



JOINT FINANCE COMMITTEE SMART HEARING

RON BAKER, INTERIM EXECUTIVE DIRECTOR

AMY C. MCGARRITY, CHIEF INVESTMENT OFFICER

DECEMBER 22, 2017



What is Colorado PERA?

As of December 2016



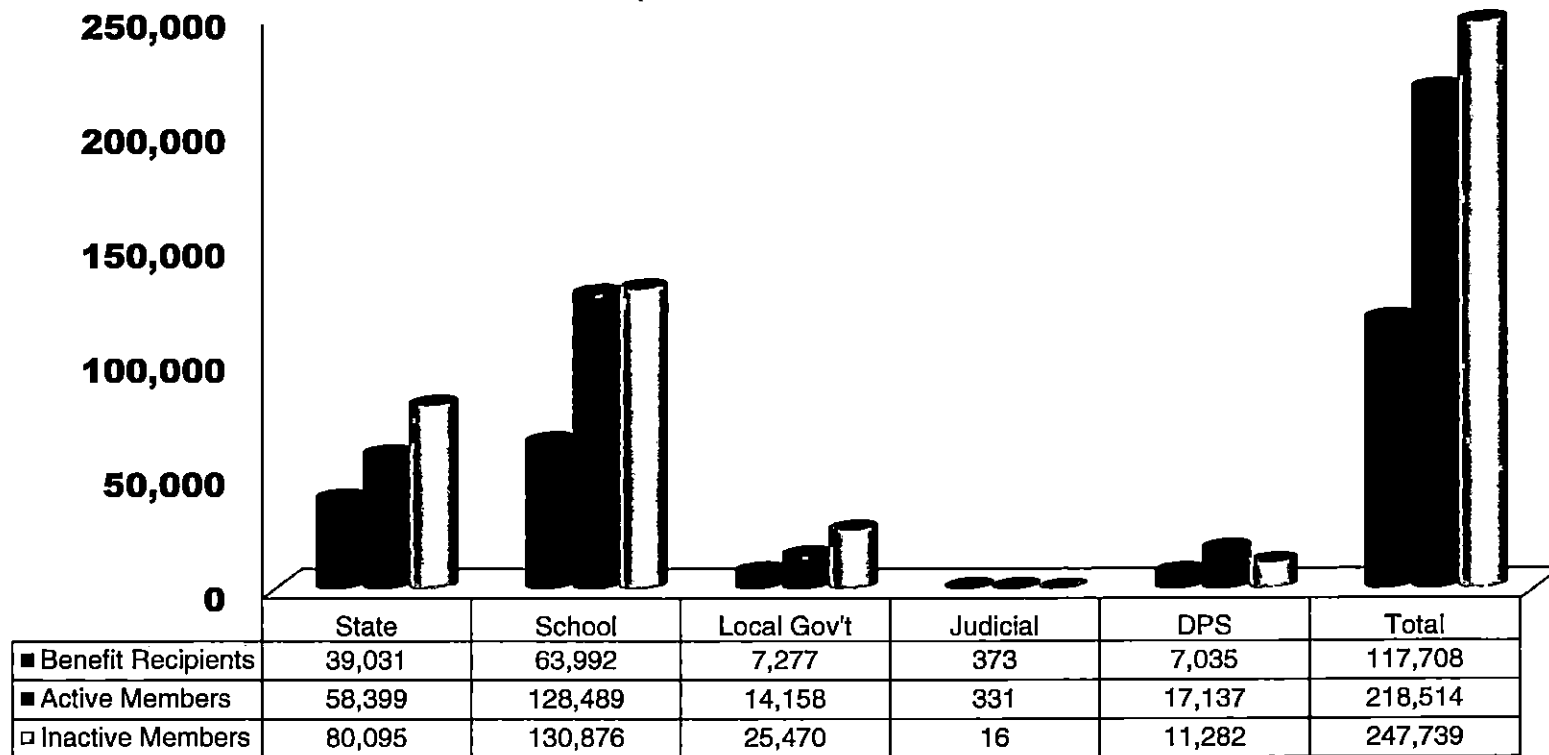
- » Instrumentality of the State, founded on August 1, 1931
- » Hybrid defined benefit retirement plan qualified under IRC 401(a)
- » Substitute for Social Security
 - Members contribute 8.0 percent or more
- » Administers:
 - Defined benefit plan, including disability and survivor benefit programs
 - One of the country's largest public 401(k) Plans, 457 Plan, and DC Choice Plan (combined assets of \$3.7 billion)
 - Health care, dental, and vision plans for largest coverage group in the state (89,270 lives)
 - Life insurance plan
- » Largest pension fund in Colorado
 - 24th largest public plan in United States

PERA Membership

October 31, 2017



Total: 583,961

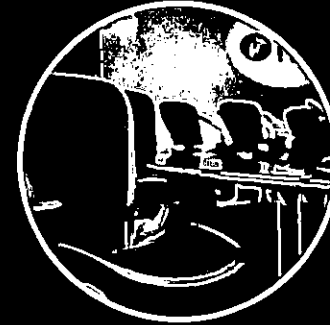


PERA's Governance Structure



General Assembly

Sets benefit and contribution structure



Board of Trustees

Oversees investments and benefits administration

PERA Annual Update: Audit



- » CliftonLarsenAllen performed the State Auditor's Office 2016 annual audit of PERA
 - No findings or recommendations for best practices or improvements
 - No material weaknesses in internal controls or accounting policies and practices
- » Audited financial statements showed a 7.3 percent investment return for 2016
 - Matching the Board's policy benchmark
- » Total pension fund market value of assets funded ratio:
 - 2016 = 56.1 percent
 - 2015 = 59.9 percent

PERA Annual Update: 2017 Legislation Session



HB 17-1265: PERA Judicial Division Total Employer Contribution

- » **Sponsors:** Rep. Nordberg (R) and Rep. KC Becker (D) with Sen. Priola (R) and Sen. Kerr (D)
- » **Purpose:** Raises AED and SAED contribution rate caps to 5.0 percent under phased schedule
- » **Status:** Passed and signed into law

PERA Annual Update: 2017

Legislation Session

(continued)



HB 17-1176: PERA Retirees Employed By Rural School Districts

- » **Sponsors:** Rep. J. Becker (R) and Rep. McLachlan (D) with Sen. Sonnenberg (R)
- » **Purpose:** Authorize PERA retirees receiving a PERA benefit to return to work in certain positions for designated rural school districts without restrictions or reductions to the retirement benefit
- » **Status:** Passed, signed into law, and implemented
 - Sunsets in July 2023
 - As of November 30, 2017:
 - » 28 school districts (19 percent of eligible districts) have designated a critical shortage position
 - » 55 retirees are participating
 - 43 teachers, 12 bus drivers
 - Actuarial cost assessment will be provided to the General Assembly in December of 2020

