at full cost.

We believe these provisions treat PERA members and retirees fairly and respect their service to the citizens of Colorado while offering a fiscally prudent solution for all residents of the state. PERA endorsed this measure in the spirit of compromise, as did the other parties who have announced their support for SB 06-235.