

This presentation has been given to interested groups around the state and outlines the current status of Colorado PERA. As always, we value your input and we have provided contact information on the last slide if you should have questions or wish to have more detail about PERA after reviewing this presentation.

PERA Financial Recap

(in thousands of dollars; does not include 401(k) Plan)

\$32,481,423 net assets as of December 31, 2004

December 2005

Contributions \$1,479,171		Investments \$2,647,125		Benefits Paid (\$2,293,014)	
					
Employer	\$610,728	Net Change in Fair Value	\$1,850,337	Benefit Recipients	(\$2,111,119)
Member	\$477,407	Interest	\$345,189	Disability/ Life Insurance	(\$10,090)
Purchased Service	\$307,982	Dividends	\$323,884	Refunds	(\$128,530)
Retiree Health Care Premiums	\$69,701	Real Estate/Timber/ Alternative Investments	\$218,732	Other	(\$12,262)
Other Additions	\$13,353	Securities Lending	\$11,780	Admin Exp	(\$31,013)
		Investment Expense	(\$102,797)		

\$34,314,705 net assets as of December 31, 2005

(unaudited, for internal use only)

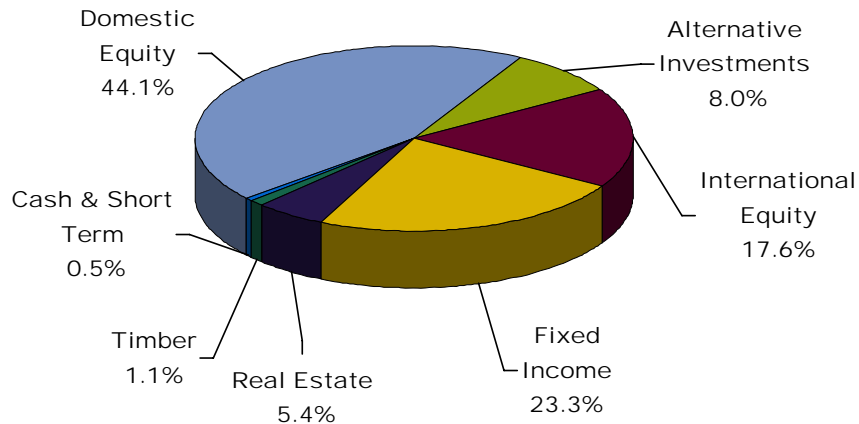


This graphic shows the importance of investment return on PERA's cash flow. Notice that although more was paid in benefits in 2005 than was collected in contributions, PERA's cash flow is positive since we invest contributions in assets that provide return such as real estate (rent), stocks (dividends), and bonds (interest).

Because the PERA portfolio has a positive cash flow, we are not selling assets to pay benefits. Note that assets increased nearly \$2 billion during the year.