PERA Financial Recap

For the Year Ended December 31, 2016



\$42,968,674 net position as of December 31, 2015

December 2016

(in thousands of dollars; does not include defined contribution plans)

Contributions		Investments		Benefits Paid	
\$2,436,794		\$3,038,026		(\$4,752,625)	
Employer – Pension – Regular	\$737,801	Net Change in Fair Value	\$2,124,689	Pension Benefits	(\$4,260,156)
Employer – Pension – AED	\$352,253	Interest	\$304,683	Health Care Benefits	(\$256,410)
Employer – Pension – SAED	\$344,717	Dividends	\$504,061	Disability/Life Insurance	(\$6,748)
Employer – Health Care	\$87,548	Real Estate/Opportunity Fund/ Private Equity	\$256,216	Refunds	(\$147,420)
Member	\$687,202	Securities Lending	\$10,177	Other	(\$22,383)
Purchased Service	\$58,152	Investment Expense	(\$161,800)	Administrative Expense	(\$59,508)
Retiree Health Care Premiums	\$144,759				
Other Additions	\$24,362				

\$43,690,869 net position as of December 31, 2016

PERA Financial Recap

As of October 31, 2017



\$43,690,869 net position as of December 31, 2016

October 2017

(in thousands of dollars; does not include defined contribution plans)

Contributions		Investments		Benefits Paid	
\$2,129,301		\$6,008,261		(\$4,129,993)	
Employer – Pension – Regular	\$632,330	Net Change in Fair Value	\$5,269,328	Pension Benefits	(\$3,702,131)
Employer – Pension – AED	\$310,234	Interest	\$254,610	Health Care Benefits	(\$234,681)
Employer – Pension – SAED	\$325,387	Dividends	\$452,728	Disability/Life Insurance	(\$5,408)
Employer – Health Care	\$74,341	Real Estate/Opportunity Fund/ Private Equity	\$126,001	Refunds	(\$129,392)
Member	\$583,546	Securities Lending	\$7,782	Other	(\$6,431)
Purchased Service	\$58,795	Investment Expense	(\$102,188)	Administrative Expense	(\$51,950)
Retiree Health Care Premiums	\$136,583				
Other Additions	\$8,085				

\$47,698,438 net position as of October 31, 2017

(unaudited, for internal use only)

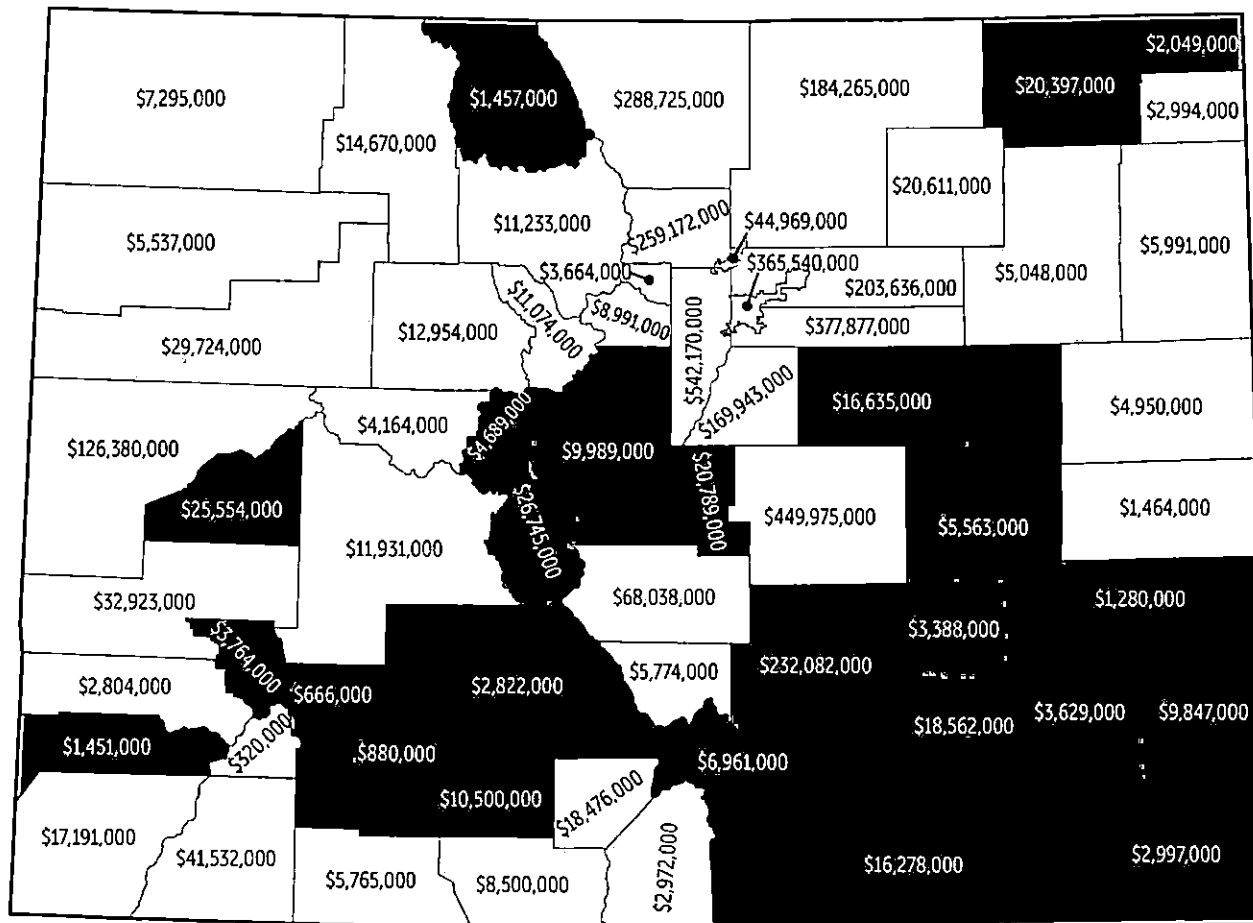


PERA Represents Significant Portion of Payroll Across Colorado



- \$6.1 billion economic output
- 32,800 jobs statewide

Total Colorado Distributions = \$3.8 Billion



Over 25 percent of Payroll

15-25 percent of Payroll

10-15 percent of Payroll

Less than 10 percent of Payroll

Annual benefit payments and percentage of payroll data from latest County Business Patterns and U.S. Census Bureau, calculation from Pacey & McNulty



