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RE: Colorado PERA Legislation

The Honorable John Hickenlooper
Governor of Colorado
Colorado State Capitol
200 East Colfax
Denver, Colorado 80203

Dear Governor Hickenlooper:

We are the three independent members of the Colorado Public Employees' Retirement Association (PERA) Board of Trustees (the Board); appointed by the Governor and confirmed by the Senate. While we are not beneficiaries of PERA, we do have a fiduciary obligation to the plan participants, as established by the Colorado General Assembly in the Colorado Revised Statutes. We take this duty very seriously.

PERA MEMBERS SERVE COLORADO

As you are no doubt aware, over 10 percent of the population—and citizens—of Colorado are PERA members. Taking into account PERA members' spouses and families as well as the communities they support, the impact of those impacted by PERA is even greater. PERA members support and serve all Colorado citizens as they provide our security, test our water, teach our children, preside over our disputes, maintain our parks and wilderness, and ensure our roads are safe.

PERA benefits serve as a significant tool for the State of Colorado in attracting and retaining talent necessary to serve all Coloradans. Offering a reasonable retirement system to PERA members is critical to ensuring a high-quality public workforce. It is VERY IMPORTANT to recognize that PERA members DO NOT participate in Social Security; while in PERA employment, they do not pay Social Security taxes. Further, many PERA members do not receive Social Security benefit payments as do their counterparts in the private sector.

PERA IS SOLVENT, NOT IN A SHORT-TERM CRISIS

At the end of 2016, PERA's annual financial report, along with its independently audited financial statements, reflected the actuarial value of the assets of the trust was \$44.7 billion to pay its liabilities. Those liabilities, which will be paid out over the next 50 years or more, in aggregate equal \$76.9 billion, leaving PERA underfunded by \$32.2 billion. While significantly underfunded, PERA remains solvent. In 2016, the total fund representing all five PERA divisions received \$5.21 billion in investment income and contributions, while spending \$4.27 billion on benefits and expenses, representing a net increase in the fund's fiduciary position of \$737 million. The myth that PERA faces bankruptcy or some form of financial meltdown in the near term is a fallacy.

REFORMS ARE NECESSARY AND SHOULD BE MADE NOW

However, the Board recognizes that for the fiscal health of Colorado and the sustainability of the PERA plan, reforms must be made. A major credit rating agency has threatened to downgrade Colorado's credit rating (no doubt local municipalities will also be impacted) if PERA's funded status is not addressed in a timely and responsible manner. Accordingly, it is important the reforms be made soon. Every day and year the Legislature waits to address necessary reforms, the cost of these reforms to Coloradans both in and outside of PERA will grow.

There are a number of factors that have contributed to PERA's underfunding. These include:

- People in Colorado, including PERA members, are living longer. As a result, benefit costs are paid out over a longer period of time.
- The Legislature has set the contributions required by the State and other PERA employers lower than the amount actuaries have determined is necessary to fund PERA using a 30-year amortization. This shortfall, which is likened to a failure to make your full mortgage payment each period, has now grown to approximately \$4.5 billion plus the lost earnings PERA could have made on these funds.
- The Board voted to lower the rate of return PERA assumes it will receive on its investments three times since 2009; from 8.5 percent to 8 percent in 2009, from 8 percent to 7.5 percent in 2013, and to the current 7.25 percent in 2016. (During 2010, the independent members of the Board did express a concern to the Governor and General Assembly with respect to the then assumed 8 percent rate of return.) To be clear, a reduction in the assumed rate of return increases the reported pension obligation.

To address underfunding, in 2006, the General Assembly passed legislation that reduces the level of benefits for new employees hired after December 31, 2006. As members and retirees hired before January 1, 2007, drop off the benefit rolls, and these new employees replace them—a development that will occur during the next couple of decades—there will be a significant positive effect on PERA funding.

POSITIVE EFFORTS TOWARD REASONED AND MEANINGFUL REFORM

We applaud those leading the efforts in the General Assembly this year to adopt the legislation necessary for PERA reforms. We agree it is extremely difficult, but implore you to think carefully about the proposal the PERA Board has put before you. Certainly, we recognize the General Assembly is responsible for considering, debating, and adopting legislation that sets the terms of the PERA plan including benefits, contribution levels, and retirement ages. And while the Board has no authority to do so, we provided a well thought-out proposed plan, developed over an 18-month process.

