



# MEMBER CONTRIBUTION INTEREST RATE

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Executive Director  
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## Applicable Law

### **C.R.S. § 24-51-101(28)(c)**

“Interest means....the rate established by the board for each calendar year pursuant to the provisions of section 24-51-407 for interest on member contributions.”

### **C.R.S. § 24-51-407(4)**

“On or after July 1, 2004, member contributions shall earn interest at a rate specified by the board, compounded annually, that is in effect at the time interest is earned. In no event shall the board specify a rate pursuant to this subsection (4) that exceeds five percent.”

# Member Contribution Interest Rate

Board approved the amended policy at the September 2020 Board Meeting

Developed a principles-based policy which guides the Board in setting the Member Contribution Interest Rate (Interest Rate)

- » Reflects the Board's principles
- » Evaluates the interest rate as a component of the member's overall retirement benefit







## Member Contribution Interest – Impact on PERA Members

### Current Interest Rate: 3%

- » Interest Rate adopted annually by the Board

### Member contribution accounts earn a fixed Interest Rate

- » The Interest Rate is also applied to the employer match amounts

### Benefit calculations impacted by the Interest Rate:

- » Contribution totals when a member refunds their member account
- » Total contribution amount annuitized in the Money Purchase benefit calculation

# Key Policy Principles

- » In setting the Interest Rate, the Board will consider three key principles as a whole
- » The three key principles should be looked at in conjunction with one another, not stand-alone

## Key Question:

- » What Interest Rate reflects the best combination of market rates but still encourages members to leave accounts at PERA?

# Key Principles Continued...

1

## ***Competitiveness of the interest rate***

Assess the market interest rate environments including inflation compared to the Member Contribution Interest Rate

2

## ***Effectiveness of the rate in combination with the matching amounts in the money purchase retirement calculation in providing a benefit***

Assess the Interest Rate's effectiveness in providing a money purchase retirement benefit

3

## ***Impact on member behavior***

Assess whether the Interest Rate incents inactive members to refund contributions or to leave their account with PERA and continue adding value to their future PERA benefit

# Principle #1 – Competitiveness of the Interest Rate

Listed are several examples of historical returns for less risky investments

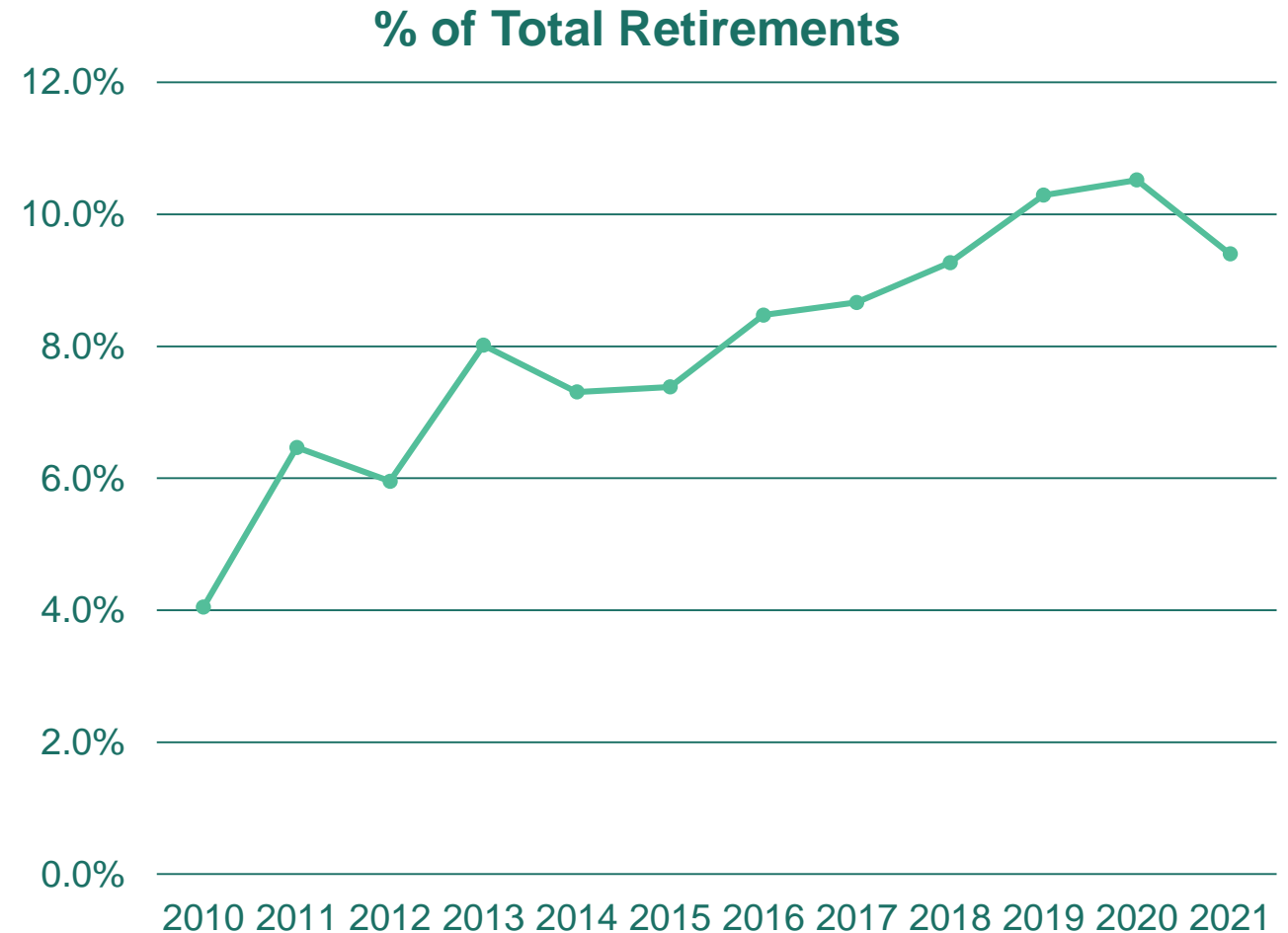
Related Returns over various Time Periods			
Investment	3 Yrs	5 Yrs	10 Yrs
U.S. 3M Treasury Bills	0.6%	1.1%	0.7%
U.S. 2Yr Treasury Note	1.0%	1.5%	1.1%
U.S. 10Yr Treasury Note	1.6%	2.0%	2.1%
U.S. 30Yr Treasury Note	2.1%	2.4%	2.7%
U.S. CPI-U (Seasonally Adj)	4.9%	3.8%	2.5%
PERAdv Capital Preservation	1.8%	1.9%	1.9%

