



July 20, 2016

Dianne E. Ray, CPA  
State Auditor  
Colorado Office of the State Auditor  
1525 Sherman St., 7<sup>th</sup> Floor  
Denver, CO 80203

Dear Auditor Ray:

In response to your request, we have prepared an updated status report regarding the implementation of recommendations contained in the *Sensitivity Analysis of Colorado Public Employees' Retirement Association Hybrid Defined Benefit Plan Actuarial Assumptions* report. The attached report provides a brief explanation of the actions taken by the Colorado Public Employees' Retirement Association (PERA) to implement each recommendation.

PERA has implemented the three recommendations based upon the study performed by Pension Trustee Advisors (PTA) for the State Auditor's Office under Senate Bill 14-214.

A part of the discussions between PERA and the Legislative Audit Committee (LAC) in October of 2015 was the potential assessment of the need for legislation in order to implement the signal light technology/methodology under the PTA study. The Board will soon receive the first full and complete signal light assessment containing the prescribed variables and assumptions for all of the Divisions of PERA as envisioned in the PTA study. PERA has agreed to continue the prospective disclosure of the signal light assessment on an annual basis, and therefore, it is our belief that there is no need for legislation in order to continue that implementation. With regard to other legislation, the Board has not yet had an opportunity to fully assess the initial comprehensive signal light report and will be doing so over the coming months. The Board will endeavor to assess if a legislative measure related to the 2016 stop light methodology report is warranted or appropriate for consideration during the 2017 legislative session.

We would like to thank you, your team, and the selected vendors for the professionalism and effort put forth in performing the studies and communicating the results.

If you have any questions, please do not hesitate to contact me at 303-837-6222 or by email at [gsmith@copera.org](mailto:gsmith@copera.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Gregory W. Smith". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Gregory W. Smith  
Executive Director, Colorado Public Employees' Retirement Association

# AUDIT RECOMMENDATION STATUS REPORT

**AUDIT NAME:** Sensitivity Analysis of Colorado Public Employees’ Retirement Association Actuarial Assumptions  
**AUDIT NUMBER:** 1416S  
**DEPARTMENT:** Colorado Public Employees’ Retirement Association (PERA)  
**DATE OF STATUS REPORT:** July 20, 2016

## SUMMARY INFORMATION

*Please complete the highlighted sections with summary information for all audit recommendations.*

Rec. Number	Agency’s Response	Original Implementation Date	Implementation Status  <i>(Insert: Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable. Please refer to the attached sheet for definitions of each implementation status option.)</i>	Revised Implementation Date (If applicable)  <i>(Complete only if agency is revising the original implementation date.)</i>
1	Agree	2016	Implemented	
2	Agree	2016	Implemented	
3	Agree	2016	Implemented	

## DETAIL OF IMPLEMENTATION STATUS

**Note:** PERA agreed with all of the audit recommendations.

### Recommendation No. 1:

The Colorado Public Employees’ Retirement Association should enhance its monitoring of the Hybrid Defined Benefit Plan’s funding status and projected full funding date by updating the signal light reporting annually and whenever significant changes have occurred, providing policymakers an assessment of the current projected full funding dates of the Plan compared to agreed-upon funding objectives. This reporting should include a review of the investment return and other metrics required (and the likelihood) for the Plan to maintain, improve, or decline from the current signal.

**Current Implementation Status for Rec. 1, part a** (*i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable*): Implemented.

### Agency’s Update:

Recommendation No. 1 has been implemented. Colorado PERA’s actuarial services provider, Cavanaugh Macdonald Consulting, LLC (CMC), has replicated the Early Warning Signal Light Tool

(developed by Pension Trustee Advisors (PTA) as presented in the report noted above) and has incorporated the results for 2015 into CMC’s annual report to the PERA Board of Trustees (Board) and into PERA’s annual report to the Legislative Audit Committee (LAC) on August 22, 2016.

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**Recommendation No. 2:**

The Colorado Public Employees’ Retirement Association (PERA) should enhance its monitoring of the Hybrid Defined Benefit Plan’s funding status and projected full funding date by expanding PERA’s annual reporting and reconciliation to include the causes for the changes in the expected full funding dates. This is in addition to the signal light reporting discussed in Recommendation No. 1.

**Current Implementation Status for Rec. 2** (*i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable*): Implemented.

**Agency’s Update:**

Recommendation No. 2 has been implemented. To better explain and illustrate the factors affecting the projected funding date for each PERA division trust fund, CMC has provided a reconciliation of the change in the projected funding period between 2014 and 2015 based upon each major factor (*i.e., investment return, population/salary growth, demographic experience, and other factors*) that influenced the projection results. CMC has incorporated this reconciliation into their annual report to the Board and into PERA’s annual report to the LAC on August 22, 2016.

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**Recommendation No. 3:**

The Colorado Public Employees’ Retirement Association (PERA) should enhance its monitoring of the Hybrid Defined Benefit Plan’s funding status and projected full funding date by ensuring that future actuarial audits include a confirmation of the multi-year actuarial projections currently used to determine the full funding date.

**Current Implementation Status for Rec. 2** (*i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable*): Implemented.

**Agency’s Update:**

Recommendation No. 3 has been implemented. Effective January 15, 2016, the Board incorporated and adopted the language within the Board’s Governance Manual ensuring an independent replication of the actuarial funding projections while performing the required periodic actuarial audit of the valuation results performed by the Board’s retained actuary.