

# News Release



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## **Colorado PERA Fund Secure, Board of Trustees Seeks to Improve Funded Status**

DENVER—Questions have been raised regarding the present and future condition of the Colorado Public Employees' Retirement Association (Colorado PERA). Colorado PERA was formed in 1931 and has grown to the 23rd largest pension plan in the country with pension fund assets through August 2003 of \$26.2 billion. PERA first reached full actuarial funding in 1999 after 68 years of growth and asset accumulation. Three years of dramatic market declines of a magnitude not experienced since the Great Depression have reduced the trust fund assets to 88 percent of actuarially projected liabilities as of December 31, 2002. In the most recent independent actuarial study of PERA's funding, the firm of Gabriel, Roeder, Smith, & Co., Michael Carter, Senior Consultant, concluded:

It is our opinion that PERA continues to have a relatively good funded ratio of 88 percent (based on the actuarial value of assets). However, the contribution rates are not currently sufficient to support the current benefit structures of the System. If there is not a significant 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.

Analysis of cash flowing in and out of PERA reflects no threat that current benefits and future entitlements will not be met. However, absent sustained market recovery and return to contribution levels that existed prior to the boom markets of the 1990s, the long term funding status of PERA will continue to decline.

Based on un-audited results for 2003 through August, total employer and employee contributions have brought in \$617 million, while realized investment income has contributed \$222 million and other cash receipts (service credit purchase receipts) have totaled \$494 million. During the same period, \$1.2 billion in benefits have been paid to over 63,000 retirees and survivors.

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PERA examines its liabilities over a long time horizon, considering liabilities associated with not only the existing retiree population but also new members who were hired only yesterday or will be hired in the future. Both liability projections and earnings projections extend over multiple generations.

Actuarial funding status is determined upon a number of assumptions including market rates of return on PERA's \$26.8 billion current assets, the age at which employees retire, the escalation of salary rates over time, withdrawal rate of members from PERA, and the lifespan of our membership. In accordance with its statutory obligation to act as a fiduciary for the members and benefit recipients in the PERA system, the PERA Board has undertaken studies to assess the cost structure of PERA and the funding needs of the system for long-term stability. The Board's concern about these issues did not just arise. These issues have been under constant reexamination.

During the past year, the Board modified its asset allocation for PERA's investments to reduce exposure to the volatility of the markets, adjusted the price for purchasing service credit to more accurately reflect the cost to the system, imposed a limit on the amount of service credit that can be purchased, and adjusted the actuarial projections applicable to the fund. The Board plans to develop a comprehensive legislative proposal designed to further reduce the costs and liabilities of the system while addressing enhanced revenue requirements to ensure the fund can meet its promises to Colorado public servants and retirees.

PERA believes that State constitutional provisions that prohibit the reduction of benefits to existing retirees and restrict the changes which can be imposed on vested members of PERA further limit alternatives. The funding reductions enacted as a result of the up markets of the 1990s must end. The State must return to fully funding future obligations to PERA members and retirees. The PERA Board is confident that all parties and branches of government responsible for maintaining the fiscal health of PERA and ensuring uninterrupted payment of benefits into the future can agree upon a reasoned and orderly plan to adequately fund PERA.

The Board has retained national expertise to review and refine each and every aspect of the pension system. The PERA Board will continue to act to protect the interests of the PERA membership and benefit recipients and has heard the clear voice of its membership, some 330,000 citizens strong, supporting preservation of the system.

It is important to maintain the stability of the PERA pension trust fund in order that Colorado public employers will be able to continue to recruit and retain the high caliber of public employees that contribute to the excellent quality of life Coloradoans enjoy.

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