

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION
FY 2024-25 JOINT BUDGET COMMITTEE HEARING AGENDA

Wednesday, November 29, 2023

11:00am – 12:00 pm

11:00-11:05 INTRODUCTIONS AND OPENING COMMENTS

Presenter: Amy C. McGarrity, PERA Interim Executive Director/Chief Investment Officer

11:05-12:00 UPDATE ON THE 2022 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Main Presenters:

- Amy C. McGarrity, PERA Interim Executive Director/Chief Investment Officer
- Michael Steppat, PERA Public & Government Affairs Manager

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
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INVESTMENT RETURNS

[Rep. Taggart] What is the impact to the State if PERA does not achieve its anticipated returns in a given year or in a series of years?

The potential impact to the State if PERA does not achieve the current assumed long-term rate of return of 7.25 percent in a given year or in a series of years is the Automatic Adjustment Provision (AAP) may be triggered. The primary intent of the AAP is to gauge the adequacy of the contributions (both employer and employee) coming into the pension trust fund against the amount required to reach full funding by 2047.

Pursuant to C.R.S. § 24-51-413, the AAP assessment is a comparison of two blended rates, weighted across all five Division Trust Funds, defined as: the “Blended Total Contribution Amount” (employer contribution rates + member contribution rate + direct distribution as a rate of pay) divided by the “Blended Total Required Contribution” (actuarially determined contribution (ADC) rate + member contribution rate), determining a resulting ratio. If the resulting ratio falls within a corridor (98.00 percent to 119.99 percent), no adjustments are made. If the resulting ratio does not achieve a minimum benchmark (less than 98.00 percent), adjustments are applied in an equitable manner of impact resulting in increases in contributions and a decrease in the Annual Increase (AI) cap. If the resulting ratio exceeds the acceptable corridor (120.00 percent or greater), adjustments are applied in an equitable manner of impact resulting in decreases in contributions and an increase in the AI cap. Limits are placed on how much these amounts can change in a single year and cumulatively. The AAP limits for contributions and the AI are below:

- Adjustments (increases or decreases) to each of the Employer Contribution Rates and the Member Contribution Rates cannot exceed 0.50 percent in any one year, and cannot exceed more than 2.00 percent above or below standard contribution rates as set by Senate Bill 18-200.
- Adjustments to the Annual Increase (AI) cap cannot exceed 0.25 percent in any one year, and
 - o Cannot exceed a 2.00 percent AI cap maximum
 - o Cannot fall below a 0.50 percent AI cap floor

Based on the results of the AAP assessment which utilized the December 31, 2022, actuarial valuation performed for funding purposes, effective July 1, 2024, there will be no change to the current member and employer contribution rates or AI cap. Despite the - 13.4 percent investment return for the year ended December 31, 2022, the actuarial value of assets, which smooths investment gains and losses over a four-year period, increased,

reflecting applicable portions of investment gains experienced in the prior three-year period. Pursuant to PERA's asset valuation method, the negative return for 2022 also will be recognized over a four-year period.

[Sen. Kirkmeyer] When the legislature passes bills based on anticipated investment returns, and then PERA does not achieve those returns, what can the JBC do to mitigate the impact of lower returns? Is the only option to backfill PERA over the long run as the State has done in the past?

The AAP assessment (as discussed above) is performed annually to help mitigate the occurrence of lower-than-expected investment returns, as well as any unfavorable demographic experience, such as lower than expected mortality or payroll growth, or higher than expected retirements, disabilities, etc.

Without requiring additional legislation, the intent of the AAP mechanism is to allow adjustments (with boundaries) to employer and member contributions rates to help moderate the impact of unexpected plan experience. In line with the agreed upon "shared responsibility" under which SB 18-200 was enacted, the AAP mechanism also allows for adjustments (with boundaries) to the AI cap, so that those in pay status (retirees, beneficiaries, etc.) also contribute to achieving the targeted 2047 funding date.

As described in the briefing notes provided by JBC Staff, the \$225 million Direct Distribution was legislated to help pay down the legacy (prior) unfunded liability. The Direct Distribution, however, is considered within the AAP assessment (as defined above) and has assisted in achieving a resulting ratio in excess of the targeted 98 or greater percent.

