SENATE BILL 18-200

What is the AUTOMATIC ADJUSTMENT Provision?

The automatic adjustment provision is an innovative approach to pension funding that keeps PERA on a path to full funding in 30 years. The provision requires changes in member and employer contribution rates, the annual increase (AI) percentage, as well as the direct distribution from the State to ensure PERA achieves the goal of paying off the unfunded liability in 30 years. Before the adoption of this provision, the only way the contribution rates or annual increase percentages could change was through the passage of legislation by the General Assembly. This new approach writes in statute the automatic changes.

The automatic adjustment provision responds to economic or demographic events that could cause a deviation in the path toward a closed 30-year amortization goal.* The automatic adjustment has four components: member contributions, employer contributions, State direct distribution, and the AI paid to retirees. If the fund is behind the 30-year goal, member and employer contribution rates will increase, the direct distribution will increase, and the AI percentage will be reduced.

This provision also allows for decreases in member and employer contribution rates and a decrease in the direct distribution along with increases in the AI when the fund has a positive experience and is ahead of the target 30-year amortization goal.

How does the automatic adjustment provision work?

The chart below explains what steps are taken when the fund is either behind or ahead of the target 30-year funding goal. The adjustment to the contribution rates, the direct distribution, and to the amount of the AI will be calculated to ensure that employers, members, and retirees are sharing equally in returning the fund to the target amortization period. An applicable adjustment will be effective as of July 1 each year, but no adjustment can occur prior to July 1, 2020, if one is needed.

TARGET: 30-YEAR AMORTIZATION PERIOD

Behind a 30-Year Amortization Period	Ahead of a 30-Year Amortization Period
» Increase employer contributions by up to 0.5% in one year with a cap of 2.0% above the July 2019 employer contribution rates	» Decrease employer contributions by up to 0.5% in one year, not to fall below the 2018 employer contribution rates
» Increase member contributions by up to 0.5% in one year with a cap of 2.0% above the July 2021 member contribution rates	» Decrease member contributions by up to 0.5% in one year, not to fall below the 2018 member contribution rates
» Reduce the AI percentage by up to 0.25% in one year, not to be reduced below a floor of 0.5%	» Increase the AI percentage by up to 0.25% in one year, not to exceed a cap of 2.0%
» Increase the direct distribution by up to $20 million in one year, not to exceed $225 million	» Decrease the direct distribution by up to $20 million in one year, with no floor

What is the impact of the provision?

The automatic adjustment provision enables the fund to withstand fluctuations due to external conditions. For example, PERA could experience a significant investment event and through the built-in changes to contribution rates, the AI, and the direct distribution, stay within the target 30-year funding period.

Is this provision unique to PERA?

A number of other plans have provisions that set the employer contribution rate to be the actuarially determined contribution (ADC) and reset it each year based on the condition of the plan.

Other plans also have provisions where the AI can be modified each year to ensure the plans stay at 100 percent funded.

Colorado would be the first state to combine automatic movement in both the contribution rates (member and employer) and the amount of the AI based on the economic condition of the fund.

* A closed amortization period anticipates that sufficient contributions will be paid into the plan to reduce the projected funding period by one year, at the end of each year. In other words, the number of years to full funding decreases over time.