



Joint Budget Committee

Colorado PERA Question Responses

Hearing December 14, 2016

1. Please provide a good definition of “unfunded liability.”

Response:

Unfunded liability is the amount by which the projected liabilities exceed the current assets. The projected liabilities consist of all earned pension payments due for decades into the future.

2. What are PERA's thoughts on addressing the unfunded liability?

Response:

The PERA Board of Trustees' number one priority is to ensure PERA's financial stability and long-term viability. The elimination of the unfunded liability over time is part of the ultimate goal of the Board's funding policy objective. The Board consistently monitors the funded status of the plan and performs a sophisticated actuarial valuation and projection of the future funded status of the pension plans. In November of this year, the Board performed a rigorous analysis of the actuarial experience of the plans over the last four years to set economic and demographic assumptions for the future. In addition, on a periodic basis the Board brings in a second outside actuarial firm to perform an audit of the Board's retained actuary to help ensure the validity of the estimates and calculations performed.

In addition to the actuarial work, at its November 2016 Board meeting, the Board charged staff with convening broad based conversations throughout the State of Colorado regarding PERA's financial condition and serving as the trusted resource for stakeholders and policy makers statewide. The Board of Trustees is committed to ensuring all stakeholders are heard and that any changes to Colorado PERA by the General Assembly be made based on a thoughtful process with accurate information. Further, the Board directed staff to work with the Judicial Division to develop a solution to address the fact the Judicial Division is in the orange light category. The Board's actuaries are currently in the process of calculating the impacts to the funded status of the plans based upon the Board's November actions regarding the new actuarial assumptions. After the January 2017 Board meeting, when the Board sees the actuary's calculations, we will make the amortization impact information broadly available.

3. What legislative action was taken prior to 2010? Please provide a summary history.

Response:

Please see response to Question 4 below as they are very related.

4. **Was PERA ever considered to be fully funded? At what points in the last 20 years was PERA considered to be fully funded? Were legislative actions taken as a result of the full funded status? Please describe such actions and PERA's position on those actions.**

Response:

The only time Colorado PERA's pension funds have been considered "fully funded" has been at the turn of the century after the exceptional investment market performance of the 1990's. At that time, the General Assembly passed multiple pieces of legislation that enhanced benefits and cut contributions for employers. Immediately after the passage of these bills, the .Com investment market crisis ensued and all legislation passed since that time has reduced current, or future benefits and increased both employee and employer contributions. Please refer to timeline in the attached presentation and to the historical record of enacted legislation prior to 2010 below:

2009

SB 09-282: DPS Merger Into PERA

- Merged the Denver Public Schools Retirement System into PERA effective 1/1/10.
- Added the DPS Division as a separate division within PERA, and appointed a non-voting ex-officio Board member from the DPS Division to serve on the PERA Board of Trustees.
- Set the DPS Division's payroll contribution rates to equal:
- Employer: 13.75% from 1/1/10-12/31/12, and 14.15% from 1/1/13 and thereafter, but reduced by district's payments to pay off pension certificates of participation (PCOPs) issued in 1997 and 2008.
- Member: 8%.
- Required DPS Division employers to pay the AED and SAED.
- Beginning 1/1/15 and every fifth year thereafter, a true-up will be calculated to determine whether DPS employer contribution rate must be adjusted to assure the equalization of the DPS Division's ratio of unfunded actuarial accrued liability (UAAL) over payroll to the PERA School Division's ratio of UAAL over the payroll at the end of the 30 year period.
- Created a separate DPS health care trust fund and allowed DPS retirees to participate in PERACare.
- Other provisions covered portability issues regarding members moving between the DPS Division and other PERA Divisions.

SB 09-66: Consolidate State Plans Under PERA

- Merged the State DC Plan with the PERA DC Plan and transferred the administration of the State of Colorado 457 Plan to PERA effective 7/1/09, as was recommended by the Legislative Audit Committee.

- Eligible new state employees hired on or after 7/1/09 are allowed to choose the PERA DB Plan or the PERA DC Plan.

SB 09-157: Retirement Plan Eligibility for CU Employees

- Allowed certain new University of Colorado employees who have a PERA member contribution account to make an irrevocable choice between continuing their PERA membership or joining the University's DC Plan. New employees who do not actively make a choice default to the PERA DB Plan.

SB 09-056: Trinidad State Nursing Home

- Added to the exclusion from membership employees of previously affiliated long-term care facilities or health care facilities if such employees are hired subsequent to the sale, lease, or transfer of the facility.
- In addition to the existing public hospital employees who may continue membership upon transfer of title, employees of the Trinidad State Nursing Home may continue membership with PERA upon the Nursing Home transferring ownership to a non-governmental entity, provided the PERA Trustees determine such continued membership would not adversely affect PERA's qualified governmental plan status.

2008

HB 08-1403: DPS Merger Authorization

- Modified law that authorized DPS, the DPSRS and PERA enter into an agreement to merge into PERA.

2007

HB 07-1377: Higher Ed Retirement

- Repealed SB 06-235's provision that would have expanded DB and DC retirement plan choice to all new employees hired by higher education institutions.
- Allowed eligible new employees at community colleges the choice of participating in the PERA DB Plan or the PERA DC Plan, effective 1/1/08.

HB 07-1184: Sudan Divestment

- Required divestment of certain investments related to Sudan by PERA and other public funds.

2006

SB 06-235: Public Employees' Retirement Benefit Plans

- Required all PERA employers pay a Supplemental Amortization Equalization Disbursement (SAED) that equals 0.5% of covered salary beginning 1/1/08. The SAED would increase by an additional 0.5% of covered salary a year until it reached a total of 3.0% in 2013. The SAED is noted in the statute as being funded from foregone compensation increases from employees.