Investment Asset Allocation

\$35.4 Billion Market Value as of
March 31, 2006

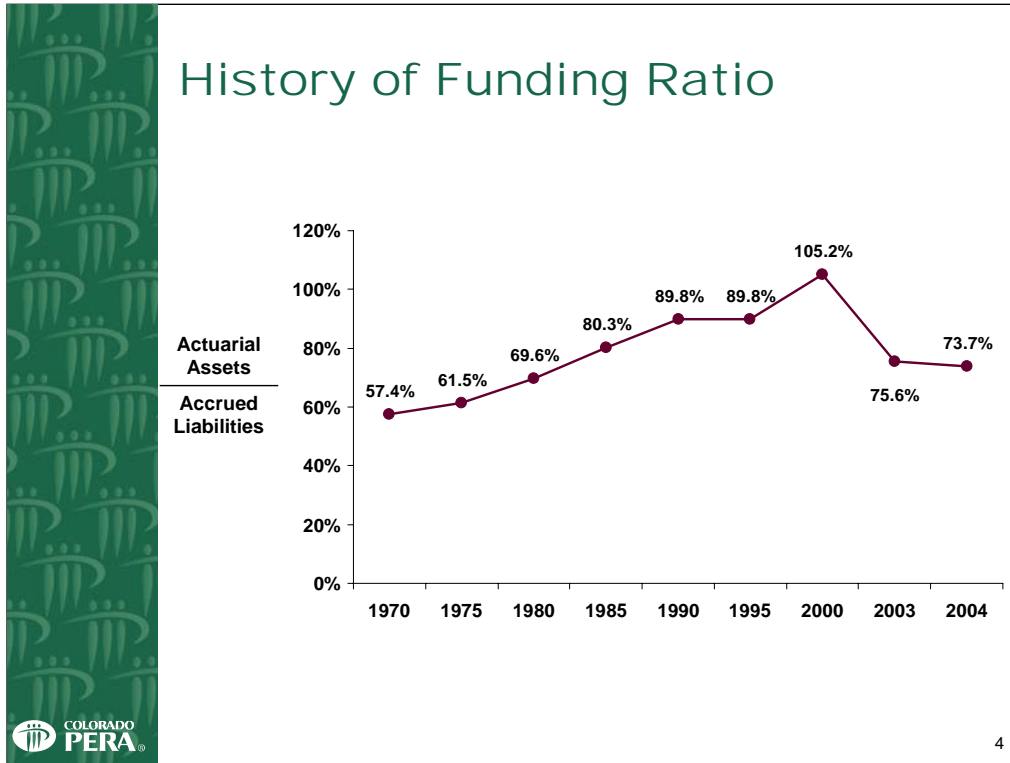


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PERA's portfolio is invested in a variety of asset classes. The PERA Board of Trustees determines the target percentage for each investment category or asset class. There are statutory limitations on how much of the portfolio can be invested in domestic equities (maximum of 65%) and the PERA investment staff closely monitors the target levels for all classes of investments to make sure all limits are not exceeded.

Since PERA is a large institutional investor, we are able to invest in asset classes that are not available as retail products such as real estate and private equity (called "Alternative Investments" in the chart above). The PERA Board carefully determines the mix of asset classes, taking into consideration the level of risk associated with each asset class and the projected needs for benefit payments.

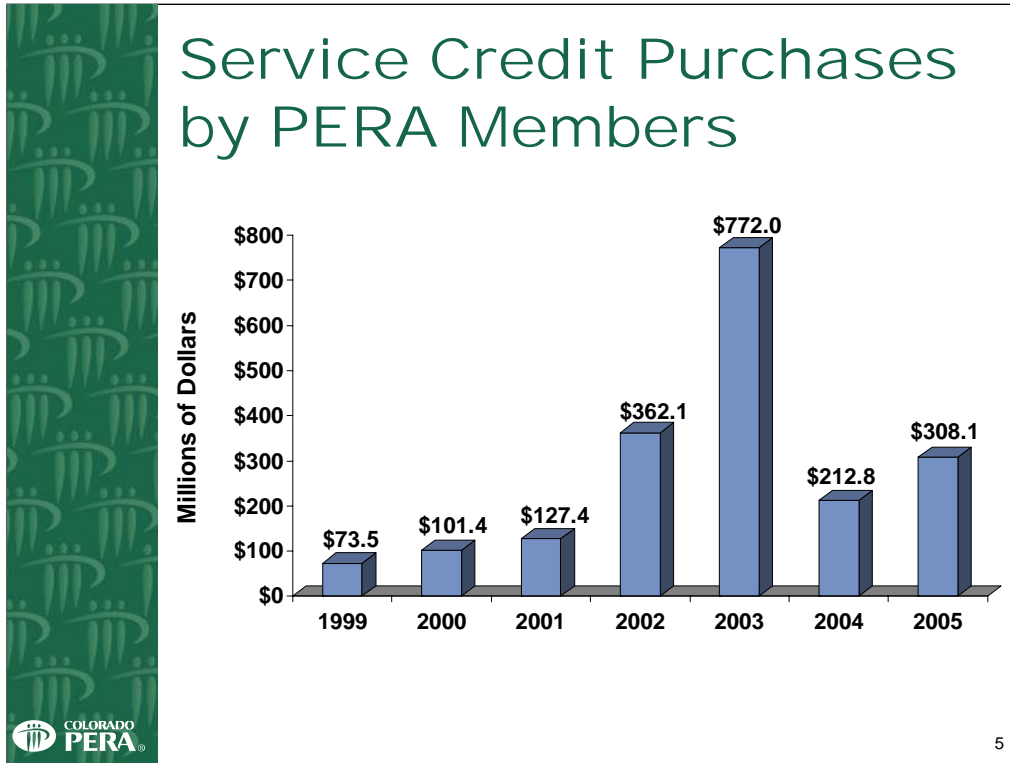
PERA's trust funds earned a 14.1% investment return in 2004 after earning 24.1% in 2003. 2004 was the second consecutive year of returns well in excess of what the Board has established as the long-term average return (or assumed actuarial rate) of 8.5%. Results are not yet available for 2005, but we estimate that the 8.5% return assumption will be met.