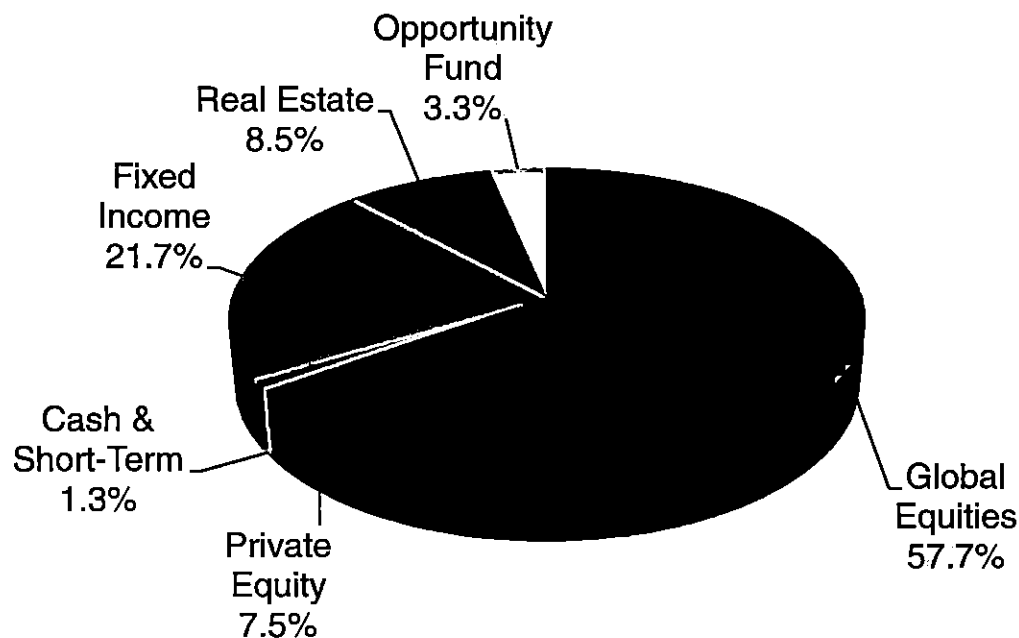
Investment Asset Allocation



\$47.6 Billion Market Value

As of October 31, 2017

Unaudited



- » Asset allocation policy unanimously approved by Board on June 23, 2017
- » More than 56 percent of assets managed directly by PERA staff

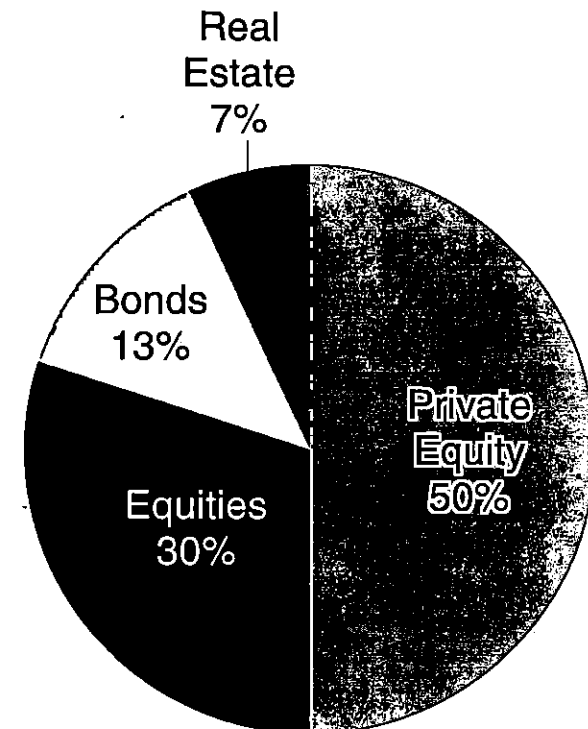
Investments in Colorado



» Approximately \$500 million in Colorado investments which include:

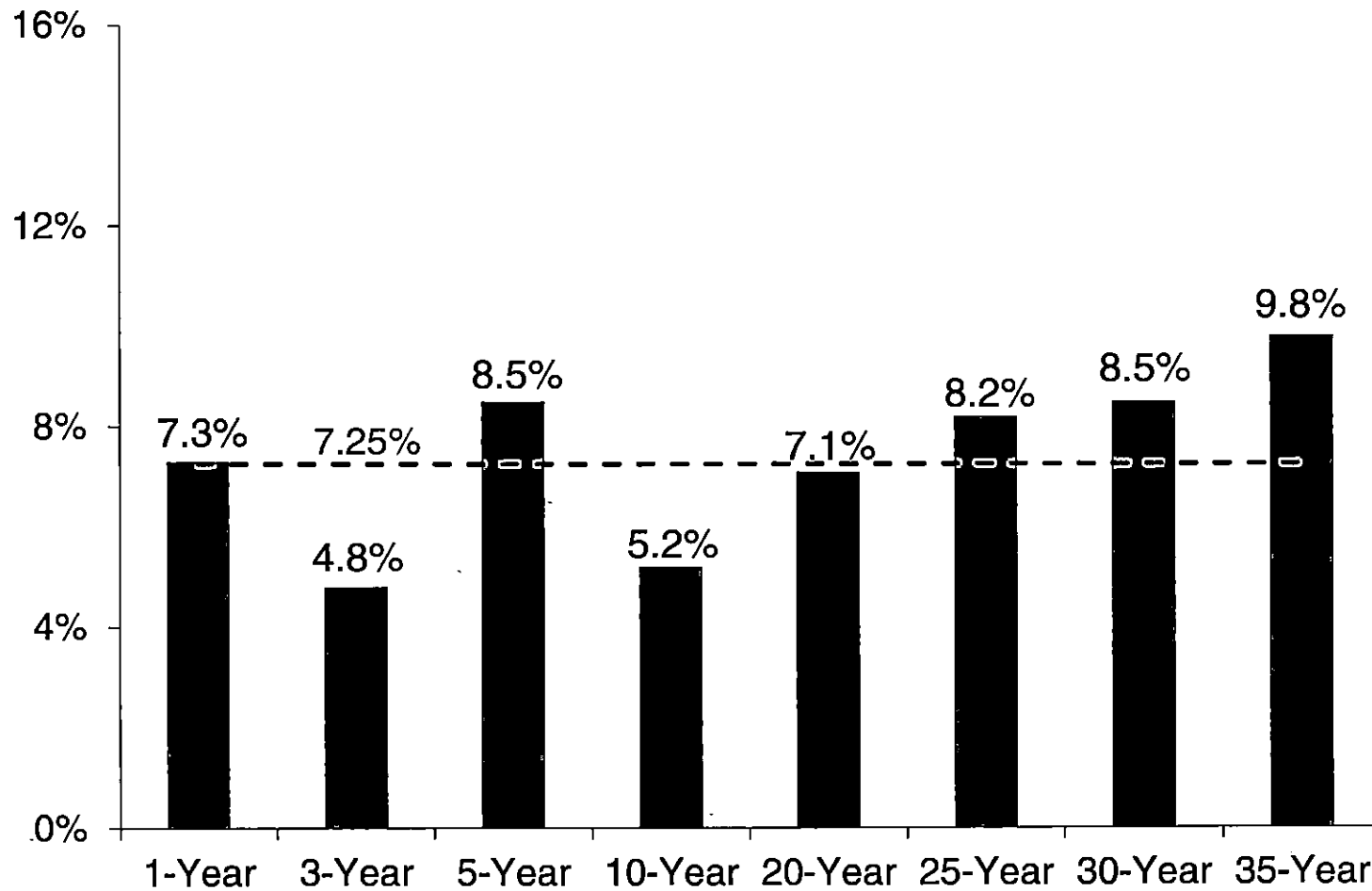
- Equity (both public and private) of companies headquartered in Colorado
- Bonds issued by the Colorado Housing and Finance Authority and by Colorado companies
- Real estate investments (both direct ownership and pooled investment capital)
- \$50 million allocated to the Colorado Mile High Fund for private equity investments in the state

