



TOPICS

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PERA Board Decides on Legislative Program for 1999

At its annual retreat workshop, the PERA Board of Trustees decided to propose several benefit changes to the Colorado Legislature for action during the 1999 session of the General Assembly. The costs of the changes would be absorbed by the PERA trust fund. If the proposals are enacted into law, the PERA fund will continue to be actuarially sound. The legislation to be proposed by PERA will include the following:

Pension

- ♦ An increase in the matching amount on refunds paid to terminated employees before they are retirement eligible or age 65 from 25 percent to 50 percent of the member contributions and interest. For members who leave their account in PERA until becoming eligible for retirement or age 65, the matching amount would increase to 100 percent for the refund or to calculate a money purchase benefit. The new matching amounts would take effect for distributions made on and after July 1, 1999, and would apply to the State and School Division and the Judicial Division. The Municipal Division members would receive a 40/80 percent match until the Board determines that the Division would be able to provide a 50/100 match without jeopardizing the actuarial soundness of the Municipal Division Trust Fund.
- ♦ A reduction in the member contribution rates for State Troopers (including CBI agents) from 11.5 percent to 11.0 percent of salary, effective July 1, 1999. (The reduction has a value equivalent to the benefit that other members received from the early retirement changes in HB 98-1191.)
- ♦ A change in the special benefit formula for judges hired before July 1, 1973, for years over 20 from 1.5 percent to 2.5 percent of HAS with a maximum of 100 percent of HAS. Benefits for Judicial Division benefit recipients would be recalculated beginning on the proposed effective date of July 1, 1999.

Health Care


- ♦ An increase in the amount of future contributions earmarked for the Health Care Fund from 0.8 percent of payroll to 1.1 percent of payroll effective July 1, 1999. (The employer contribution rate earmarked for the pension fund would be reduced to 10.3 percent of pay for State and School Division employers and 8.9 percent of pay for Municipal Division employers.)
- ♦ An increase in the premium subsidy for benefit recipients in the PERA Health Care Program who are under age 65 (excluding any under age 65 participants who have Medicare coverage). The maximum premium subsidy (for a benefit recipient with 20 or more years of service) would increase from \$115 per month to \$230 per month, effective July 1, 2000, for these pre-Medicare benefit recipients.
- ♦ Creation of a Health Care Trust Fund that would clearly be separate from the pension fund and which would be the source of funding for the premium subsidies and administrative expenses of the PERA Health Care Program (the current fund used for this purpose is not specifically a trust fund).

The Board also is considering two other proposals for possible legislation in 1999.


- ♦ The Board directed the PERA staff to talk to a number of PERA employers to help determine employers level of interest in purchasing health care coverage for their active employees through PERA. The Board can then decide whether or not to try for legislation in 1999 that would allow affiliated employers to obtain health care coverage for their active employees through PERA. Other alternatives are being considered that might help control health care premiums, while providing good access to coverage and quality care.
- ♦ The Board also approved (in concept) a proposal to designate a portion of the regular employer contribution for the purpose of matching voluntary contributions by PERA members to defined contribution plans. The size of the match could vary or "float" annually depending on the actuarial soundness of the regular PERA defined benefit plan. The size of the match probably would be different for each of the three divisions (State and School, Municipal, and Judicial). Members voluntary contributions to the 401(k) Plan, as well as deferred comp (457) plans and 403(b) retirement plans, would be eligible for the match. The outline as well as the details of this proposal need to be worked out. In no case will PERA propose that the matching contributions begin before the year 2001.


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PERAgraphs

 **Effective Date of Retirement and Returning to Work:** State law defines “effective date of retirement” as the date after termination of employment on which the member becomes eligible for benefits. Termination of employment means severing the employee-employer relationship. The PERA Rules state that the effective date of retirement shall be no earlier than the first day of the month following the last day of employment, exclusive of any payment for annual leave or extension of service credit for members employed on an academic year basis.

Some retiring members return to work for a PERA-affiliated employer very soon after retirement. Employers should ensure that the law and PERA Rules are followed, i.e., that the member has terminated employment, and that a retiree may begin employment with a PERA-affiliated employer no sooner than the day after the effective date of retirement. A member retiring may not work (either for pay or as a volunteer) on their effective date of retirement.

 **Employers’ Manual Published:** The Employers’ Manual containing various procedures, instructions about completion of PERA-related forms, and other information has been sent to all payroll and personnel offices. If you need an extra copy or did not receive yours, call the PERA Customer Service Center (303-832-9550 or 1-800-759-7372). We suggest that anyone dealing with PERA in their job duties have a copy of the publication.

 **Employer Training Sessions Underway:** PERA has hosted several employer training sessions already with the following still to be held. If you haven’t made plans to attend, do so today. The sessions cover the contents of the Employers’ Manual, latest information on the new disability program, and other topics. Just call PERA’s Customer Service Center at 303-832-9550 or 1-800-759-7372 to reserve a place at a training session.