Here's how PERA's assets compared to what we owed current and future benefit recipients. See that PERA's funded status was lower 30 years ago than what it is now. You may recall that there was no perceived "crisis" in PERA's funded status in 1975.

You may be asking, why did the funded status decline so much in the past few years? This chart shows the importance of a healthy investment return. Over two-thirds of the increase in liabilities in 2004 can be attributed to low investment returns from previous years (2001 and 2002) being figured into the calculation.

- Investment Return in 2001 -7.7%
- Investment Return in 2002 -11.8%
- Investment Return in 2003 24.1%
- Investment Return in 2004 14.1%



Purchase of prior service credit in a pension plan allows members to consolidate their investments and to better plan for the time when they retire.

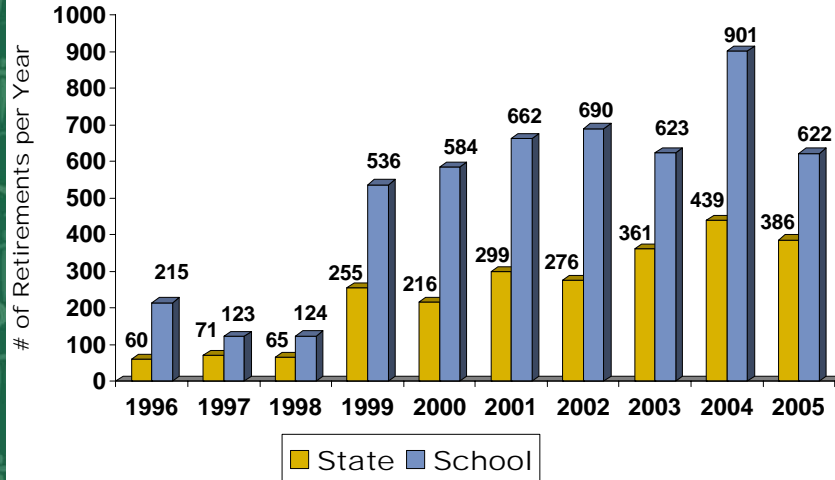
In 2000, PERA supported legislation that was passed by the General Assembly and signed by the Governor to lower the cost at which members could purchase credit for prior, non-PERA work time.

In 2003, the PERA Board endorsed legislation that limited the number of years members could buy to total of 10. The Board also increased the cost to purchase in November 2003 and again in 2005 so that the cost to buy time now represents the total cost of providing the future benefit (also called the “actuarial cost”).

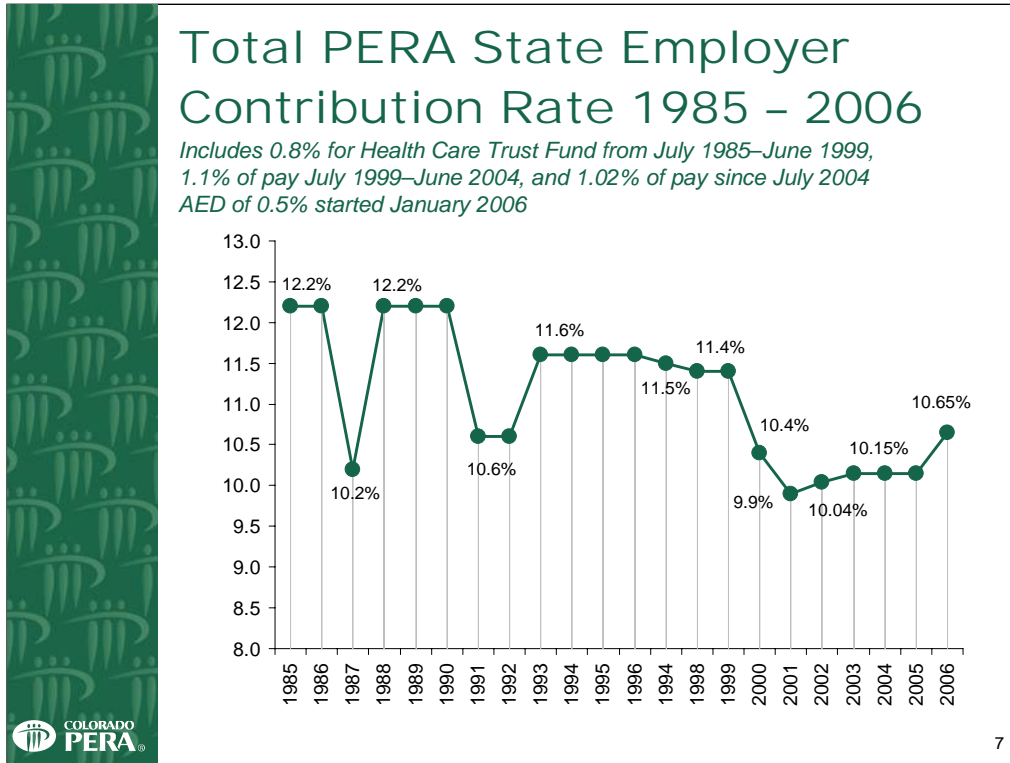
In 2003, the service credit purchase rate was increased to 18.1% for members age 50 and under, and 22.1% for members over age 50. (State Troopers and Judges had higher rates.)