- For new members hired effective 1/1/07:
 - Unreduced retirement changed to the Rule of 85 (age plus service totals 85) and at least age 55, instead of the Rule of 80 if at least age 55.
 - New COLA will equal the lower of 3% or the actual CPI, if retired for one year and attain age 60 or meet the Rule of 85. COLA will not be automatic and will be limited to PERA's available funds.
- Eliminated the State Auditor's seat on the PERA Board of Trustees effective 1/1/07.
- Substituted three member-elected trustees with three Governor appointed, Senate confirmed trustees to the PERA Board of Trustees effective 7/1/07.
- Expanded DB and DC retirement plan choice to all new employees of higher education institutions hired effective 1/1/08. These employees would have the choice of the PERA DB Plan, PERA DC Plan, and the State DC Plan, in addition to the higher education institution's Optional Retirement DC Plan (if offered).
- Reduced PERA's statutorily prescribed maximum amortization period from 40 years to 30 years.
- Required the General Assembly to contract for an independent actuarial study before future PERA benefit increases may occur.
- Mandated that purchases of service credit be at full actuarial cost.

2005

SB 05-73: Employment After PERA Retirement

- Closed loopholes used to circumvent the 110-day calendar post-retirement employment limit by PERA retirees for a PERA employer.
- Required PERA employers send tax-related forms and data to PERA.
- Applied the AED on salaries earned by PERA retirees who work for PERA employers.

SB 05-171: DPS Merger Authorization

- Authorized the merger of DPSRS into PERA on an actuarially neutral basis and specified conditions.

HB 05-1231: State Employee DC Plans

- Technical changes made to SB 04-257.

SB 05-93: Attachment of Pension Benefits

- Expanded the ability to attach a public pension participant's benefits to include restitution for theft or embezzlement of public property, and in the event of a judgment for a willful and intentional violation of fiduciary duties where the offender or a related party received direct financial gain.

2004

SB 04-132: Modify Benefit Plans for PERA Members

- Terminated MatchMaker employer contributions on payroll periods ending 6/1/04 or later, due to PERA's underfunded status.
- Reduced interest rate credited on PERA member contributions to 5.0% maximum per year, on 7/1/04.
- Reallocated 0.08% PERA employer payroll contribution rate from PERA HCTF to pension trust funds.
- New members hired effective 7/1/05, eligible for early retirement (not unreduced retirement) at age 50 with 30 years of service, and the COLA would equal the lesser of 3% annually, or the actual CPI change.

SB 04-257: Modify Public Employee Retirement Plans

- Gave eligible new state government employees hired on or after 1/1/06, the choice of retirement coverage under the State's DC Plan, a new PERA DC Plan, or the PERA DB Plan.
- New classified state employees hired in public higher education institutions would continue to be covered by the PERA DB Plan on a mandatory basis.
- Eligible new state employees who have prior PERA or State DC Plan accounts:
 - Must have a 12 month break from PERA-covered employment before they can elect the PERA DB Plan, the PERA DC Plan, or the State DC Plan.
 - With less than 12 month break from PERA-covered employment, employees continue to be covered by the Plan in which they last participated (PERA DB Plan, PERA DC Plan, or the State DC Plan).
- Eligible new state employees have 60 days from their first day of employment to elect the PERA DB Plan, the PERA DC Plan, or the State DC Plan, and are covered by the PERA DB Plan until an election is made.
- Eligible new state employees who do not make an election are covered by (default to) the PERA DB Plan.
- PERA state employer payroll contribution rate (10.15%) is allocated to the Plan elected by the new hire (PERA DB Plan, PERA DC Plan, or the State DC Plan).
- In addition to existing PERA employer payroll contribution rates effective through 12/31/05, (10.15% for state and school employers, 10.0% for municipal employers, 12.85% for state trooper employers, and 13.66% for judicial employers), all PERA employers must pay an Amortization Equalization Disbursement (AED) that equals 0.5% of payroll effective 1/1/06.
 - AED increases by 0.5% of payroll in 2007 calendar year.

- AED increases by 0.4% of payroll each calendar year thereafter.
- AED 3% maximum payroll rate is reached in 2012 for all PERA employers.
- Required PERA employer contributions on salaries paid to PERA retirees effective 7/1/05.
- Changed the due date for PERA contributions to five business days after the payroll date (from the 10th of the month after the month that the employee is paid).
- On 1/1/06, separated the State and School Division into two divisions.
- On 1/1/06, the Municipal Division was renamed the Local Government Division.
- In 2013, the school employer statutory contribution rate increases permanently by 0.4% of payroll since the actuarial normal cost of PERA benefits is 0.4% of payroll higher in the School category than in the State category. In 2013, the School employer payroll rate will be 10.55% (10.15% plus 0.40%) excluding AED.
- If the amortization period falls to 40 years or less in any PERA Division, the AED will be decreased permanently in that Division to maintain the amortization period.

SB 04-90: Confidential Investment Information

- Clarified confidentiality of information on PERA's private equity, private debt, and timber investments.

SB 04-94: Health Savings Accounts

- Clarified that any amounts deducted from PERA members' pay for contributions to a Health Savings Account (HSA) or any retirement health savings account, would be subject to PERA contributions.

2003

SB 03-98: PERA Benefit Provisions

- Set a maximum of 10 years for the total amount of PERA non-covered service credit that could be purchased.
- Employees of new PERA-affiliated employers would be allowed to buy service for the total years worked under that employer.
- Required a portion of member's cost (1.1% of HAS) to purchase PERA non-covered service credit to be transferred to the PERA HCTF (when the member retired) for each month purchased including interest to the date of the transfer.

SB 03-250: DPS Merger Authorization

- Allowed merger of the Denver Public Schools Retirement System (DPSRS) into PERA on 1/1/05 if all conditions were met.

HB 03-1327: School District Critical Shortage

- Extended program through 6/30/05 that allowed school districts to declare a critical shortage of non-licensed employees and hire PERA retirees to work full-time in non-licensed positions with no reduction in their PERA retirement benefits.

