



## Legislative Council Staff

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## Pension Review Subcommittee Recommendations

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September 10, 2021

**TO:** Public Employees' Retirement Association Board of Trustees

**FROM:** Pension Review Subcommittee

**SUBJECT:** Recommendations to the Public Employees' Retirement Association

### **Purpose**

Pursuant to Section 24-51.1-101 (4), C.R.S., the Pension Review Subcommittee must perform a review of the Public Employees' Retirement Association (PERA) and make related recommendations to the PERA Board of Trustees, which are included within this document.

### **Recommendations to the PERA Board**

- Revise the signal light report to show green only when a 67 percent likelihood of reaching full funding by 2048 for all divisional trusts on aggregate is reached.
- Shorten amortization periods used for future layers to align with the goal of reaching full funding by 2048.
- Have the signal light report include a historical reconciliation of gains/losses by source.

### **Additional Resources**

Audio from the Pension Review Subcommittee's September 10 meeting where recommendations were made, which begins at 3:56:20, is available online at:

<https://sg001-harmony.sliq.net/00327/Harmony/en/PowerBrowser/PowerBrowserV2/20210912/19/12258>

The Pension Review Subcommittee's statutory charge is attached in Appendix A.

## Appendix A

### Statutory Requirements of the Pension Review Subcommittee Pursuant to Section 24-51-101

(2) The commission shall study and develop proposed legislation relating to funding of police officers' and firefighters' pensions in this state and benefit designs of such pension plans. In addition, the commission shall study and develop proposed legislation relating to the public employees' retirement association. The commission study of police officers' and firefighters' pensions and of the public employees' retirement association shall include a review of, and the proposed legislation may include, among other subjects, the following, as applicable:

- (a) normal retirement age;
- (b) payment of benefits prior to normal retirement age;
- (c) service requirements for eligibility;
- (d) rate of accrual of benefits;
- (e) disability benefits;
- (f) survivors' benefits;
- (g) vesting of benefits;
- (h) employee and employer contributions;
- (i) postretirement increases;
- (j) creation of an administrative board;
- (k) creation of a consolidated statewide system;
- (l) coordination of benefits with other programs;
- (m) the volunteer firefighter pension system;
- (n) the provisions of articles 30, 30.5, and 31 of title 31; and
- (o) the provisions of article 51 of this title 24.

(4) (a) The subcommittee shall review the items specified in subsection (2) of this section as they relate to the public employees' retirement association, as applicable. In addition, the subcommittee shall:

- (i) study the provisions of article 51 of this title 24 and make necessary recommendations to the commission or the public employees' retirement association;
- (ii) determine the necessity of continuing the direct distribution to the public employees' retirement association pursuant to section 24-51-414;
- (iii) suggest to the public employees' retirement association enhancements that the association could make to the annual analysis that it conducts pursuant to Senate Bill 14-214, enacted in 2014, to determine whether the association's model assumptions are meeting targets and achieving sustainability;
- (iv) review the annual actuarial valuation of the public employees' retirement association and make comments as necessary to the association regarding the actuarial valuation; and

(v) make recommendations to the board of trustees of the public employees' retirement association regarding assumptions, funding policy, reporting practices, or other operational policy.

(b) review semi-annually the overall financial health of the public employees' retirement association, including the levels of benefits, its sources of funding, and its overall financial viability based on both the assumptions of the association board of directors and the requirements of the governmental accounting standards board. The subcommittee may request that the association provide general financial reporting based on assumptions for economic and investment factors, including, but not limited to, inflation, economic growth, employment growth, and rate of return, that differ from board assumptions. If the subcommittee determines that the association's board of directors is using assumptions that are too conservative or too aggressive, the subcommittee shall request that the association adjust its assumptions accordingly.

(c) review annually the calculated normal costs that will cover current pension benefits and the share of contributions going to cover the unfunded liability of the public employees' retirement association;

(d) review semi-annually the planned reduction of the unfunded liability of the public employees' retirement association. If full funding will not be achieved by 2048, the subcommittee shall make additional recommendations to the commission, the joint budget committee, and the general assembly to achieve full funding by 2048. If, upon that review, the subcommittee determines that the association does not have at least a sixty-seven percent likelihood of achieving full funding by 2048, then the association shall provide recommendations to the subcommittee for policy changes that would return the association to fully funded status by 2048. Notwithstanding section 24-1-136 (11)(a)(i), the subcommittee shall annually report to the general assembly regarding whether or not the association is on track to achieve full funding by 2048 and if not, the corrective actions recommended by the subcommittee or the association to rectify the shortfall.

(e) annually report in writing to the citizens of Colorado regarding whether or not the public employees' retirement association is on track to achieve full funding by 2048 and if not, the corrective actions recommended by the subcommittee or the association to the general assembly to rectify the shortfall. Such communication shall be made in a manner that is clear, concise, and accessible to laypeople. This communication shall quantify the net present value of any funding deficit on a per citizen basis. For example, fifty billion dollars on five million five hundred thousand people equals nine thousand ninety dollars per person. The certified annual financial report shall not serve as this communication.

(f) after full funding is achieved, make recommendations to the commission, the joint budget committee, and the general assembly during each legislative session regarding changes to the plan to maintain full funding;

(g) ensure the public employees' retirement association board is administering the association as mandated and make recommendations for the association board structure as warranted; and

(h) every three years, commission an independent review of the economic and investment assumptions used to model the public employees' retirement association financial situation. The subcommittee shall use experts other than those already working on behalf of the association.