In November of 2005, the service credit purchase rate was increased to the full actuarial cost. That means that any purchases are now based on the actual cost of providing the future benefit. The rates to purchase are higher for older members since PERA has less time to invest the purchase money. For example, the rate to purchase prior service for a member who is 40 years old is 28.7% of salary. For a member who is 50 years of age, the rate is 37.2%.

Employees Retiring Before Age 55



In this chart you can see the impact of reducing the rate charged to purchase service credit, which in some cases may make the member eligible to retire sooner and with a larger benefit.



PERA’s external consultants (professional actuaries) review member behavior (like the number of members who retired and the number who purchased service credit) at the end of each year, and using a number of assumptions, estimate what the employer contribution rate should be to keep PERA stable and able to pay off its debt over 40 years. As a result of the good stock market returns in the late 1990s, PERA was able to recommend that the Legislature decrease the employer contribution rate.

As the returns from the stock market drastically declined in 2000-2002, PERA’s actuary recommended that the employer contribution rate be increased. But PERA’s employers, like the State and Colorado’s school districts, were also suffering from the economic recession and could not afford to increase the amount they contributed on behalf of their employees’ retirement.

In 2003, PERA sought legislation to increase the employer contribution rate that was endorsed by all 100 legislators, but this request was vetoed by the Governor. In his veto letter, he noted that he could not support restoring the employer contribution rate without expanding the availability of public employees to join a 401(k)-type plan instead of PERA.


In 2004, PERA again sought legislation to gradually restore the employer contribution rate over a number of years. This legislation was passed and was signed since it contained an option for new state employees to select a 401(k)-type plan instead of PERA. Eligible new state hires as of January 1, 2006, can select from PERA’s tradition pension plan, PERA’s new 401(k)-type plan, or from one of the State’s three 401(k)-type plans. As of the end of March 2006, 84% of choice-eligible state hires had opted for either the PERA DB or PERA DC Plan.

Contribution Rates for Others

Combined Pension and Social Security when paid—no health care included

Other Colorado Public Pension Plans		2006	
University of Colorado Faculty		16.2%	
Jefferson County		16.2%	
Denver City & County		14.7%	
City of Fort Collins		13.7%	
Adams County		13.0%	
City of Broomfield		12.2%	
City of Grand Junction		12.2%	
City of Lakewood		11.8%	
Larimer County		11.5%	
University of Northern Colorado Faculty		11.4%	
City of Westminster		10.3%	
Avg. ER Contrib. for 10 Colorado RS		13.0%	
Neighboring States' Public Pension Plans		2006	
New Mexico State RS		22.8%	
Utah RS		21.1%	
Oklahoma RS		17.7%	
Wyoming RS		17.5%	
New Mexico School RS		15.6%	
Nebraska RS		14.3%	
Kansas RS		11.5%	
Avg. ER Contrib. for 7 Regional RS		17.2%	
Other Large Public DB Pension Plans		2006	
California Public Employees RS		22.1%	
Oregon Public Employees RS		18.4%	
Maryland RS		15.6%	
Georgia Teachers RS		15.4%	
South Carolina RS		13.8%	
Ohio State Teachers RS		13.0%	
Florida RS		12.9%	
California State Teachers		10.3%	
Pennsylvania School RS		10.2%	
Ohio Public Employees RS		9.0%	
Avg. ER Contrib. for 10 Large State Plans		14.1%	
Avg. ER Contrib. for All States Excluding CO		14.04%	
Avg. ER Contrib. for All States Including CO		13.95%	
Colorado PERA (+ 1.02% for Health Care)		9.63%	
Private Employers*			
Avg. Pension Costs for All Private Employers**		13.45%	
Avg. of 1,000 U.S. Companies***		17.71%	
Avg. 300 Colorado Companies***		14.16%	