SB 03-277: Furloughs

- Allowed a PERA member and their employer furloughed from 7/1/02-6/30/04 to purchase service for service lost under furlough.

SB 03-233: Employees of a DA

- Boards of county commissioners were allowed to permit deputy DAs and other DA employees to join the PERA DB Plan or the State DC Plan under certain conditions.

2002

SB 02-145: School District Critical Shortage

- Allowed schools to declare a critical shortage for the next three years, and hire retired teachers and retired principals for unlimited periods with no reduction in the retiree's PERA benefit. The school employer would be required to pay PERA employer contributions on salary earned by all retirees in their respective positions.

SB 02-106: Conformance with Federal Law

- Conformed PERA statutes to changes in federal "Economic Growth and Tax Relief Reconciliation Act of 2001" (EGTRRA) law. Allowed direct rollovers from IRS 457 and 403(b) plans to purchase PERA non-covered service credit.

2001

SB 01-149: Study of DB and DC Plans

- Allowed district attorneys (DAs) to join PERA or the State DC Plan (generally for Elected Officials).
- Required the State Auditor's Office to submit a "Comprehensive Study of DC and DC Retirement Plan Designs for PERA members" to the Legislative Audit Committee by 12/1/01. This report found:
 - PERA compared very favorably to other public and private sector retirement plans, due to PERA's level of benefits, low costs, blend of DB and DC plan features, and high portability.
 - There was no compelling reason for significant changes to be made to the PERA DB plan.

HB 01-1057: Retiree Participation in 401(k)

- Permitted PERA retirees working for a PERA-affiliated employer to contribute voluntarily to the PERA 401(k) Plan from salary earned (no MatchMaker employer dollars would be applied).

2000

HB 00-1458: Modifications for PERA Benefits

- Allowed unreduced retirement under the Rule of 80 (age plus service totals 80) and at least age 55, effective 6/1/00.
- Allowed state classified employees hired before 7/1/88 with over 360 hours of sick leave to convert 15% of their excess leave hours to salary for PERA contributions and benefit purposes. Other PERA employers were allowed the same conversion approach for employees with over 45 days of excess sick leave. Sick leave conversion provision ended on 7/1/05.
- Moved date of 1% reduction in employer payroll contribution rate forward from 1/1/01 to 7/1/00 since PERA was now fully funded, to 10.4% for the State and School Division, and to 14.0% of payroll for the Judicial Division.
 - Established an additional minimum 0.25% employer payroll contribution rate cut.
 - 20% of any PERA overfunding amortized over 10 years would be allocated for further employer payroll contribution rate cuts. 30% of PERA overfunding amortized over 10 years would be allocated to the HCTF for retiree health care premium subsidy increases.
- Established 3.5% compounded annual automatic COLA effective March 2001.
 - Prior to this date, the annual COLA equaled the lower of the actual inflation rate or annual 3.5% cumulative increases since retirement.

HB 00-1222: School District Critical Shortage

- Allowed school districts to declare a critical shortage of non-licensed employees, and hire PERA retirees who would be exempted from PERA's 110-day calendar year post-retirement employment limit.

1999

SB 99-90: PERA Benefits

- Increased contribution refund match from:
 - 25% to 50% for members under age 65 or not eligible to retire; and
 - 50% to 100% for members age 65 or eligible to retire.
- Employer matching contributions ("MatchMaker") provided on members' voluntary contributions to 401(k), 403(b), 457, and 401(a) DC Plans when PERA is 100% (fully) funded, or 1/1/01 if later. Maximum matching contribution amount set by the PERA Board annually would be designed to amortize PERA's funding surplus over a 10 year period.

- Permanent 1% employer payroll contribution rate cut for state, school, and judicial employers authorized when PERA is fully funded in the State and School Division, and in the Judicial Division.
- Municipal employer payroll contribution rate cut authorized when Municipal Division is fully funded.
- Employer contribution allocated to retiree health care fund was increased from 0.8% to 1.1% of payroll, and employer contribution allocated to pension trust funds was reduced by 0.3% of payroll on 7/1/99.
- Increased maximum PERA monthly retiree health care premium subsidy effective 7/1/00 for retirees under age 65 (and not eligible for Medicare) to \$230 with 20 or more years of service credit.
- Allowed PERA to offer “PERACare” Health Care Program to affiliated employers on a voluntary basis to their active members.
- Reduced State Trooper member contribution rate from 11.5% to 10.0% of salary, effective 7/1/99.

HB 99-1080: Purchase of Service Credit

- Conformed PERA law to federal law on purchases of “non-qualified” service credit (generally refers to service for prior private sector employment), applicable to new PERA members hired 1/1/99 and later.

Senate Joint Resolution 99-10: Opposing Mandatory Social Security

- Expressed Legislature’s opposition to any federal legislation that would mandate covering state and local government employees’ under the Social Security system.

1998

HB 98-1242: Reduction in PERA Contribution

- State and School Division employer payroll contribution rate was reduced from 11.5% to 11.4%.

HB 98-1191: Public Employee DC Plans

- Allowed elected state officials, non-classified state employees in the Governor’s Office, and House and Senate employees to elect new State of Colorado Public Officials’ and Employees’ Defined Contribution Plan effective 1/1/99, (State DC Plan), instead of PERA’s Defined Benefit (DB) Plan.
- Allowed unreduced retirement at age 50 with 30 years of service.
- Decreased early retirement benefit reduction from 4% to 3% per year for members retiring with 20-29 years of service between age 55 and age 59.

HB 98-1143: Health Coverage for Children

- Allowed PERA benefit recipients to cover their children under PERACare until age 19, or until age 24 if child is a full time student and financially dependent on parent.

SB 98-114: Division of PERA in Domestic Relations Cases

- Additional methods adopted to divide benefits paid from public DB Plans in case of divorce.

