Senate Bill 10-001 Provisions

Impact on PERA Membership

February 25, 2010

Senate Bill 10-001 (SB 1), the legislative package to put Colorado PERA back on track to being fully funded, was signed by Governor Bill Ritter on February 23, 2010.

This successful legislation was the result of many thousands of hours of work since the fall of 2008 by PERA's Board of Trustees, staff, legislators, representatives of public employee and employer groups, and all the PERA members and retirees who participated in our public hearings, answered our surveys, or made their voices heard in other ways.

The legislation includes the necessary provisions to ensure that PERA can provide retirement security not just for today's retirees, but also for those who may be just beginning their careers in public service or are yet to be hired. As SB 1 provides PERA long-term stability and sustainability, this solution requires a shared sacrifice from retirees, public employees, and public employers.

Listed below are the provisions of SB 1 that impact PERA membership.

Contribution Rates

In 2004 and 2006, legislation was passed that required employers to remit additional contributions to PERA. These additional contributions are the Amortization Equalization Disbursement (AED) and Supplemental Amortization Equalization Disbursement (SAED). The AED is an additional amount contributed by PERA employers that has gradual increases from 2006 to 2012. The SAED is also an amount contributed by employers and is, to the extent permitted by law, to be funded by monies otherwise available for employee wage increases. The SAED has gradual increases between 2008 and 2013.

SB 10-001 contains provisions specific to the AED and SAED that includes the following:

- Continue to increase the AED in 2013, 2014, 2015, 2016, and 2017 by 0.4 percent per year for the State Division. (The total rate for the State Division will be 5.0 percent.)
- Continue to increase the AED by 0.4 percent in 2013, 2014, and 2015, and by 0.3 percent in 2016 for the School and DPS Divisions. (The total rate for the School and DPS Divisions will be 4.5 percent.)
- Maintain the AED at the 2010 levels for the Local Government and Judicial Divisions.
- Continue to increase the SAED by 0.5 percent in 2014, 2015, 2016, and 2017 for the State Division. (The total rate for the State Division will be 5.0 percent.)
- Continue to increase the SAED by 0.5 percent beginning in 2014 through 2018 for the School and DPS Divisions. (The total rate for the School and DPS Divisions will be 5.5 percent.)
- Maintain the SAED at the 2010 levels for the Local Government and Judicial Divisions.
- Adjust the AED and SAED based on the year-end funded status for each of the School, DPS, and State Divisions, with decreases mandated for the division when the division's year-end funded status reaches 103 percent and increases mandated when the division's funded status subsequently falls below 90 percent.
- Provide that the AED and SAED for the State Division shall not exceed 5 percent each.
- Provide that the AED for the School and DPS Divisions shall not exceed 4.5 percent.
- Provide that the SAED for the School and DPS Divisions shall not exceed 5.5 percent.

- Adjust the AED and SAED based on the year-end funded status for each of the Local Government and Judicial Divisions, with decreases mandated for the division when the division's year-end funded status reaches 103 percent. Increases in the AED and SAED are mandated when the division's trust fund reaches 90 percent funded and subsequently falls below 90 percent.
- Provide that the AED and SAED for the Local Government and Judicial Divisions shall not exceed 5 percent each.

Cost of Living Adjustment (COLA)/Annual Increase

- Reduce the cost of living adjustment (COLA) to an amount equal to the lesser of the CPI-W or 2 percent, effective on the date the bill becomes law. The amount of the 2010 COLA will be a zero COLA since it is based upon the CPI-W for specified periods in 2009. The COLA applied in years beginning in 2011 will be the applicable COLA cap (currently 2 percent) unless PERA has a negative investment year, in which case the COLA for the subsequent three years will be the lesser of the applicable COLA cap or the CPI-W.
- Change the COLA payment month from March to July.
- Allow for the COLA cap to be adjusted based on PERA's overall year-end funded status, with increases mandated when PERA's funded status is over 103 percent and decreases mandated when PERA's funded status subsequently falls below 90 percent. The COLA cap will not fall below 2 percent.
- Require all members with a retirement effective date of January 1, 2011, or later to receive benefits for a 12-month period prior to being eligible to receive a COLA. In addition, members not eligible to retire as of January 1, 2011, who subsequently retire with a reduced service retirement, must reach age 60 or meet the applicable age and service requirement for a full service retirement in order to be eligible for a COLA.