* Including profit-sharing and stock bonuses, and ESOP
 ** From 2005 U.S. Chamber of Commerce Employee Benefits Study
 *** From an independent benefits consultant



PERA's contribution rates are quite reasonable and are well below what other governments in Colorado, private employers, or nearby states contribute to their employees' retirements. Keep in mind that most PERA employers do not contribute to Social Security, so the PERA benefit represents the only form of retirement savings for most PERA members. (Most members contribute 8% of their salaries to PERA.)

To outline the cost effectiveness of PERA, let's look at the employer contribution rate for Jefferson County. JeffCo contributes 6.2% to Social Security and another 8% to employee retirement plans, for a total of 14.2% salary.

Compare these rates to the less than 10% PERA employers pay toward employee retirement. (9.63% of the PERA employer contribution goes to the pension plan, with 1.02% being used to prefund a health care subsidy that can be used in retirement.) The 9.63% PERA employer contribution also pays for death and disability benefits that must be purchased separately, either by the employer or the employee, in most other plans.

The bottom line is this: PERA is a good deal for the taxpayers of Colorado.

Actuary's Statement

“...PERA has a funded ratio of 71% based on the actuarial value of assets. The funded ratio on market value of assets is higher, at 74%. It is our opinion that the current funding is sufficient to pay benefit payments through the projected actuarial period of 30 years. However, the contribution rates are currently not sufficient to support the pension system's benefit structure long-term. If there is not a sufficient recovery in the investment markets in the near future, the long-term ability of the System to support the benefits will be challenged in the absence of a significant increase in the contribution rates.”

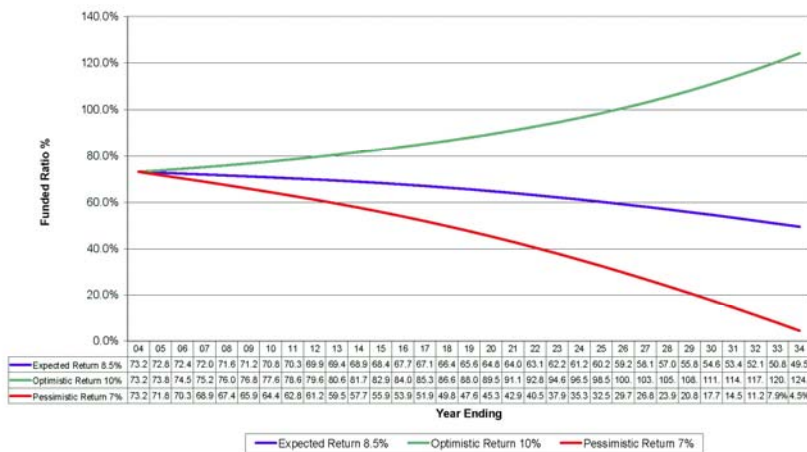


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PERA fully discloses its financial statements and is open and responsive to requests for information about its funded status. The above statement was contained in the 2004 *Comprehensive Annual Financial Report* that is posted on the PERA Web site. PERA also sends a Summary Annual Financial Report to all members and benefit recipients each summer. The PERA Board has acted proactively to request that employer contribution rates be gradually increased, as outlined by the actuary in the above statement.

It should be noted that the actuary wrote that “*current funding is sufficient to pay benefit payments through the projected actuarial period of 30 years.*” Many have interpreted that statement to mean that PERA would “collapse” after 30 years. But that’s false. The actuary estimates that PERA would have in excess of \$60 billion after 30 years – hardly “insolvent” or “broke.”