1997

HB 97-1082: PERA Benefit Provisions

- Increased retirement formula from 1.5% to 2.5% per year of HAS on 20-40 years' service, with 100% HAS maximum benefit. Benefits were recalculated for current benefit recipients on a prospective basis.
- Two-tier disability program (short term disability and disability retirement) effective 1/1/99, to include short-term income, retraining, and rehabilitation benefits to partially or temporarily disabled members.
- One year HAS adopted for Judicial Division's future retiring judges.
- Combined the State Division's and the School Division's trust funds, and reduced the State and School Division employer contribution rate by 0.1% to 11.5% of payroll.

HB 97-1114: PERA Miscellaneous Provisions

- Reduced PERA's maximum amortization period to 40 years from 60 years.
- Established optional Long Term Care Insurance Program for members and retirees.
- Changes made to conform to federal law's changes, and minor changes made to survivor benefits.
- Clarified that PERA benefits were subject to federal tax liens.

1996

SB 96-204: Domestic Relations Orders

- Required public employee retirement plans to divide a retirement benefit and pay a portion to an alternate payee (ex-spouse) if a written agreement was properly completed and approved by a court.

1995

HB 95-1048: Hybrid Plan

- Interest rate credited on PERA member contribution accounts would equal 6.8% (80% of PERA's 8.5% actuarial investment assumption rate), retroactive to employee's PERA membership date.

- Refunds to PERA members who terminated covered employment before retirement would include a matching amount on member contributions and interest:
 - 25% matching amount to PERA members not eligible to retire;
 - 50% matching amount to members eligible to retire or age 65.
- Money purchase benefit, based on contributions, interest, and a matching amount, would automatically be paid to a retiring member if the benefit amount would be higher than the DB Plan benefit amount.

SB 95-33

- HAS was changed from a calendar year basis, to the three highest 12 consecutive month periods.
- Eliminated 80% HAS maximum benefit with 40 years of service credit.
- Changed method of crediting service credit so that one month of service was credited if PERA-includable salary equaled 80 times the federal hourly minimum wage.

SB 95-35

- Increased maximum payment that retired judge may receive when performing temporary judicial duties.

HB 95-1281

- Required PERA to pay interest in some cases when refunding member contributions made in error.

1993

HB 93-1324: Early Retirement and COLA Changes

- Early retirement allowed at age 50 with 25 years of service.
- Changed annual COLA to 3.5% maximum, compounded annually, based on the CPI, and folded the PERA CLSF into the PERA pension trust funds.
- Indexed benefits from employment termination until benefit begins, for vested inactive members with 25 or more years of service credit.

HB 93-1328: Student Employees Retirement

- Established a separate retirement plan for student employees working at colleges and universities who must be covered under a retirement plan by federal law; exempted these student employees from PERA.

HB 93-1235: Study of DPS Transferability

- Required PERA and the Denver Public Schools Retirement System (DPSRS) to study the feasibility of a mechanism for transferring service credit between the two retirement systems.

1992

HB 92-1335: Benefit Improvements

- Raised annual post retirement benefit (COLA) increase from 3% simple (non-compounded) increase on base benefit, to a maximum of 4%, for years after 1992.
- Increased retirement formula from 1.25% to 1.5% of HAS with 20 through 40 years of service with increase applied to current benefit recipients on a prospective basis.
- Reduced the School Division employer contribution rate by 0.6% to 11.6% of payroll.
- Temporarily reduced the State Division employer contribution rate by 1.0% of payroll in FY92.

SB 92-150: Maximum Investment in Stocks

- Increased maximum percentage of PERA assets that may be invested in stocks from 50% to 65%.

SB 92-127: DC Option for Higher Ed

- Allowed higher education governing boards to establish defined contribution (DC) plans for faculty and administrators at any college or university under the board's jurisdiction.

HB 92-1092

- Inactive non-vested PERA member accounts to be transferred to the State's unclaimed property fund after five years following termination of PERA membership.

SB 92-115

- Allowed elected municipal officials to voluntary exempt themselves from PERA membership.

HB 92-1205

- Removed several inequities from PERA benefit provisions and conformed to federal law changes.

1991

HB 91-1026: Requiring PERA Membership

- Decreased employer payroll contribution rates after state law was changed to require PERA membership for all employees who were not exempt from PERA participation by federal law. PERA employer contribution rates were reduced effective 7/1/91, by 0.6% of salary in the State Division, by 0.3% of salary in the School Division, and by 0.2% of salary in the Municipal Division.

HB 91 S2-1031

- Required that interest credited on PERA member contribution accounts, effective 7/1/91, set annually by PERA Board of Trustees, equal the interest rate earned on 90-day U.S. Treasury bill at the end of the prior year. However, the interest rate could not be less than the Colorado prevailing passbook rate or more than PERA's actuarial investment assumption rate.

SB 91-37

- Clarified that PERA member contributions may be garnished for child support purposes only if membership has terminated and member was not vested for a future benefit. Allowed PERA to recover benefits paid that benefit recipient was not eligible to receive.

SB 91-225

- Created an independent University Hospital Authority, and allowed Hospital employees hired before Authority began operating to be state employees and PERA members during their Hospital employment.

HB 91-1233

- Clarified that all retirement plan funds are exempt from levy, attachment, execution or garnishment, except that benefits or payments are subject to legal process to collect child support.

House Joint Resolution 91-1017

- Designated the House and Senate Finance Committees as committees of reference for PERA.
- House Speaker and Senate President to generally refer bills affecting PERA to the Finance Committees.