Early Retirement Reduction Factors

- Change the reduction factors for a reduced service retirement benefit for members not eligible to retire as of January 1, 2011; the reduction factors will be changed to an amount that is actuarially determined to ensure that as of the effective date of retirement, the benefit is the actuarial equivalent of the Option 1 benefit (PERA benefit structure)/Option A benefit (DPS benefit structure).
- Maintain eligibility requirements for receiving a reduced service retirement benefit.
- Keep the current reduction factors in effect for members eligible to retire as of January 1, 2011.

Highest Average Salary (HAS)

- Establish a 3-year Highest Average Salary (HAS) with a base year and an 8 percent spike cap applicable to members not eligible to retire on January 1, 2011.
- Revise HAS for members in the DPS benefit structure who are not eligible to retire on January 1, 2011, to be a 3-year HAS with a base year and an 8 percent spike cap instead of the 36 highest months of service credit.
- Provide that there is no change in the definition of HAS for members in the PERA benefit structure who began membership on or after January 1, 2007.
- Keep the current definition of HAS in effect for members eligible to retire as of January 1, 2011.

Indexing of Benefits

- Remove the indexing of benefits for members not eligible to retire as of January 1, 2011.
- Indexing applies in the case where a member has 25 or more years of service credit, is not eligible to retire, and becomes an inactive member. Prior to SB 1, a member's benefit would be indexed by the applicable annual increase for every year the individual was inactive and not retired. This was removed for all members not eligible to retire on January 1, 2011.

Vesting Period for Employer Matching Contribution

- Establish a requirement that members must have five years of earned service credit in order to receive a 50 percent match on a refund.
- Provide a 50 percent match on contributions remitted prior to January 1, 2011, for members refunding prior to becoming retirement eligible.
- Provide a 50 percent match on contributions remitted after January 1, 2011, for members who have a minimum of five years of earned service credit.
- Maintain the 100 percent match for members refunding when retirement eligible.
- Does not impact members in the DPS benefit structure as that benefit structure does not provide a 50 percent match for members refunding prior to becoming retirement eligible.

Service Retirement Eligibility

- Implement a modified Rule of 85 (age and service requirements for full service retirement); applies to existing members (both PERA benefit structure and DPS benefit structure) with less than five years of service credit as of January 1, 2011.
- Implement a modified Rule of 88 with a minimum age of 58 (age and service requirements for full service retirement); applies to new hires on or after January 1, 2011, but before January 1, 2017.
- Implement a modified Rule of 90 (age and service requirements for full service retirement) for new hires on or after January 1, 2017. Members hired on or after January 1, 2017, who retire from the School or DPS Divisions will be eligible for full service retirement at age 58 with 30 years of service credit as long as the most recent 10 years of service credit was earned in the School or DPS Divisions. If the most recent 10 years of service credit was not earned in the School or DPS Divisions, the Rule of 90 with a minimum age of 60 will apply.

Suspending Benefits

- Prevent the recalculation of a service retirement in the event of a suspended benefit on or after January 1, 2011. A separate benefit would be earned in addition to the suspended benefit. If less than 12 months of service credit is earned during the period of suspension, the retiree shall be required to refund the separate segment. If more than 12 months of service credit is earned during the period of suspension, the retiree will have the option to refund their separate benefit segment or receive an additional benefit segment, which would be calculated based upon age at which the retiree begins drawing the new benefit, years worked, and salary earned during the period of suspension.

Working After Retirement

- Require retirees who return to work to make contributions at the same rate as all members working for that employer. Such contributions are nonrefundable and would not accrue a benefit nor be deposited into the member account.
- Add 30 days to the 110-day limit for working after retirement in a calendar year without penalty for up to 10 service retirees per employer in the School Districts and Higher Education Institutions provided full contributions are paid. Each year the employer must designate the 10 retirees who are subject to the 140-day limit.