Although PERA-affiliated employers have consistently paid the statutory contribution rates, those statutory rates were not always sufficient to cover the required or actuarially determined contribution amount as calculated by the Board's actuarial service provider. The calculation is dependent on a number of factors including prior years' contributions, actual investment performance, and demographic experience, as noted above.

UNFUNDED LIABILITY

[Sen. Zenzinger] If the bounds are set at 90-110 and we finish next year at 95.0 percent funding, what is the actuarial impact of not having an auto-adjust based on these new bounds versus if we had triggered an auto-adjust based on previous legislation?

Shifting/condensing the triggering boundaries of the AAP assessment from 98 percent to 90 percent as the lower boundary and from 120 percent to 110 percent as the upper boundary likely will extend the point of full funding well beyond 2047. These proposed changes would result in less likelihood of annual payment of the ADC (the contribution required to be sufficient to achieve full funding by 2047). Also reducing the upper boundary from 120 percent to 110 percent will increase the likelihood of triggering decreases in contributions and increases in the AI cap, again extending the targeted full funding date from 2047 to a potentially much later date.

Similar to a mortgage on a house, the longer one extends the expected mortgage payments, the more interest will be charged on those missed or underpaid dollars. In PERA's case, underpayment of ADCs going forward likely would mean an extended full funding date and result in the need for hundreds of millions of additional dollars (beyond current expectations) to eventually achieve full funding.

The sooner full funding is achieved through the designed "shared sacrifice" of the AAP, the sooner "shared relief" can also be achieved benefitting both the active and retired populations of PERA.

Joint Budget Committee

November 29, 2023

Amy C. McGarrity, Interim Executive Director/Chief Investment Officer

Michael Steppat, Public & Government Affairs Manager



Agenda

- **Overview**
- **2022 Annual Comprehensive Financial Report (ACFR)**
 - **Facts & Figures**
 - **Summary of Valuation Highlights**
 - **Investment Performance**
- **Recent Legislation Passed**

Public Employees' Retirement Association of Colorado (PERA)

Defined Benefit Plan

Stable benefit payments to over 132,000 retired public employees

Defined Contribution Plan

Choice available to State and Local Government employees

Voluntary Investment Program

PERAPlus 401(k) and 457 Plans



Health Benefits Program

Active and retired member coverage



Governance



Colorado General Assembly

- Sets benefit and contribution structure, along with other plan requirements
- Provides legislative oversight via the following committees:
 - Legislative Audit Committee
 - Joint Budget Committee
 - Joint Finance Committee (SMART Act)
 - Pension Review Commission
 - Pension Review Subcommittee