Aurora - November 16 - Holiday Inn Denver Southeast


Glenwood Springs - October 5 - Ramada Inn


Sterling - November 6 - Ramada Inn


Denver - November 4 - Fort Logan - 9 00 a.m. - For the State Payroll-Personnel Users Group


Denver - November 10 - PERA Building (final make-up session recently added)


 **Life Insurance Open Enrollment:** PERA’s Life Insurance Program, which include Rocky Mountain Life Insurance and Prudential Life Insurance coverage, will again hold its open enrollment period during the months of October and November. Brochures with enrollment forms will be sent to all members who are not enrolled around September 30. During open enrollment, members may enroll with no health statement. They may enroll in the Program at other times but must provide proof of insurability. Employers may order additional copies of the brochures to have on hand. Once the member enrolls, the employer will be notified to begin deducting monthly premiums. If no premium is received within two months, the application for coverage is canceled.

 **Diskettes:** PERA no longer supplies diskettes to employers to send electronic payroll information for the 401(k) or PERA contribution information. Instead, PERA is supporting transference of this information over the Internet, although we will continue to accept contribution information on diskettes from employers who wish to send them. For information on reporting via the Internet, please call your Employer Representative or Tom Pontarelli, PERA’s Information Systems Division, 303-832-9550, ext. 6198.

 **Disability Program Update:** For Personnel Offices - Enclosed with this *TOPICS* is an explanation of the new disability program that is being distributed at the Employer Training Sessions. Please ensure that your insurance or benefits officer gets a copy. We expect to have the new brochure and application forms completed in mid-October. In the employer training sessions, we are providing an overview of the program. Also, we are setting up five sessions across the state for Standard Insurance Company representatives to provide an in-depth presentation of the program for your employees who will be the primary points-of-contact with Standard.

 **New Member Slide Show:** PERA has a presentation that you can use in your new employee orientations to explain PERA. It consists of ten overhead slides (although we can provide 35mm slides or computer diskettes for PowerPoint presentation) and a script that you can use. Please help us in getting the word out to your new employees about their PERA membership. You may order by calling the Customer Service Center or your Employer Representative.

 **401(k) Plan Change Forms:** Investment changes are effective the first of the month following receipt of a *401(k) Change Form* received at PERA before the 25th of the month. If the form is received between the 25th and the last working day, we cannot guarantee that it will be changed for the next month. Members can use InfoExpress, the interactive voice system for the 401(k) Plan, until midnight of the last day of the month to make direct changes.

 **401(k) Employer Matching:** Currently, 10 employers match some portion of their employees' voluntary contributions to the 401(k) Plan. This is an excellent benefit, and we encourage employers to consider it. If your employer is developing a plan to match contributions for 1999, be sure to send the plan to PERA (Attn: Linda Fishel, Benefit Services Division) for approval before you implement it to ensure that it conforms to the IRS non-discrimination rules. This will protect the qualified status of the 401(k) Plan.

Mandatory Social Security Issue Continues

PERA's Executive Director, Bob Scott, testified before the House Ways and Means Subcommittee on Social Security on May 21, 1998, to voice PERA's continuing disagreement with the proposal to require Social Security coverage for all new school, state, and local government employees. Sen. Daniel Moynihan (D-New York) recently introduced legislation that would require all newly hired public employees to be covered by Social Security beginning in 2001. Other proposals from various commissions and politicians to "fix" Social Security also include mandatory coverage of new public employees. This provision appears to have enough support from both Republicans and Democrats that it would likely pass if a vote were taken today.

In his testimony, Scott told the Subcommittee that "mandatory Social Security coverage is wrong and should not be adopted." He explained that public employees have excellent benefits under their current plans and mandatory coverage would harm them and those persons who have already retired from non-Social Security public plans. He further stated that "public employees...are better protected under their public plans than they would be under Social Security."

Scott told the Subcommittee that the benefit for an employee retiring after 40 years of work at age 65 with a salary of \$20,000 would receive an average benefit of \$18,951 for the seven large non-Social Security plans studied, and only \$8,617 for a Social Security pension. He argued that mandatory Social Security coverage of newly-hired public workers will not save the Social Security system, nor will it significantly reduce the system's problems. In fact, recent studies show that mandatory coverage would extend Social Security's ability to pay pensions by only two years.

Scott pointed out that surpluses in the Social Security system are being used to fund operating deficits elsewhere in the federal budget, although there is now widespread support for stopping this practice.