as of 9/30/2022

The member interest rate has been 3% during the past ten years

## Principle #2 – Effectiveness of the Rate in Providing The Money Purchase Benefit

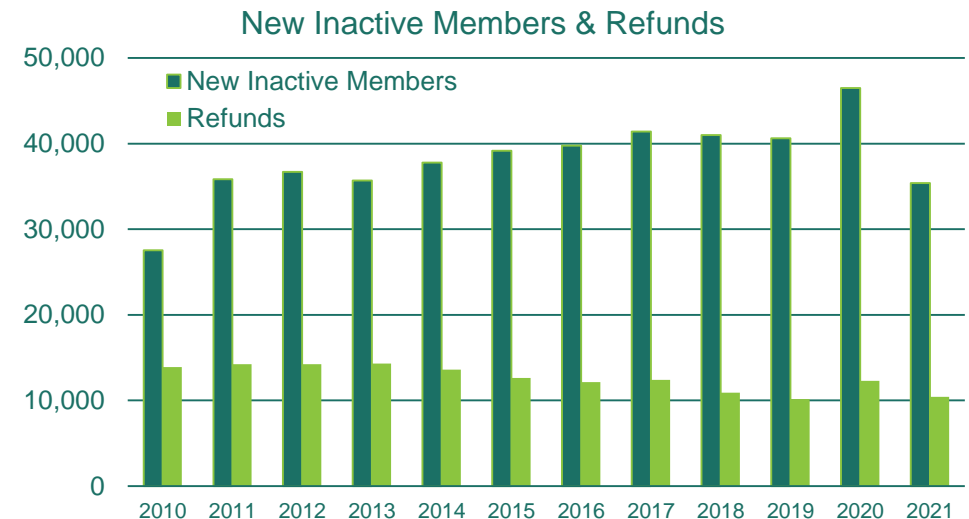
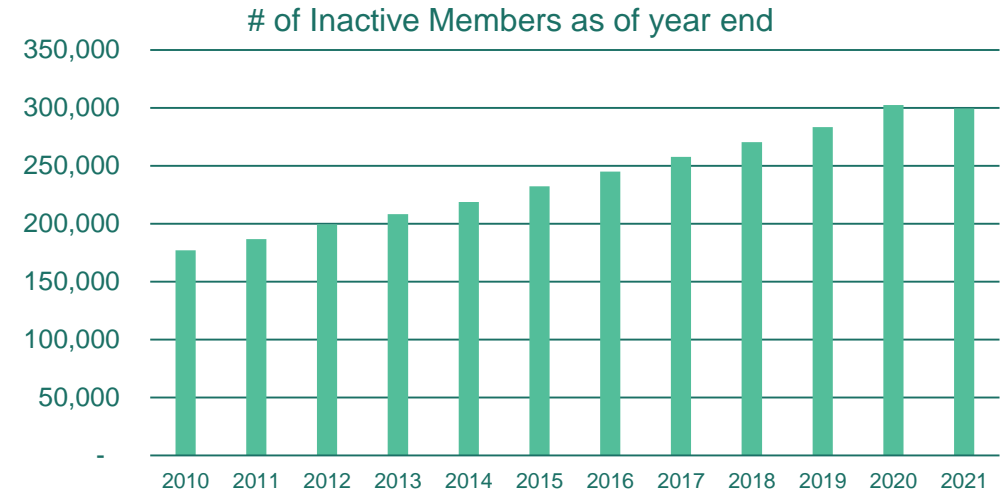
- » Are members leaving their money with PERA and ultimately receiving a money purchase benefit?
  - » Until 2021, PERA had seen a steady increase in the percentage of retirees receiving a money purchase benefit
  - » By leaving money in the PERA plan, member accounts will continue to grow and upon retirement eligibility, members will also be entitled to receive a 100% match on those dollars, which is annuitized using PERA's 7.25% return assumption