Colorado PERA – 30-year Projection of Funded Ratio



State & School Division, December 31, 2004
Actuarial Valuation Results with New Demographic Assumptions and Asset Valuation Method



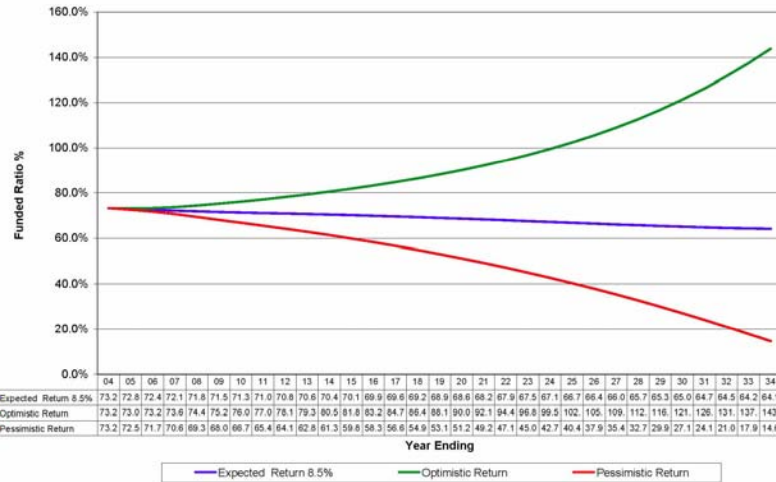
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This graph shows what the funded status of PERA will be several decades in the future. The blue line represents what the funded status is predicted to be if PERA’s investments return 8.5% – which is what the Board predicts the return on PERA’s investments will be over the long term. If PERA’s portfolio of investments return this estimated 8.5%, PERA’s funded status declines to 49.5% in 2034. That doesn’t mean that PERA is “bankrupt.” What it means is that PERA will have enough assets on hand in 2034 to pay about one-half of current AND FUTURE benefits. That’s why the PERA Board acted to propose legislation this year to change benefits for new PERA members and to restore the employer contribution rate. If these changes are adopted, PERA would be 100% funded and able to pay all benefit promises – current and those owed many decades into the future – in 2064. This may seem like a long time, but when put into the perspective of a public employee’s career and time spent in retirement (which could be over 70 years), it isn’t so unreasonable.

The red line in the graph shows what PERA’s funded status would be if the investments returned 7% over time. The green line shows that if PERA’s investments returned 10% over time, PERA would be 100% funded in the year 2026.

Of every benefit dollar paid in 2004, 65 cents came from investment return. Eighteen cents came from member contributions and 17 cents came from employer contributions. (The member contribution is higher because members can purchase service credit and the purchase does not have an employer component.)

Colorado PERA – 30-year Projection of Funded Ratio on Actuarial Asset Value of PERA Proposal



State & School Division, December 31, 2004
 Actuarial Valuation Results with New Demographic Assumptions and Asset Valuation Method



This graph shows what the funded status of PERA will be if the PERA Board’s proposals are adopted by the Legislature and signed by the Governor. In this graph, the blue line shows that the funded status stabilizes over time. The red line shows that PERA’s funded status continues to decline over time, while the green line shows that PERA would be nearly 100% funded in 2024.

What this graph depicts is the impact of investment return on the PERA trust fund. (The same is true for the graph on the previous slide.) The variance in investment return of just 3% has a dramatic impact on PERA’s future funded status.

2006 Legislative Issues

- PERA Board proposal, SB 06-174 (pending)
- HB 06-1083 (postponed indefinitely)
- SB 06-162 (pending)
- Initiative #93 (under comment and review)



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The PERA Board of Trustees spent 2005 exploring ways to address PERA's funded status without impacting any legally protected benefits for current members or retirees. That work is represented in Senate Bill 06-174 that is sponsored by Senator Paula Sandoval of Denver. Details on the PERA Board proposed legislation may be found in the Legislative Information Center on the Web site (see PERA's Proposed Legislation for 2006).

PERA continues to negotiate with all interested parties and remains hopeful that a compromise that is fair to all can be reached before the Legislature adjourns in May.



- Web address
 - www.copera.org
 - Legislative Information Center (new)
- Office locations
 - 1300 Logan Street, Denver
 - 1120 West 122nd Avenue, Westminster
- Phone numbers
 - 303-832-9550
 - Toll free: 1-800-759- PERA (7372)



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Use the contact information above to send PERA your comments. We welcome your input.