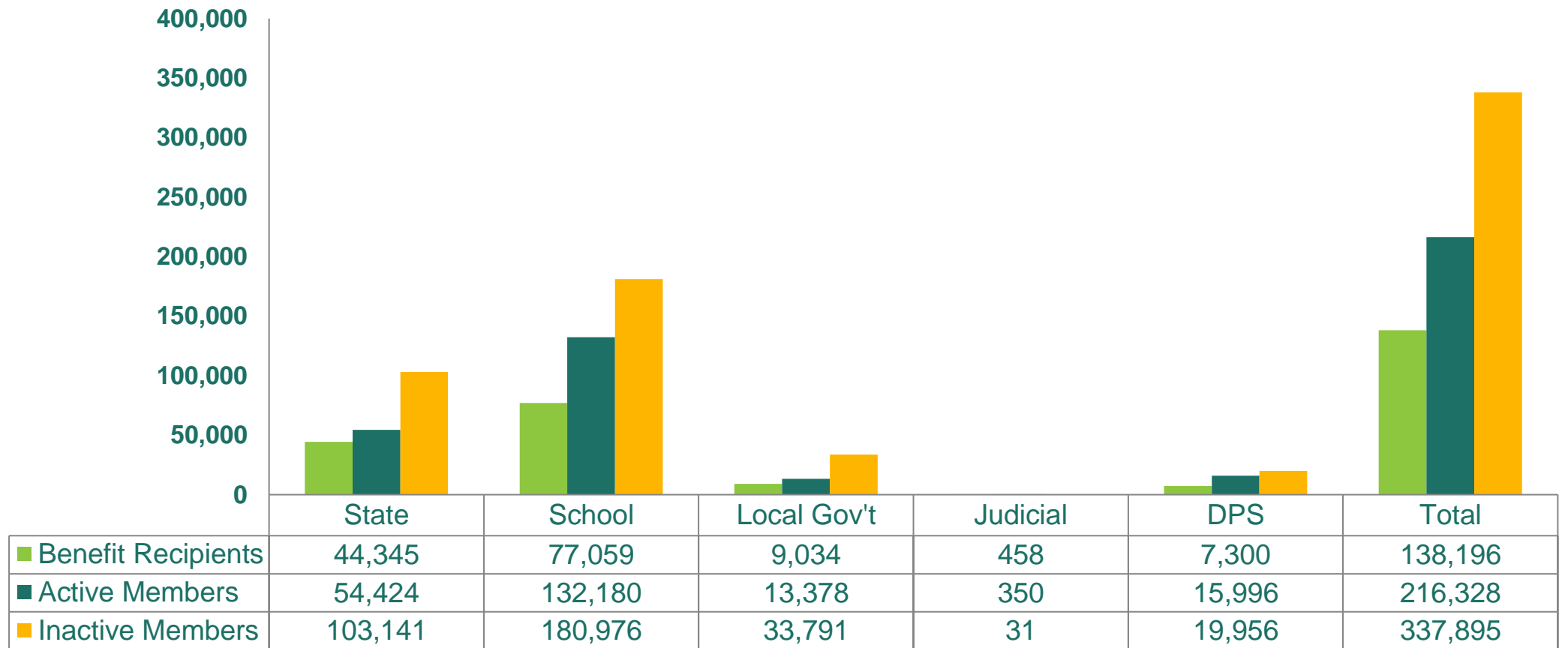
PERA Board of Trustees

- Trustees, as fiduciaries, oversee investment program and benefits administration
- Adopt and revise rules in accordance with state statutes
- Sets policy and delegates the policy implementation to the Executive Director

PERA Provides for 1 in 10 Coloradans

As of September 30, 2023

Total: 692,419





INVESTMENT PORTFOLIO FAIR VALUE

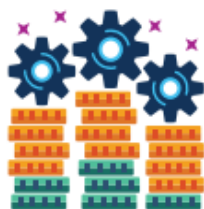
\$55.9 billion

(DEFINED BENEFIT PLANS)



NET RATE OF RETURN

(13.4%)



MEMBERS ACTIVELY
CONTRIBUTING TO PERA

206,646



EMPLOYERS

410



RETIREES AND
BENEFIT RECIPIENTS

135,485



ANNUAL RETIREMENT
BENEFIT PAYMENTS

\$5.2 billion



INVESTED IN COLORADO-BASED
COMPANIES, PARTNERSHIPS,
AND ASSETS

\$948.9 million



30-YEAR RATE OF RETURN

8.3%

(ANNUALIZED, GROSS-OF-FEES)

2022 Annual Report

Facts & Figures as
of December 31,
2022

Summary of Valuation Highlights

» Asset Return

- The market value of assets for all Funds combined decreased from \$64.8 billion (as of December 31, 2021) to \$54.7 billion (as of December 31, 2022)
 - » The investment return was approximately -13.4%, net of investment expenses
- The actuarial value of assets – which smooths investment gains and losses over four years – increased from \$57.2 billion (as of December 31, 2021) to \$60.9 billion (as of December 31, 2022)
 - » Gradual recognition of deferred gains and losses resulted in a 9.3% return on actuarial value of assets, compared to 7.25% expected

» Effective Amortization Periods

Trust Fund	December 31, 2022	December 31, 2021	Change
State Division	20 years	23 years	-3
School Division	24 years	26 years	-2
Local Government Division	9 years	12 years	-3
Judicial Division	6 years	7 years	-1
DPS Division*	7 years	9 years	-2

Summary of Valuation Highlights (cont.)