» All investments must meet the same rigorous investment criteria



Investing for Long Term

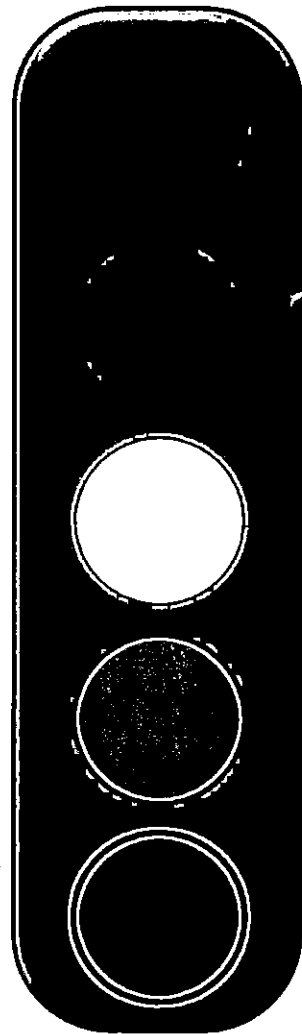
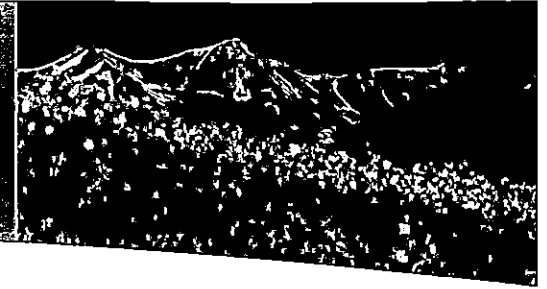
Annualized investment returns for period ending December 31, 2016*



* 1-, 3-, 5-, 10-, and 20-year returns are net of fees
25-, 30-, and 35-year returns are gross of fees



2016 Signal Light Indicator



All PERA divisions have moved into orange

*If the Plan is in the yellow or orange signal lights, meaning that it is not on target to be fully funded by 2055, a **corrective action plan should begin to be developed and considered.***

- PTA Report

What Has Changed?