JOINT BUDGET COMMITTEE

GREGORY W. SMITH, EXECUTIVE DIRECTOR

JENNIFER PAQUETTE, CHIEF INVESTMENT OFFICER

DECEMBER 14, 2016

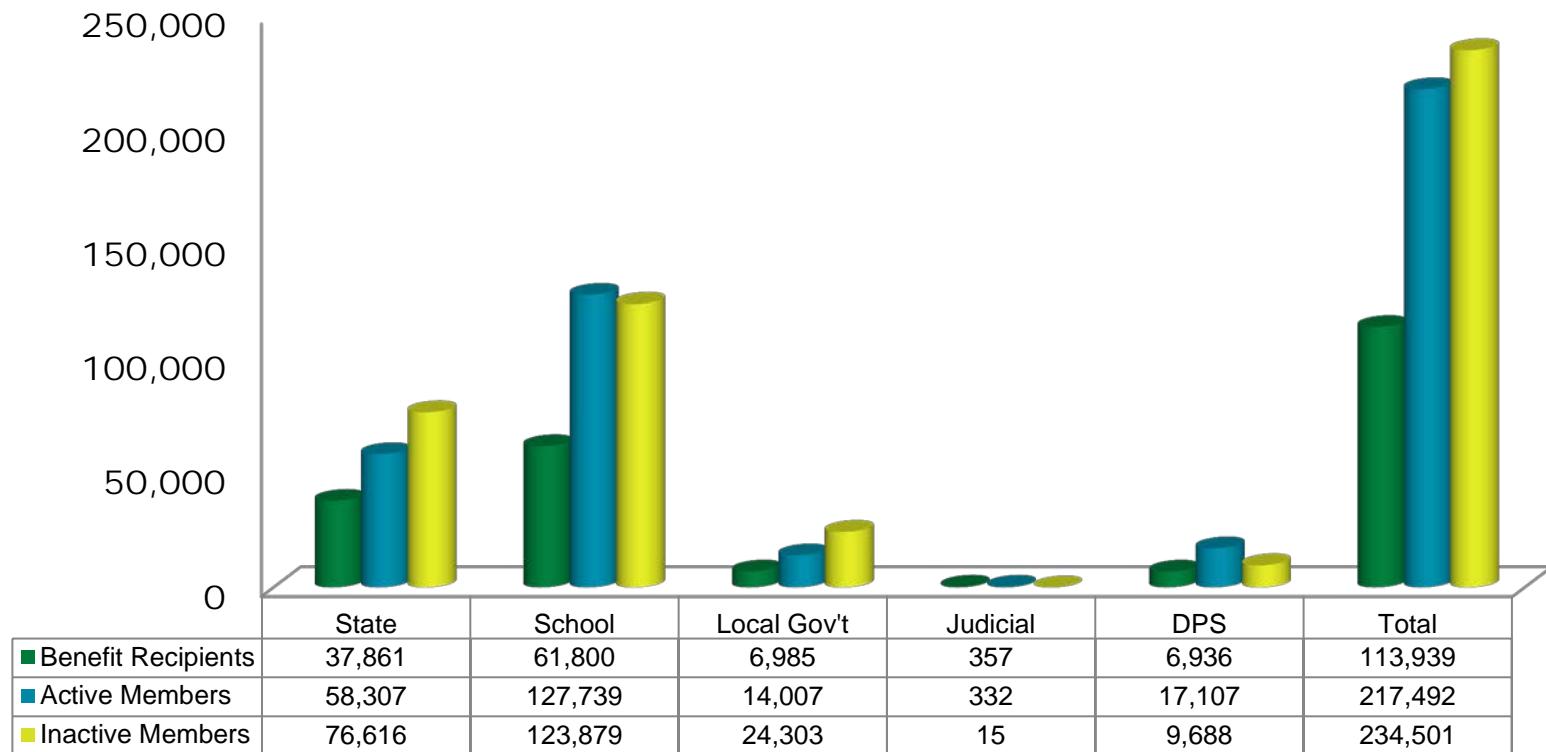


PERA Membership

October 31, 2016



Total: 565,932



PERA's Governance Structure



General Assembly

Sets benefit and contribution structure



Board of Trustees

Oversees investments, benefits administration, and monitors actuarial assumptions and performance



PERA Staff

Implements strategy and policy as well as serves as resource for Legislature and Board

Board of Trustees



16 members as established by state law

• School	4
• State	3
• Retirees	2
• Local Government	1
• Judicial	1
• DPS Division	1*
• State Treasurer	1**
• Governor-appointed	3

* Non-voting ex officio

** Ex officio

Fiduciary Standard of Conduct

“Trustees shall carry out their functions solely in the interest of members and benefit recipients and for the exclusive purpose of providing benefits and defraying reasonable expenses incurred....”
(24-51-207(2), C.R.S.)

PERA Annual Update: Audit



- » CliftonLarsenAllen performed the State Auditor's Office 2015 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 1.5 percent investment return for 2015
 - Return 1 percent above the Board's policy benchmark

PERA Annual Update: Legislation



» 2016 Legislative Session

- HB 16-1284: PERA Divest From Companies with Prohibitions Against Israel—Rep. Nordberg (R) and Rep. Moreno (D) with Sen. Hill (R) and Sen. Garcia (D)
- Passed and signed into law
- PERA implementing according to law and on schedule

PERA Financial Recap



\$44,573,464 net assets as of December 31, 2014

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

December 2015

Contributions \$2,278,957		Investments \$436,119		Benefits Paid (\$4,563,855)	
Employer – Pension – Regular	\$707,927	Net Change in Fair Value	(\$428,171)	Pension Benefits	(\$4,073,789)
Employer – Pension – AED	\$317,218	Interest	\$301,818	Health Care Benefits	(\$256,407)
Employer – Pension – SAED	\$298,442	Dividends	\$505,102	Disability/Life Insurance	(\$6,547)
Employer – Health Care	\$84,771	Real Estate/Opportunity Fund/ Alternative Investments	\$179,429	Refunds	(\$162,144)
Member	\$665,352	Securities Lending	\$10,703	Other	(\$8,352)
Purchased Service	\$61,145	Investment Expense	(\$132,762)	Administrative Expense	(\$56,616)
Retiree Health Care Premiums	\$133,866				
Other Additions	\$10,236				