» Actuarially Determined Contribution Rates

Trust Fund	December 31, 2022 (ADC for 2024)	December 31, 2021 (ADC for 2023)	Change
State Division	19.77%	20.71%	-0.94%
School Division	20.58%	21.13%	-0.55%
Local Government Division	8.28%	9.20%	-0.92%
Judicial Division	12.78%	13.83%	-1.05%
DPS Division	6.04%	6.77%	-0.73%

★ Segal

» Unfunded Actuarial Accrued Liability (UAAL)

- The actuarial accrued liability increased from \$84.4 billion (as of December 31, 2021) to \$87.2 billion (as of December 31, 2022)
- The UAAL *decreased* from \$27.2 billion to \$26.3 billion.
 - » \$0.9 billion decrease includes an expected decrease of \$0.6 and \$1.1 billion gain from investments, net of \$0.8 billion loss from demographic experience

Automatic Adjustment Provision

	Item	State Division	School Division	Local Government Division	Judicial Division	Denver Public Schools Division	Total Weighted Average
1	Unfunded actuarial accrued liability as of December 31, 2022 (\$ in millions)	\$9,275.7	\$15,933.0	\$534.0	\$58.7	\$465.0	\$26,266.4
2	Member contribution rate	11.10%	11.00%	9.01%	11.00%	11.00%	10.99%
3	Employer contribution rate	20.04%	19.77%	13.05%	23.26%	8.88%	19.54%
4	Actuarially determined employer contribution rate	19.77%	20.58%	8.28%	12.78%	6.04%	19.77%
5	Direct distribution rate						1.98%
6	Blended total contribution rate: $2 + 3 + 5$						32.51%
7	Blended total required contribution: $2 + 4$						30.76%
8	Ratio of blended total contribution rate to blended total required contribution: $6 \div 7$						105.69%



Automatic changes are triggered when the ratio of the Blended Total Contribution Rate to the Blended Total Required Contribution is less than 98% (or greater than 120%)

» As of December 31, 2022, this ratio is equal to **105.69%**



INTERNAL AND EXTERNAL MANAGEMENT EXPENSES

\$212.1 million



ASSETS MANAGED IN-HOUSE BY PERA STAFF

59%



SAVINGS IN 2022 DUE TO INTERNAL INVESTMENT
MANAGEMENT

\$60 million



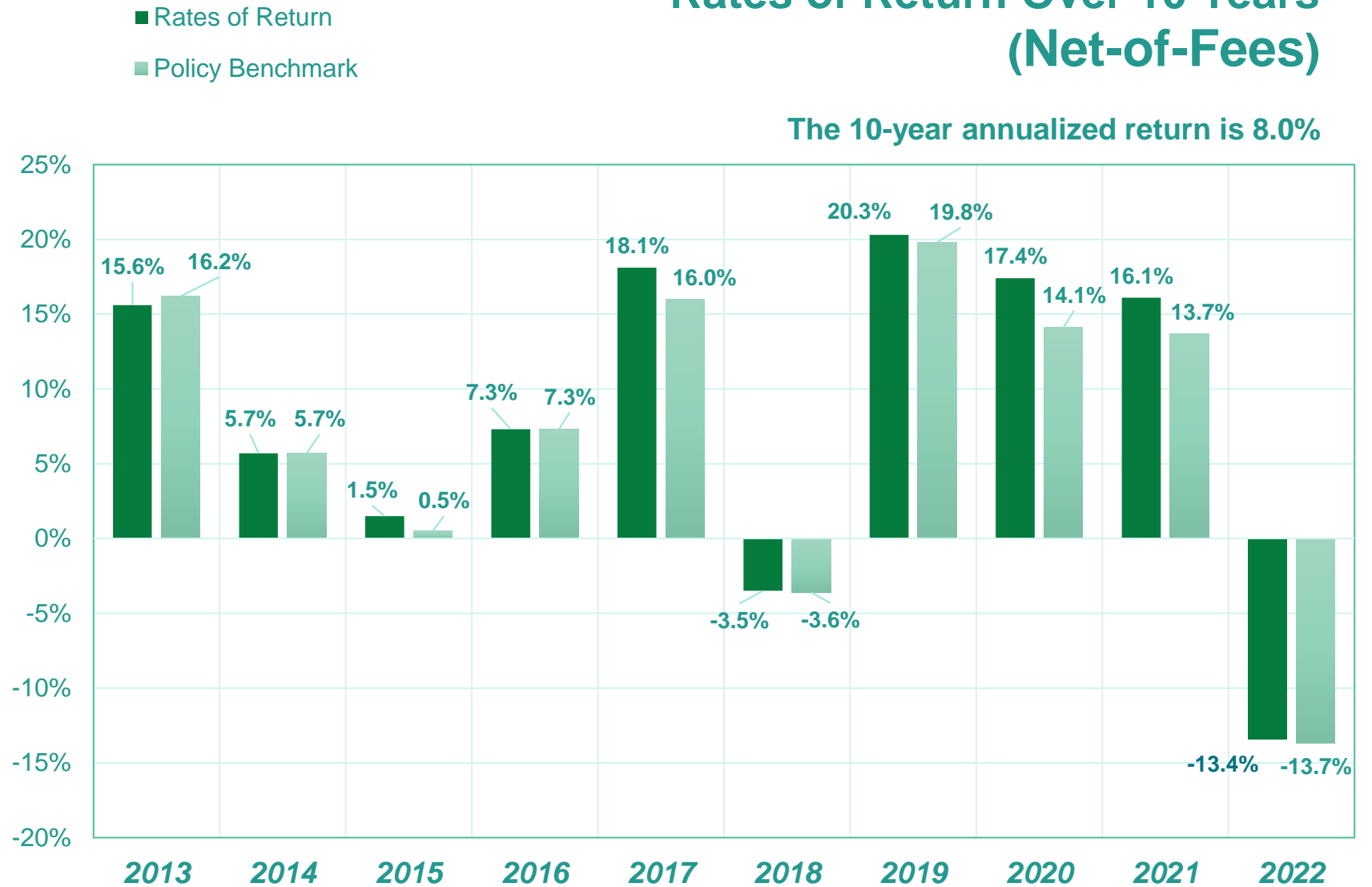
BASIS POINTS OF TOTAL ASSETS SPENT ON MANAGEMENT