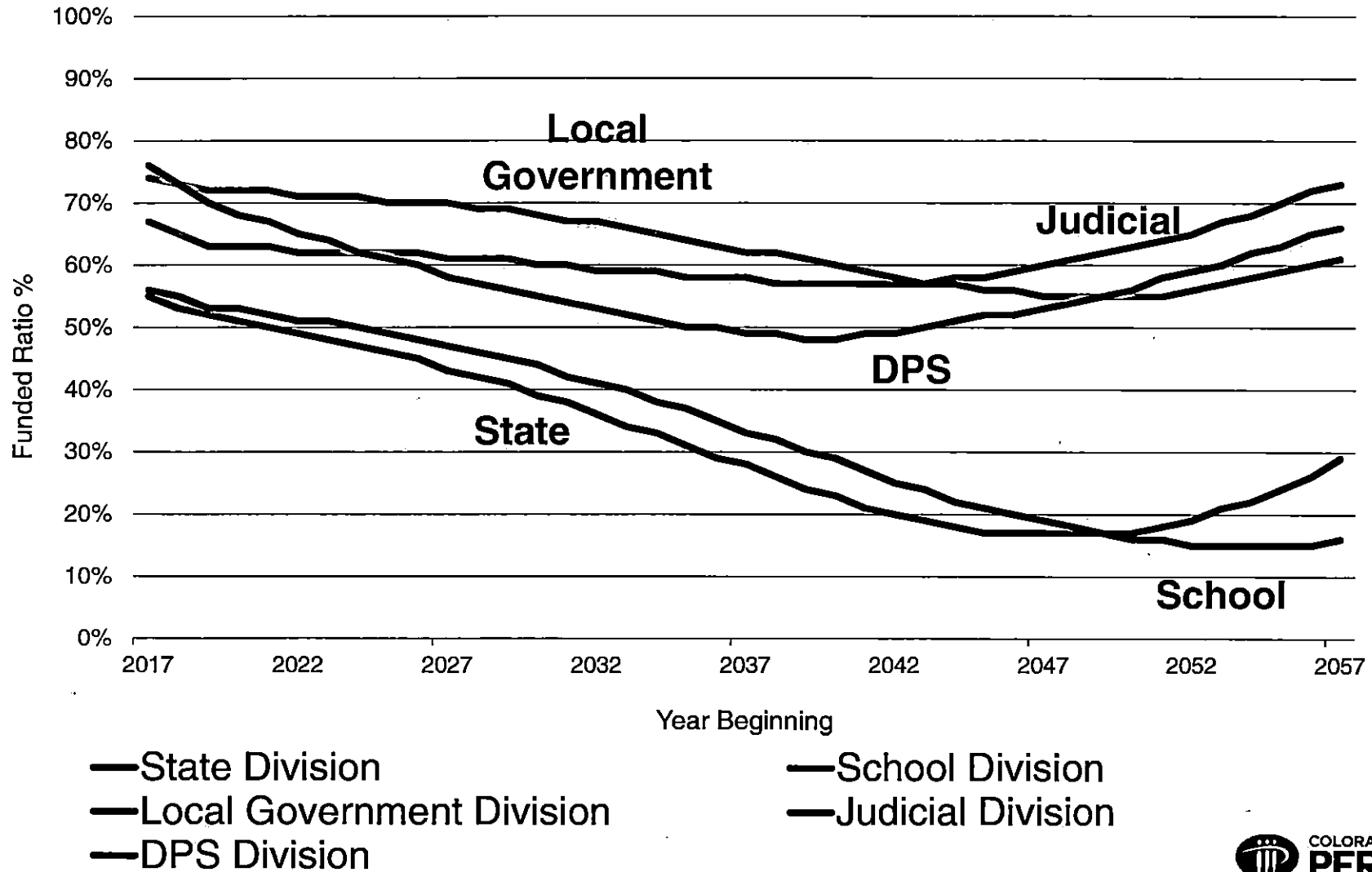
Adopted New Mortality Tables

- **What happened?**
Life expectancy is increasing and the plan must reflect those realities
- **What's the impact?**
PERA is paying retirement benefits longer
- Increased period to full funding by **5-20 years**, depending on division

Lowered Investment Rate of Return

- **What happened?**
Changed rate of return from 8.0% (SB 1) to 7.5% (2013) to 7.25%
- **What's the impact?**
PERA is not expected to generate as much investment income as previously projected
- 2016 change increased period to full funding by **10-15 years**, depending on division

Current Funding Levels



40-year projection of funded ratio on actuarial asset value based on December 31, 2016, valuation results



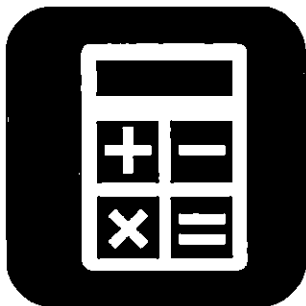
The PERA Board's Recommended Package



Align Contributions with Benefits

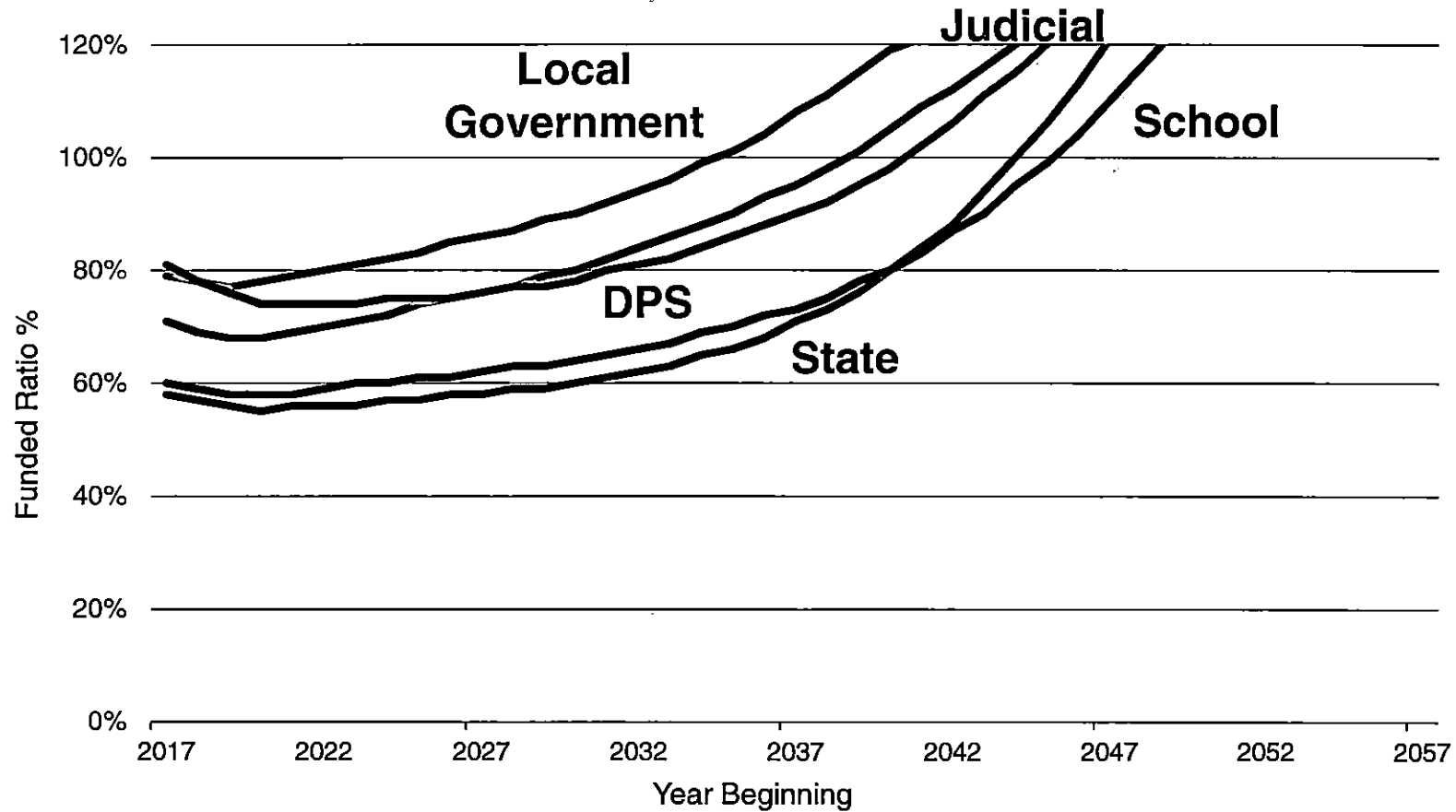


Increase Contributions



Modify Benefits

Where We Want To Be



- State Division
- Local Government Division
- DPS Division
- School Division
- Judicial Division





Align Contributions with Benefits

Changes effective January 1, 2020



Redefine PERA-includable salary
from net pay to gross pay

- ✓ **Current Members**
- ✓ **Future Members**
- ✓ **Employers**



Align Contributions with Benefits

Changes effective January 1, 2020



Change service credit accrual
standard for part-time work

✓ **Future Members**



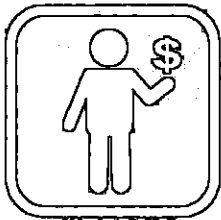
Increase Contributions

Changes effective January 1, 2020



Increase member and working
retiree contribution rates by an
additional 3% of pay