## Principle #3 – Impact on Member Behavior

- » Retaining retirement dollars with PERA provides members with the most secure retirement benefit
- » **Is PERA seeing a steady increase in inactive members? Are they refunding or leaving their money with PERA?**
  - » A money purchase benefit or a service retirement benefit is generally comparable or better when compared to other retirement options, especially considering the level of risk incurred by the member
  - » What benefits do members receive for leaving money in PERA?
    - » Access to survivor benefits
    - » Access to an annuity using PERA's 7.25% assumed rate of return
    - » Access to PERA's group healthcare at retirement and subsidy

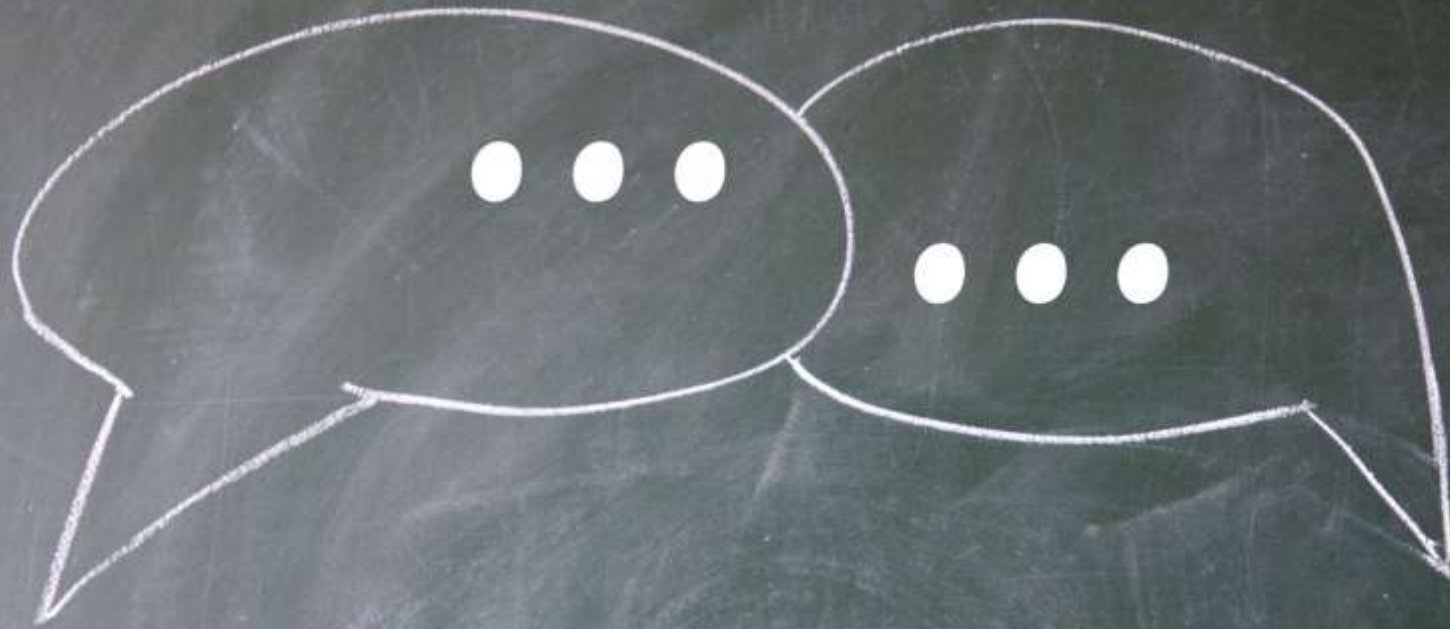


# Staff Recommendation

The current rate of 3% reflects the best combination of market rates and encourages members to leave accounts at PERA

Staff recommends the Board retain 3% as the Member Contribution Interest Rate for 2023





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**Questions?**

# Proposed Motion

» I move that the Board approve 3.0 percent as the member contribution interest rate for 2023 pursuant to CRS 24-51-407(4).