\$42,724,685 net assets as of December 31, 2015

(unaudited, for internal use only)



25-Year History of Assets and Distributions

In billions



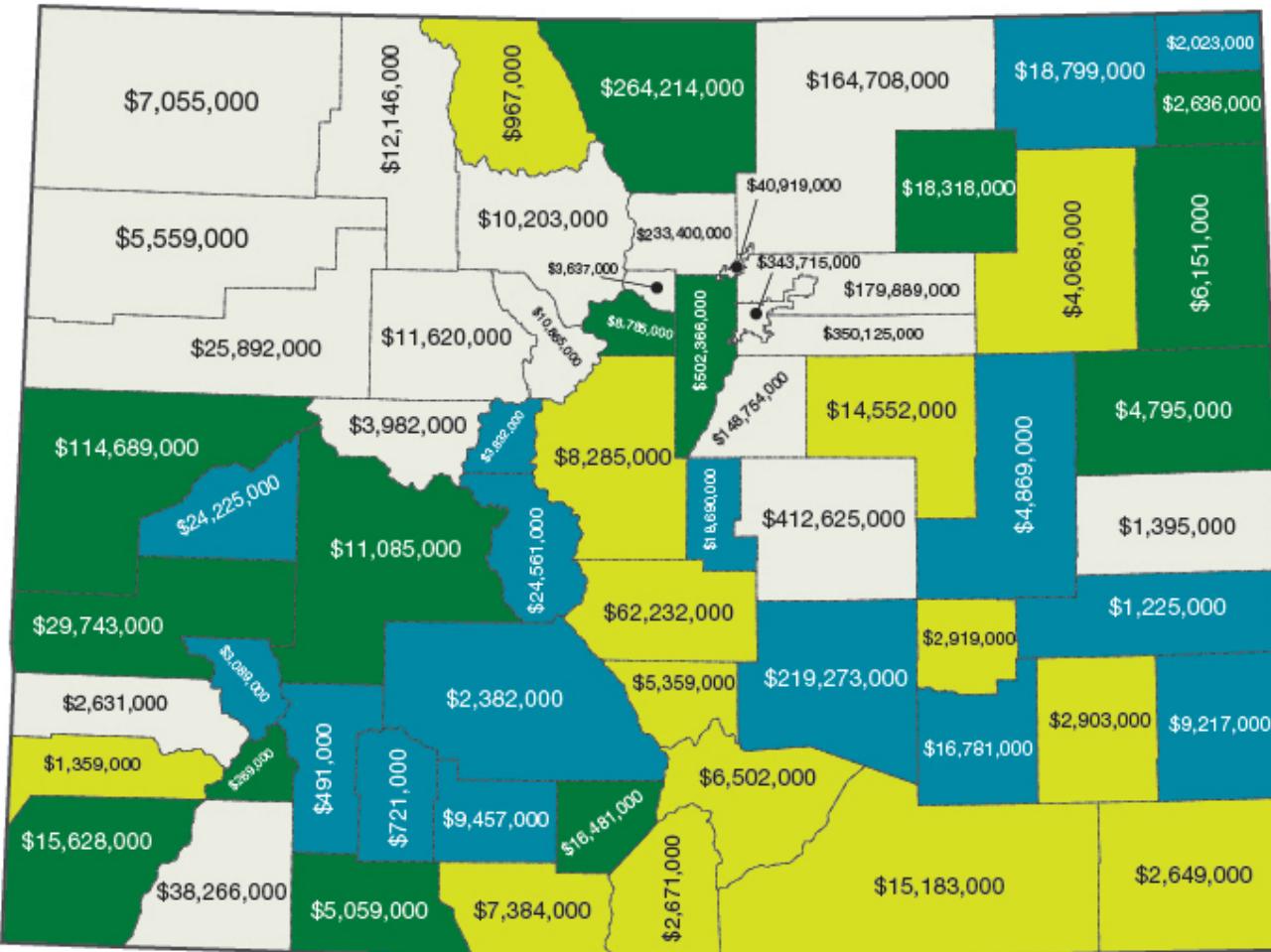
Beginning Balance January 1, 1991	\$9.6
Employer Contributions	15.7
Member and Other Contributions	13.9
Investment Income	50.9
Denver Public Schools' Plan Transfer	2.8
Benefit and Refund Payments	(49.7)
Administrative Expenses	(0.5)
Ending Balance December 31, 2015	\$42.7