✓ **Current Members**



Increase Contributions

Changes effective January 1, 2020



Increase member and working retiree contribution rates by an additional 2% of pay for new hires

✓ **Future Members**



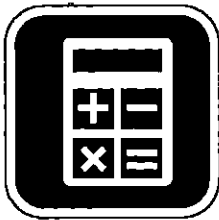
Increase Contributions

Changes effective January 1, 2020



Increase employer contribution rates by an additional 2% of pay

✓ **Employers**



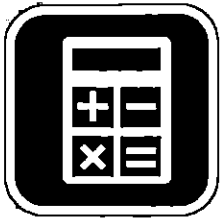
Modify Benefits

Changes effective January 1, 2020



Increase eligibility for full
service retirement to age 65
for most divisions

✓ **Future Members**



Modify Benefits

Changes effective January 1, 2020



Increase years in HAS calculation
from 3 years to 5 years

- ✓ **Non-Vested Members**
- ✓ **Future Members**



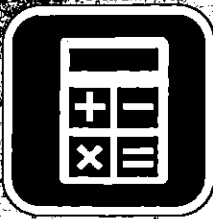
Modify Benefits

Changes effective immediately after legislation is signed into law



Reduce the Annual Increase from
a cap of 2% to a cap of 1.5%

- ✓ **Current Members**
- ✓ **Future Members**
- ✓ **Current Retirees**



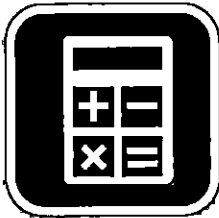
Modify Benefits

Changes effective immediately after legislation is signed into law



Suspend the Annual Increase
for 2 years

✓ **Current Retirees**



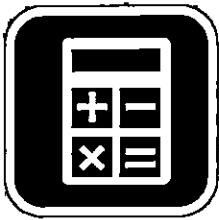
Modify Benefits

Changes effective immediately after legislation is signed into law



Change the Annual Increase
waiting period from
1 year to 3 years

- ✓ **Current Members**
- ✓ **Future Members**



Modify Disaffiliation Provisions

Changes effective immediately after legislation is signed into law



Reduce risk to employers by calculating cost at 200 basis points below assumed rate of return

✓ **Employers**

Automatic Adjustment Provision



Triggered when PERA is out of alignment with funding progress

- Employee Contributions
- Employer Contributions
- Annual Increase

Shared Responsibility



These changes are not easy

Every stakeholder is impacted

Cost of changes:

17%

from retirees

28%

from employers

55%

from current and
future members

Amortization Periods

28 years

State
Division

29 years

School
Division

18 years

Local Gov.
Division

22 years

Judicial
Division

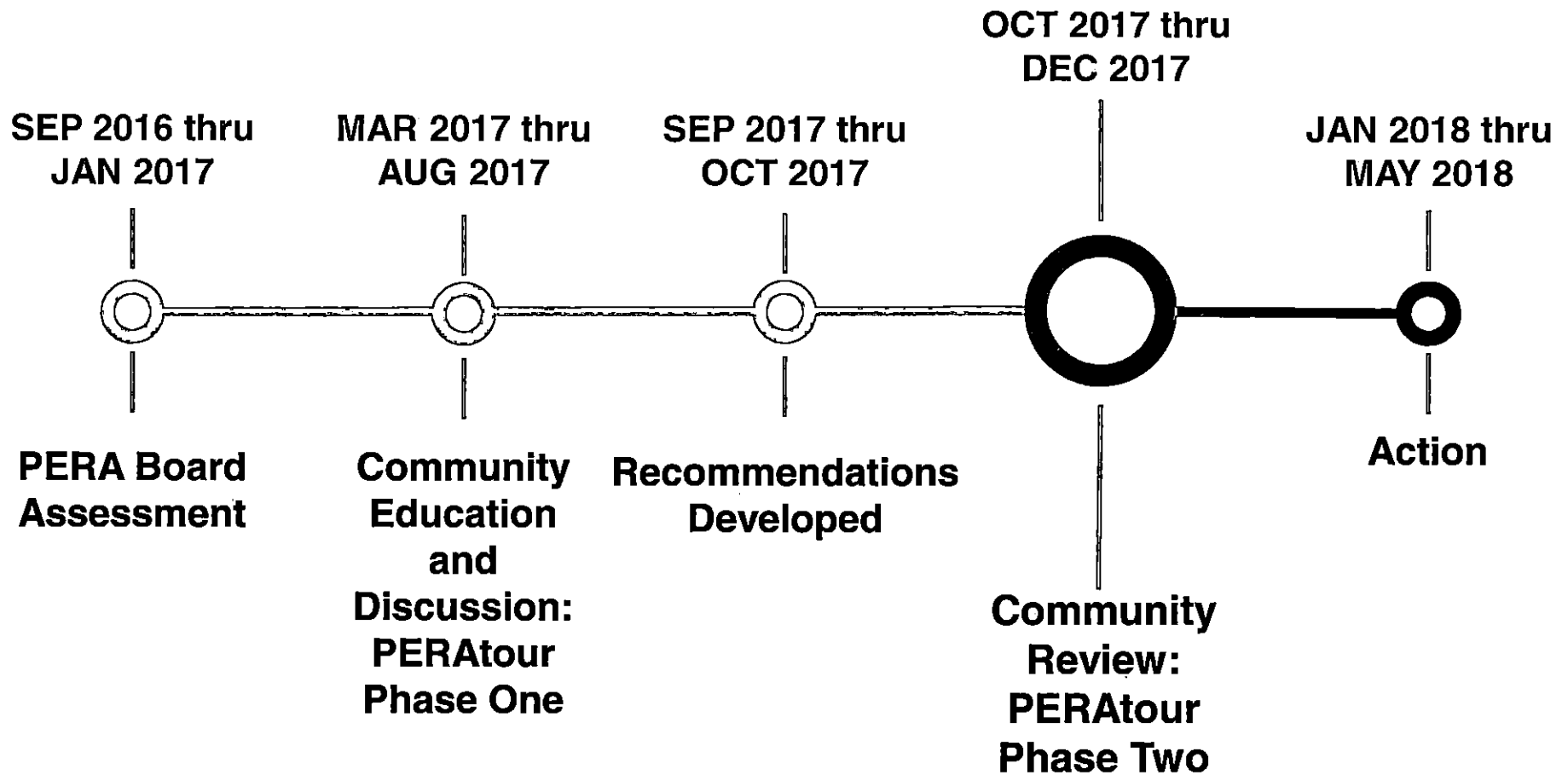
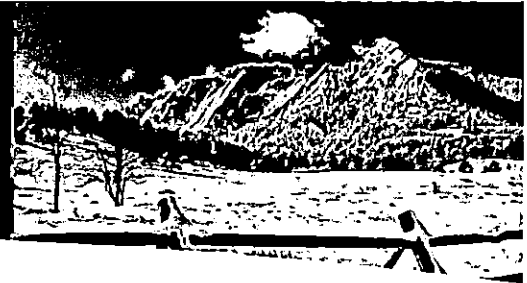
24 years