In the summer of 2016, the Board and PERA staff began its thorough process by gathering information before considering and debating potential reforms that would improve PERA's financial stability. Our deliberations included months of internal debate, as well as consultations with professional actuaries, investment consultants, and other experts. Last spring, the Board and staff embarked on a concentrated effort to educate and engage with a range of stakeholders. Our efforts included numerous telephone town hall meetings, online webinars, meetings with member and employer organizations, and a listening tour around the State, hosting 12 meetings in nine cities and open to PERA members and the public. Thousands of people attended meetings and tens of thousands participated in one of our telephone or

online events. After extensive outreach, the Board finalized a plan that would fully fund PERA within 30 years and promoted “shared responsibility” between employees and employers to achieve that goal. SB 200, which is making its way through the legislative process, also includes the 30-year fully-funded target timeline.

Last fall, after the Board finalized and voted on its recommendations, we held another series of additional events including 12 community meetings in 11 cities. Throughout the process leading up to and following the Board’s proposal, the PERA Board and staff have sought input from different constituent groups. During the course of that outreach, we learned that a vast majority of PERA stakeholders—including members themselves—believe that the time to take action is now, before the situation worsens.

A PROPOSAL THAT INCREASES PERA COSTS, UNDERFUNDING AND RISK OF CREDIT RATING DOWNGRADE

Now, we’ve learned that some are suggesting a 40-year period to full funding is an equally acceptable goal. Extending our proposed goal by ten years greatly concerns us for several reasons.

First, extending the amortization period extends the period over which the state and employers will be paying off their respective pension liabilities. This will likely increase rather than decrease the level of underfunding making it worse, not better, for the first few decades during which time the unfunded liability would continue to grow. In turn, the increase in underfunding would have a negative impact on pension costs and would likely be viewed negatively by credit rating agencies.

Second, PERA’s funding policy and existing State law mandates PERA take actions to be fully funded in 30 years. This 30-year requirement was selected to carefully balance funding PERA’s shortfall with the shared sacrifice that will be needed from current and former (retirees) employees, as well as employers. The 30-year timeline gives the fund the requisite resiliency it needs to withstand economic fluctuations and market corrections. Unlike a 40-year amortization period, a 30-year plan results in a constant improvement in PERA’s funded status within a few years of taking action as the unfunded liability decreases.

Third, in 2005, the Colorado Treasurer’s bipartisan Commission to Strengthen and Secure PERA was adamant about its recommendation for “a reduction in the timeframe from its current forty-year horizon to a thirty-year amortization period.” Senate Bill 1 in 2010 also adopted the 30-year target to full funding. A move to a 40-year amortization period represents a huge step backward, not progress.

Fourth, the average service period for a PERA employee is 23 years. By extending and spreading the cost of those services over a 40-year time period, a portion of the cost of those services is transferred to future generations who may well receive no benefit.

The Board, in a 15-1 vote, put forward what it believes to be a financially responsible, well-reasoned, and balanced proposal of reforms to be considered in the 2018 legislative session. Senate Bill 200 is now making its way through the Capitol. Despite our disagreement with certain aspects of Senate Bill 200, we support a legislative process that results in balanced and necessary reforms to PERA funding, before the next inevitable economic downturn.

In 2010, the appointed PERA Trustees also supported a legislated reform for PERA. However, in a letter delivered to the Governor and each member of the General Assembly, we expressed concern the

legislative process might “water down” some of the Board’s proposal at that time. That concern became a reality. As a result, the Legislature is, once again, rehashing reforms that were set aside rather than adopted in 2010 and, which if adopted, would have lessened the underfunding now experienced by PERA. We urge the Legislature to avoid “watering down,” yet again, the current Board proposal.

We are committed to keeping the PERA fund viable and productive so that Coloradans can continue to attract talented employees and PERA members can continue their careers and be assured of secure retirements. To that end, we urge you and members of the General Assembly to support your original goal of bringing PERA to fully funded status within 30 years. This will enhance the likelihood of long-term economic health for PERA and entire state of Colorado.

Should you have any questions, we would be happy to meet and discuss the issues with you further at your convenience.

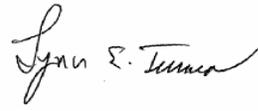
Sincerely,



Roger Johnson



Susan G. Murphy



Lynn E. Turner

CC: The Honorable Kevin J. Grantham, Senate President
The Honorable Chris Holbert, Senate Majority Leader
The Honorable Leroy Garcia, Senate Minority Leader
The Honorable Crisanta Duran, Speaker of the House of Representatives
The Honorable KC Becker, Majority Leader of the House of Representatives
The Honorable Patrick Neville, Minority Leader of the House of Representatives
The Honorable Jack Tate, State Senator
The Honorable Kevin Priola, State Senator
The Honorable Dan Pabon, State Representative