PERA Represents Significant Portion of Payroll Across Colorado



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

Total Colorado Distributions = \$3.8 Billion



Over 15 percent of Payroll

10-15 percent of Payroll

5-10 percent of Payroll

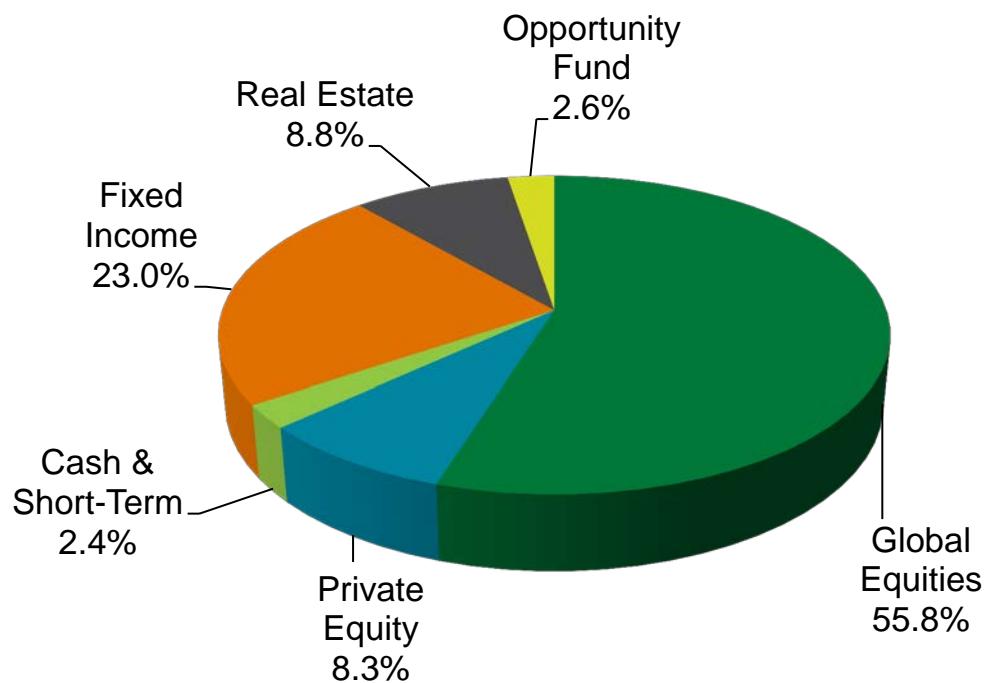
Less than 5 percent of Payroll

Annual benefit payments and percentage of payroll data from 2016 County Business Patterns and U.S. Census Bureau, calculation from Pacey & McNulty

Investment Asset Allocation



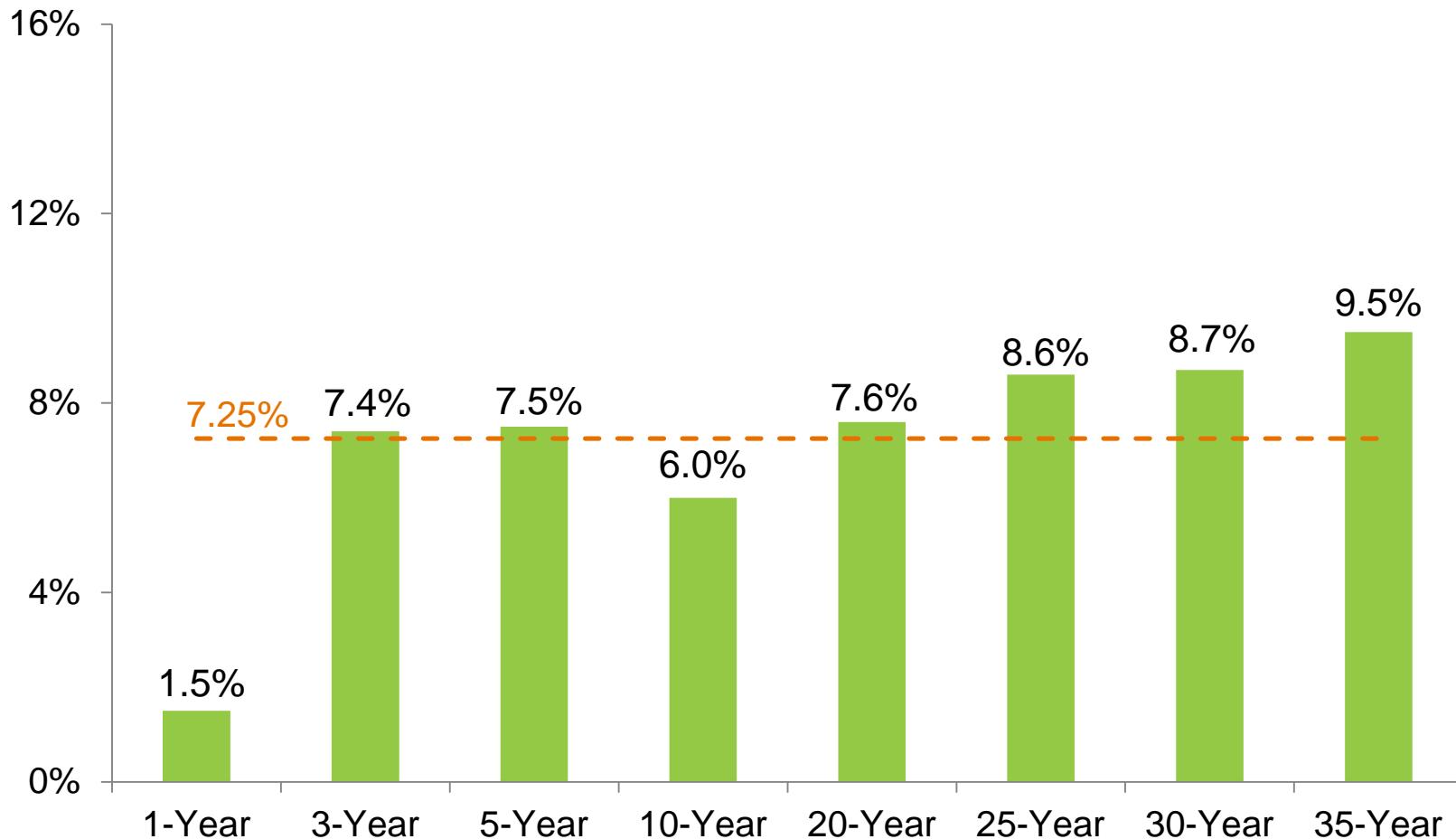
\$43.0 Billion Market Value
As of October 31, 2016



- » Asset allocation policy unanimously approved by Board on June 21, 2016
- » Over \$447 million invested in Colorado companies
- » More than 55 percent of assets managed directly by PERA staff
- » An additional \$50 million is allocated to the Colorado Mile High Fund for private equity investments in the state