DPS
Division



APPENDIX

Process Guiding the Board's Recommendations



PERATour Activities



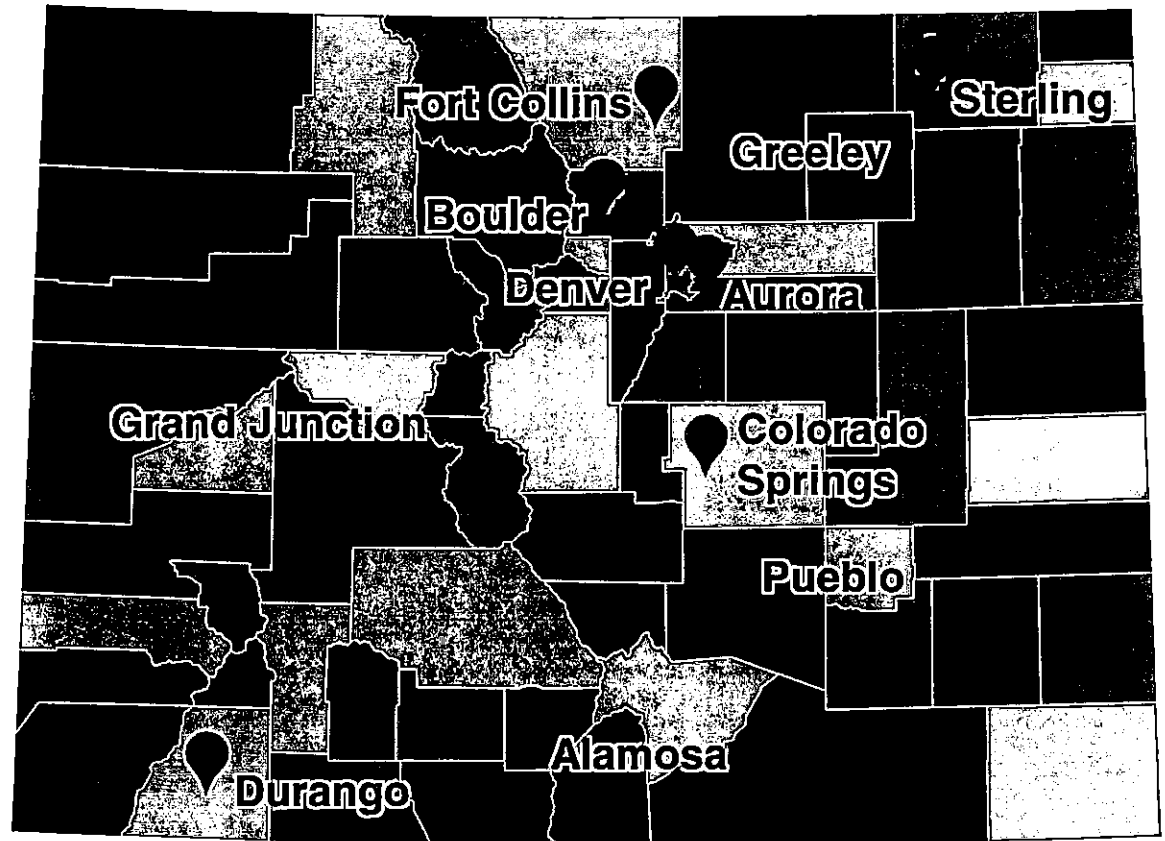
		Phase One			Phase Two	
		Feb-Mar	Apr-May	June-Aug	Sept	Oct-Nov
High-Touch	Planning & Scheduling		Community Meetings			Community Meetings
		Employer Outreach				
		Member Organization Presentations				
	Materials Development	Business Community Engagement				
		Policy Maker Briefings				
	Board Update		Board Update		Board Update	Board Update
High-Tech	Website Development		Telephone Town Hall			Telephone Town Hall
		Website Content Updates Blog Posts				
		Live Twitter Updates				
		Traditional, Digital, Social Advertising				

PERA Tour Community Meetings



Two Phases of Community Meetings

- » May–June
- » October–November
 - 9 cities in phase 1
 - 11 cities in phase 2
- » 3,000+ attendees
- » Live webcast
- » Promoted with Twitter, paid advertising, and media articles



Total PERAtour Touchpoints

Phases One and Two



PERAtour.org

86,000
pageviews

64,200
visits

1,467
online
submissions

Telephone Town Halls

21,000
participants

340
follow-ups

533,700
outbound
calls

Mailings & Media

1.5M
direct & email

30
news items

1.6M
ad
impressions

Community Meetings

3,000
attendees

125
employers

50
civic and
community
meetings

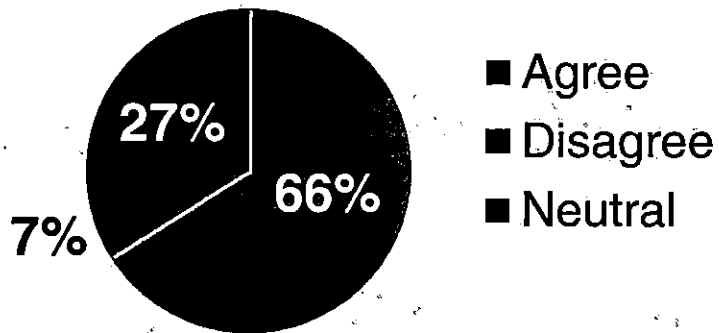
Polling Data

Do you agree that the Board's process has been appropriate?