38

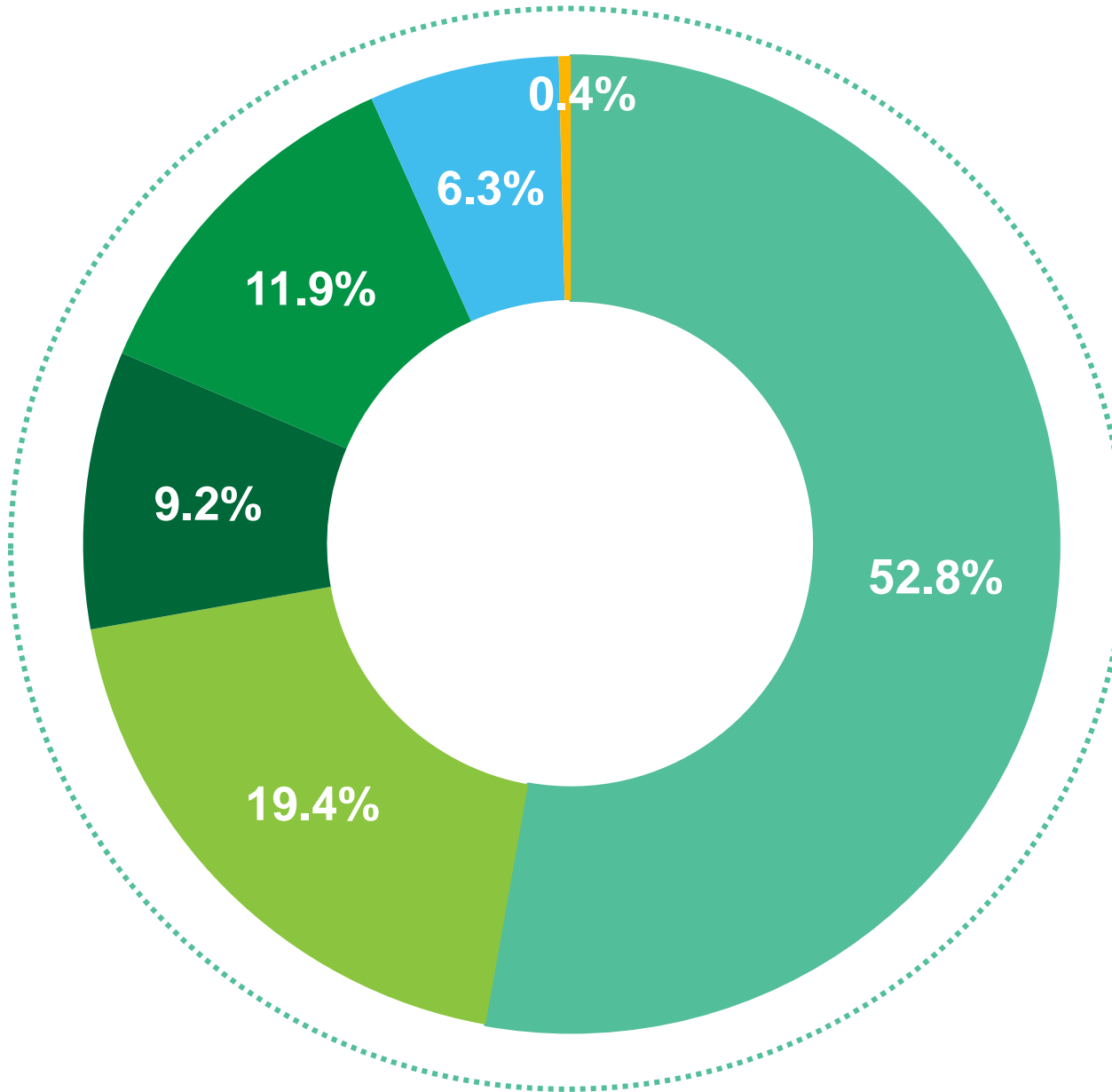
PERA's Investment Program

2022 Investment Performance

Rates of Return Over 10 Years (Net-of-Fees)



- Global Equity
- Fixed Income
- Private Equity
- Real Estate
- Alternatives
- Cash



PERA's Asset Allocation

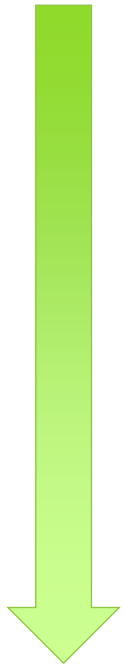
As of December 31,
2022

Market Performance:

2023 YTD* vs. 2022 Calendar Year

Equities (ex-China) and fixed income are broadly positive YTD while commodities and oil have turned negative.

2023 Highest Performers



All returns are presented in unhedged USD terms
*YTD as of 11/27/2023 (CPI-U YTD as of 10/31/2023)

2023 Legislation Concerning PERA

Senate Bill 23-016: Greenhouse Gas Emission Reduction Measures

- This bill included multiple provisions that are meant to reduce greenhouse gas emissions in the state, along with one section concerning PERA, which requires a description of climate-related investment risks, impacts, and strategies to be included as part of its annual investment stewardship report, which is posted on the PERA website.