Some of the other reasons presented to the Subcommittee by the panel of retirement officials about why mandatory Social Security should not be enacted include the following:

- ♦ **Requiring public employees to be covered by Social Security would increase payroll taxes.**
- ♦ **Social Security needs a long-term solution, not a quick fix.** The absence of mandatory coverage has not caused Social Security's financial problems. Federal employees hired after 1983 were forced into Social Security, but that has not solved the long-term problem. There is no reason to believe that including new hires of state, school, and local government workers in the system would stabilize the program.
- ♦ **School, state, and local employee retirement benefits provide more benefit for the dollar.** The public plans have been actuarially funded and are able to invest in securities providing a higher return than the bonds held by Social Security. Consequently, they provide better benefits for the dollars contributed. In the years ahead, Social Security will provide even lower returns than it does today.
- ♦ **School, state, and local government employees are not receiving any unfair pensions from Social Security.** Public employees in non-Social Security states do not receive a free ride. Some of them do receive Social Security pensions from other employment that was covered by Social Security, but then incur a significant reduction in their Social Security pension. Also, public employees pay income taxes to help fund the cost of SSI (Supplemental Security Income) for the indigent elderly and disabled.
- ♦ **Pension portability for these public employees has improved.** Most public plans have provisions for purchase of out-of-state service.
- ♦ **Unconstitutionality.** A mandate from the federal government that state and school districts cover their workers under Social Security probably violates the Tenth Amendment to the U.S. Constitution.

Social Security certainly needs to be changed to ensure that current and future pensioners receive the pensions to which they are entitled. It is only fair, however, that the necessary changes be accomplished by those who have been part of the OASDI system. Congress should consider some features of successful public retirement plans as it looks at reforming Social Security.

Fourteen states cover very substantial numbers of their public employees under independent plans, which would be jeopardized by mandatory Social Security. They are: Texas, Louisiana, Missouri, California, Ohio, Colorado, Illinois, Massachusetts, Kentucky, Minnesota, Nevada, Connecticut, Maine, and Alaska. In each of these states from 20 percent to 100 percent of the public employees are not covered by Social Security. Independent plans rather than Social Security cover

firefighters and police officers in nearly every state. Nationwide, about 5 million public employees are covered by state or local plans in lieu of Social Security.

CPRS - Coalition to Preserve Retirement Security: The Web site for CPRS is www.retirementsecurity.org. We encourage you to visit this site to study the issue more closely.

Rules Adopted by PERA Board

The PERA Board of Trustees held a “Rules Hearing” on August 21, 1998, and adopted the following Rule changes:

- ◆ Rule 5.30 amended to allow members who purchase service credit to take up to twice the length of the time they are purchasing, or 10 years, whichever is less, to complete their installment payments. (Example: Member buying four years of service may take up to eight years to purchase it through installments. Member buying six years of service may have installments up to 10 years.)
- ◆ Rule 14.60 limiting contributions by highly compensated employees to PERA’s 401(k) Plan in certain situations repealed. Since the federal law changed, these special limits are no longer necessary.
- ◆ Rule 15 (Domestic Relations Orders) amended to comply with Senate Bill 98-114 and other changes.
- ◆ Rule 2 changed, added or deleted names of employers affiliated with PERA.
 - Moffat Tunnel Commission deleted (defunct organization)
 - Colorado State Fair Authority deleted (organization absorbed into Department of Agriculture)
 - Northern Colorado Board of Cooperative Education Services renamed the Centennial Board of Cooperative Educational Services
 - Mount Evans Board of Cooperative Educational Services added
 - Fairmont Fire Protection District deleted (no PERA-eligible employees)
 - San Miguel Regional & Telluride Housing Authority added
- ◆ Rule 2 changed the new deadline for PERA Board candidates to submit petitions and biographical summaries to PERA to the first business day of March of the election year.
- ◆ Rule 2 changed to require members or retirees signing a candidate’s petition to provide signature, printed name, and either his or her Social Security number or address.
- ◆ Rule 2.2 amended on various aspects of an administrative review.
- ◆ Rule 12.10B amended to clarify that persons who are eligible for coverage under the PERA Health Care Program but are not enrolled may enroll within 30 days after other continuous group health care coverage has been lost, or during open enrollment periods.

All of the Rule changes will be incorporated into the Rules book along with some of the Rules for the disability program to be adopted in October and will be distributed to employers later this fall.

Survey Results

A poll of PERA members and retirees taken in May showed the following:

- ◆ 18% of the members with five or more years of service were not aware of the 401(k) Plan.
- ◆ 29% of the members with less than five years of service were not aware of the 401(k) Plan.
- ◆ Members appear to be interested in investment education and pre-retirement seminars.
- ◆ An overwhelming majority of members and retirees agree that the PERA employees they have dealt with are always professional and that the PERA staff is helpful. They also believe that PERA works in their best interests.
- ◆ An overwhelming majority of members and retirees believe that PERA does a good job of investing the pension plan money and works well with the State legislature.
- ◆ About one-third of the members said they did not know whether members who terminate employment could leave their accounts with PERA and later withdraw it or begin receiving a benefit.
- ◆ About one-third of the members either answered wrong or said they were unsure of the answer when asked if it was the employer’s responsibility to change the member’s name, address, and beneficiary with PERA.