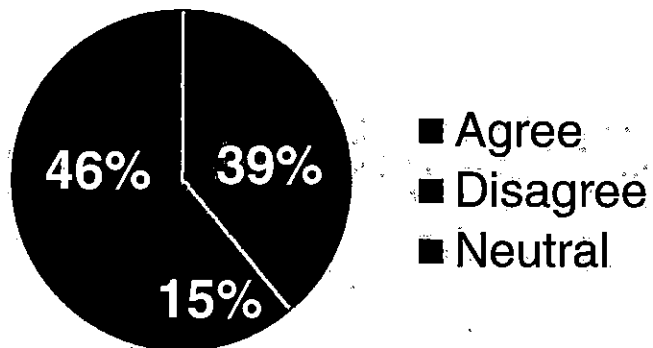


Telephone Town Hall

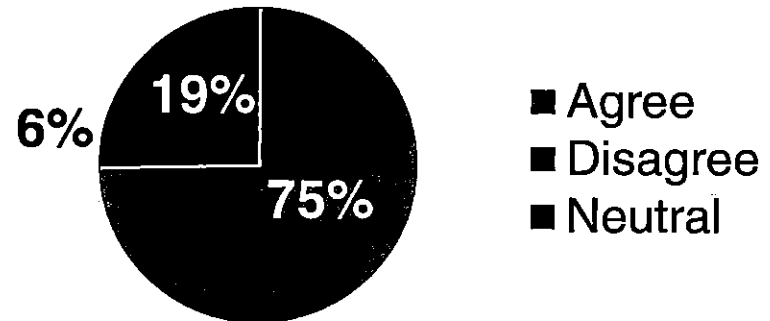
Retirees



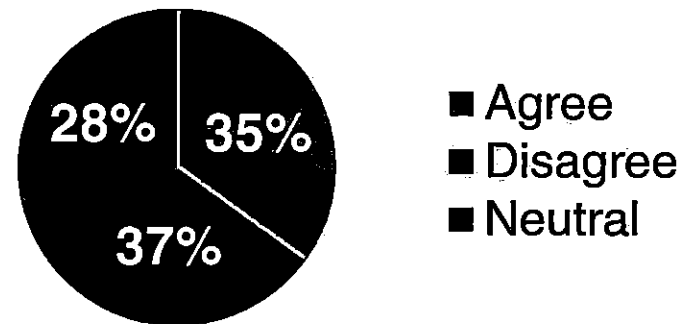
Members



Feedback Cards



Website



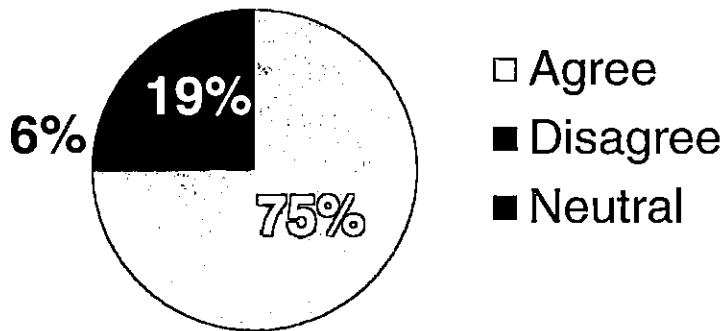
Polling Data

Do you agree that changes are necessary?

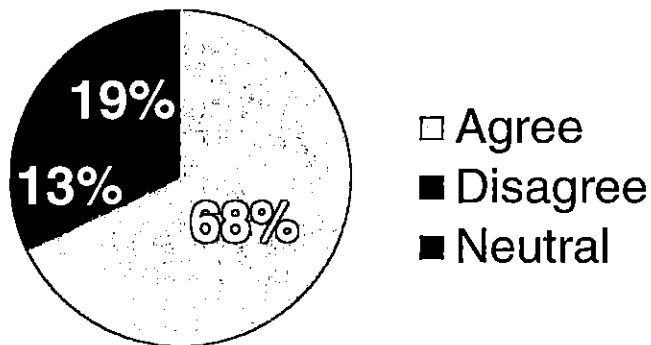


Telephone Town Hall

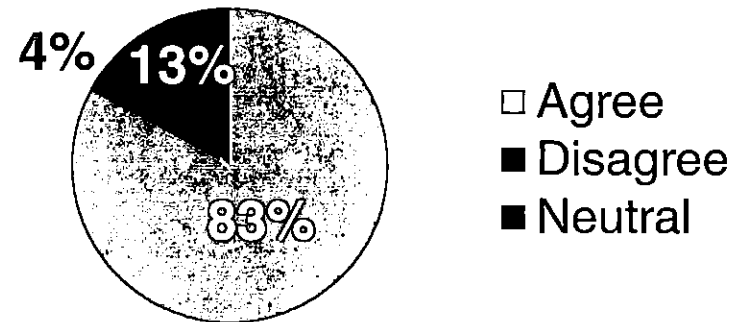
Retirees



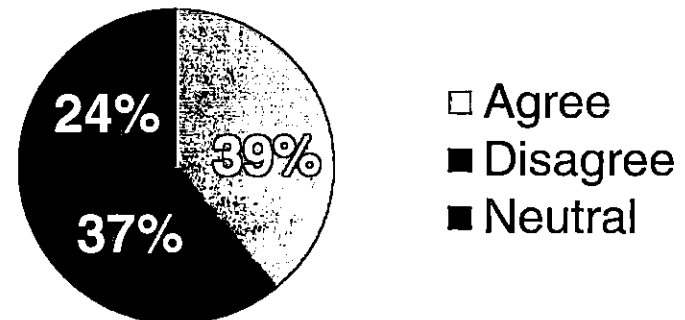
Members*



Feedback Cards



Website



* Technical issues during the call may make this unreliable data

Governor's Proposal



Board's package slightly modified with these differences:

- No employer contribution rate increase
- Reduce AI to 1.25%
- Increase employee contribution rates by 2% in 2019

Cost of changes:

23%
from retirees

11%
from employers

66%
from current and
future members

Amortization Periods

29 years
State
Division

31 years
School
Division

19 years
Local Gov.
Division

23 years
Judicial
Division

26 years
DPS
Division

Contact Us



» Web addresses

- www.copera.org
- For information about the PERAtour, visit www.peratour.org

» Social media

- PERA on the Issues, www.peraontheissues.com
- The Dime, www.thedimecolorado.com
- Twitter, @ColoradoPERA and @thedimeCO

» Office locations

- 1301 Pennsylvania Street, Denver
- 1120 West 122nd Avenue, Westminster
- 10457 Park Meadows Dr., Suite 102, Lone Tree

» Phone number

- 1-800-759-PERA (7372)