Senate Bill 23-056: Compensatory Direct Distribution to PERA

- The bill requires the state to make an additional payment to PERA in the amount of the balance of the PERA Payment Cash Fund, plus \$10 million in General Fund, which results in a total payment of approximately \$14.5 million. This payment is intended to recompense PERA for the cancellation of a previously scheduled July 1, 2020, direct distribution of \$225 million, in addition to the compensatory payment provided in previous legislation. The bill also repeals the PERA Payment Cash Fund on July 1, 2023.

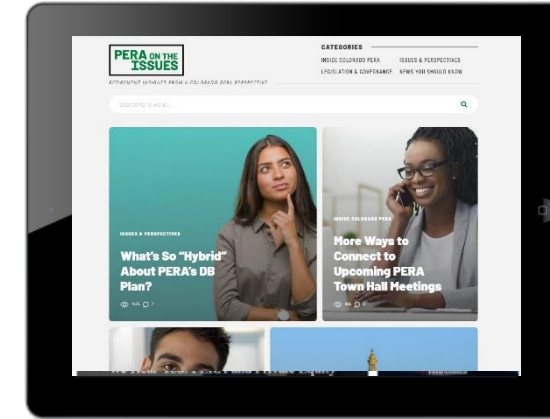
Senate Bill 23-163: Colorado Parks and Wildlife Officers Classified as State Troopers

- The bill modifies the definition of “state trooper” to include wildlife officers and parks and recreation officers hired on or after January 1, 2011, by Colorado Parks and Wildlife in the Department of Natural Resources. It applies the state trooper contribution rate and benefits to eligible employees and their employers effective July 1, 2023.

Stay in Touch



Website
www.copera.org



Retirement Insights
www.peraontheissues.com

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Call us at
800-759-7372



Appendix

Funded Status

As of December 31, 2022

Total Unfunded Liability: \$26.3 billion
Funded Status: 69.9%



STATE UNFUNDED LIABILITY
\$9.3 billion

FUNDED STATUS
66.5%



SCHOOL UNFUNDED LIABILITY
\$15.9 billion

FUNDED STATUS
67.0%



LOCAL GOVT. UNFUNDED LIABILITY
\$534 million

FUNDED STATUS
91.0%



JUDICIAL UNFUNDED LIABILITY
\$59 million

FUNDED STATUS
88.5%



DPS UNFUNDED LIABILITY
\$465 million

FUNDED STATUS
90.3%

Membership – Active Pension

Item	State Division General	State Division Troopers	School Division	Local Government Division	Local Government Division State Troopers	Judicial Division	Denver Public Schools Division
December 31, 2022:							
Number	48,820	2,072	128,057	12,071	32	340	15,254
Average age	45.5	36.3	44.5	43.9	37.1	53.3	41.1
Average service	9.2	5.6	9.0	7.8	2.1	11.9	7.6
Average payroll	\$61,864	\$79,043	\$44,279	\$62,784	\$75,023	\$166,369	\$53,127
December 31, 2021:							
Number	51,885	1,592	125,007	12,716	29	345	15,695
Average age	45.4	38.0	44.7	45.0	37.0	54.1	40.9
Average service	9.0	7.3	8.8	7.8	1.3	12.2	7.2
Average payroll	\$57,185	\$78,807	\$43,724	\$56,780	\$59,750	\$161,681	\$52,462
Change							
Number	-5.9%	+30.2%	+2.4%	-5.1%	+10.3%	-1.4%	-2.8%
Average payroll	+8.2%	+0.3%	+1.3%	+10.6%	+25.6%	+2.9%	+1.3%

Automatic Adjustment Provision (AAP)

New rates effective July 1, 2023

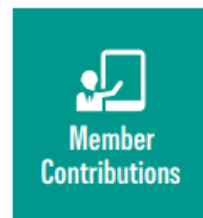
PERA IS ON SCHEDULE TO MEET ITS FUNDING GOAL



The automatic adjustment provision is reviewed on an annual basis to help ensure the long-term stability of benefits today and in the future.

As indicated in its 2022 *Annual Comprehensive Financial Report (ACFR)*, PERA is on schedule to meet its funding goal. This means the automatic adjustment provision will not trigger any additional changes in 2024.

Current Provisions



Member contributions will not be affected by the automatic adjustment provision in July 2024.

	State, School, and DPS Divisions	Safety Officers	Local Government	Judicial Division
As of July 1, 2023	11.00%	13.00%	9.00%	11.00%

See copera.org for more information on contribution rates.



Employer contributions will not be affected by the automatic adjustment provision in July 2024.

	State Division	Safety Officers (State)	School and DPS Divisions	Local Government	Safety Officers (Local Govt.)	Judicial Division
As of July 1, 2023	21.57%	24.27%	21.40%	14.76%	17.86%	24.91%

Actual DPS employer rate will be subject to the PCOPs offset. The DC Supplement may also affect rates in the State and Local Government Divisions effective January 1, 2024. See copera.org for more information on contribution rates.



The AI paid to eligible benefit recipients in July 2023 will be 1.0%. The July 2024 AI for most eligible benefit recipients will also be 1.0% since there was not an automatic adjustment provision announced in June 2023.

How Does the Automatic Adjustment Keep PERA on Schedule?

IF PERA IS BEHIND SCHEDULE

- ↓ Decrease AI percentage by up to 0.25% in one year, not to fall below 0.5%
- ↑ Increase employer contributions by up to 0.5% in one year, not to exceed an additional 2%
- ↑ Increase member contributions by up to 0.5% in one year, not to exceed an additional 2%
- ↑ Increase the direct distribution from the State budget by up to \$20 million in one year, not to exceed \$225 million

PERA'S PROGRESS TOWARD FUNDING GOAL



IF PERA IS AHEAD OF SCHEDULE

- ↑ Increase AI percentage by up to 0.25% in one year, not to exceed 2%
- ↓ Decrease employer contributions by up to 0.5% in one year, not to fall below 2018 levels
- ↓ Decrease member contributions by up to 0.5% in one year, not to fall below 2018 levels
- ↓ Decrease the direct distribution from the State budget by up to \$20 million in one year

Timeline of 2022 Automatic Adjustment Provision (AAP) Assessment