Investing for Long Term

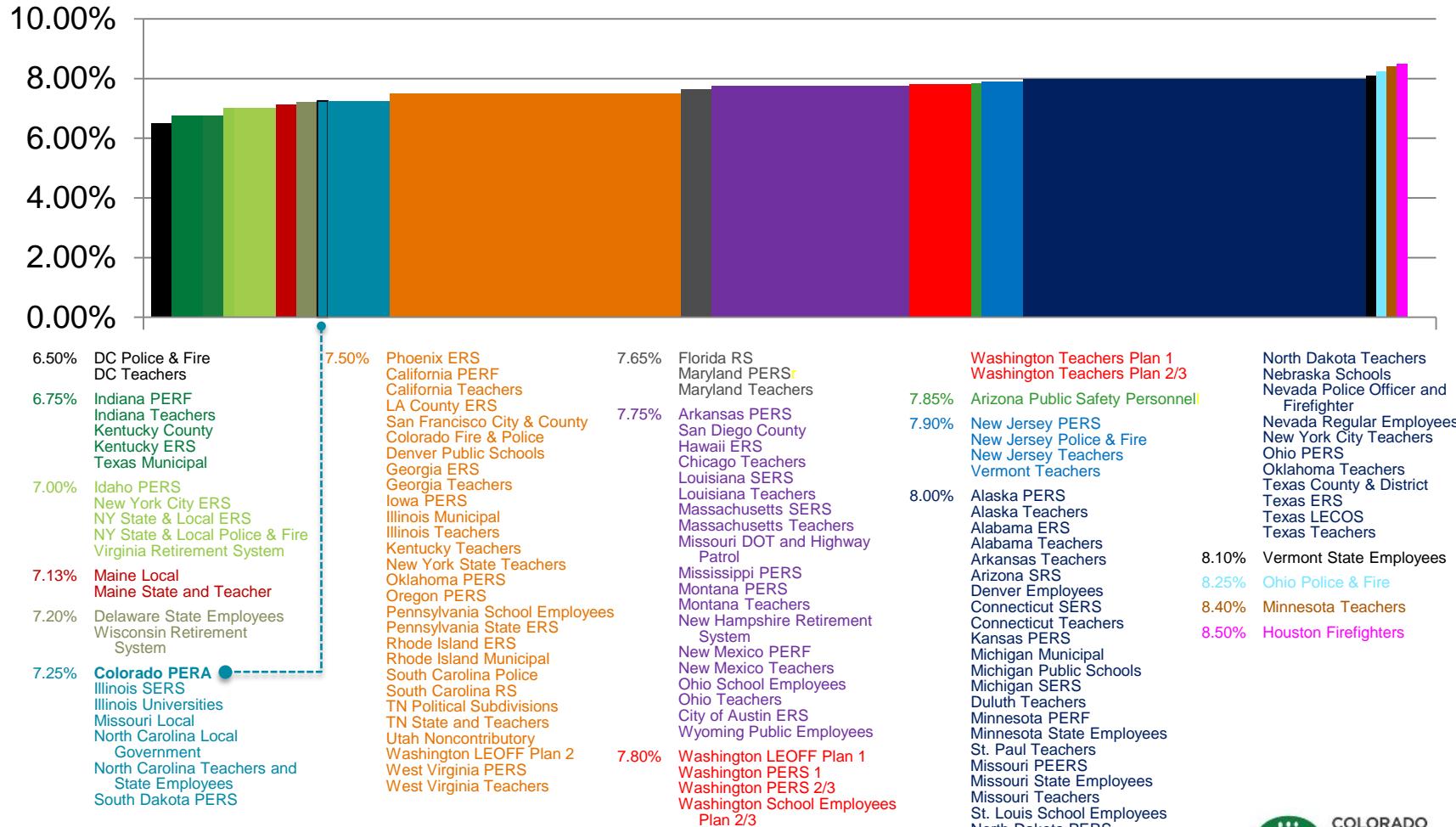
*Annualized investment returns for period ending December 31, 2015**



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

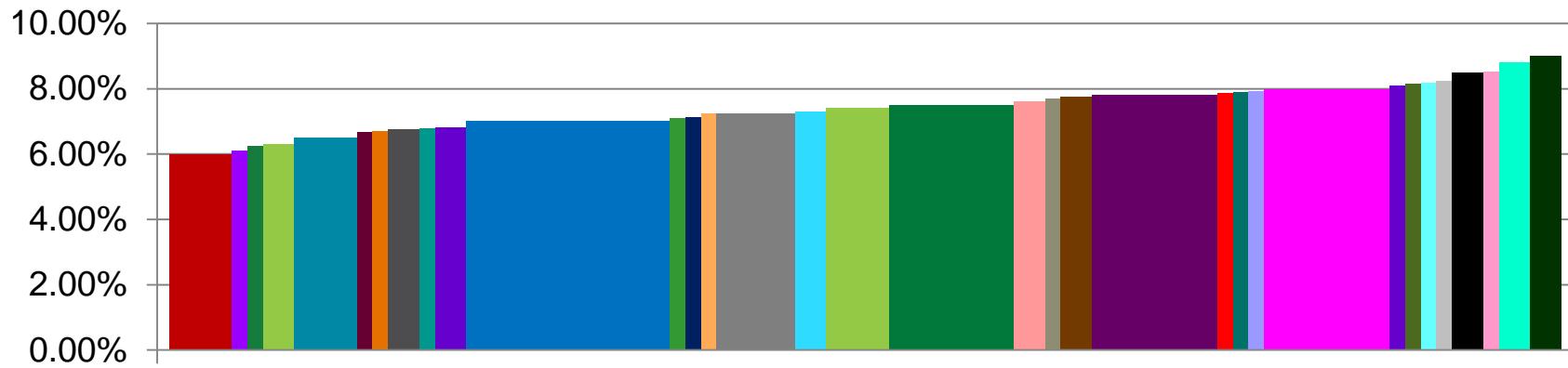
Comparative Rates of Return

– Public



Comparative Rates of Return

– Private



Glossary of Terms



» **Unfunded Actuarial Accrued Liability**

- The amount by which the projected liabilities exceed the current assets

» **Amortization Period**

- The projected period of time, in years, required to pay off the unfunded liability and achieve 100 percent funded status

» **Full Funding**

- The status when the assets of the fund are equal to or greater than the projected liability

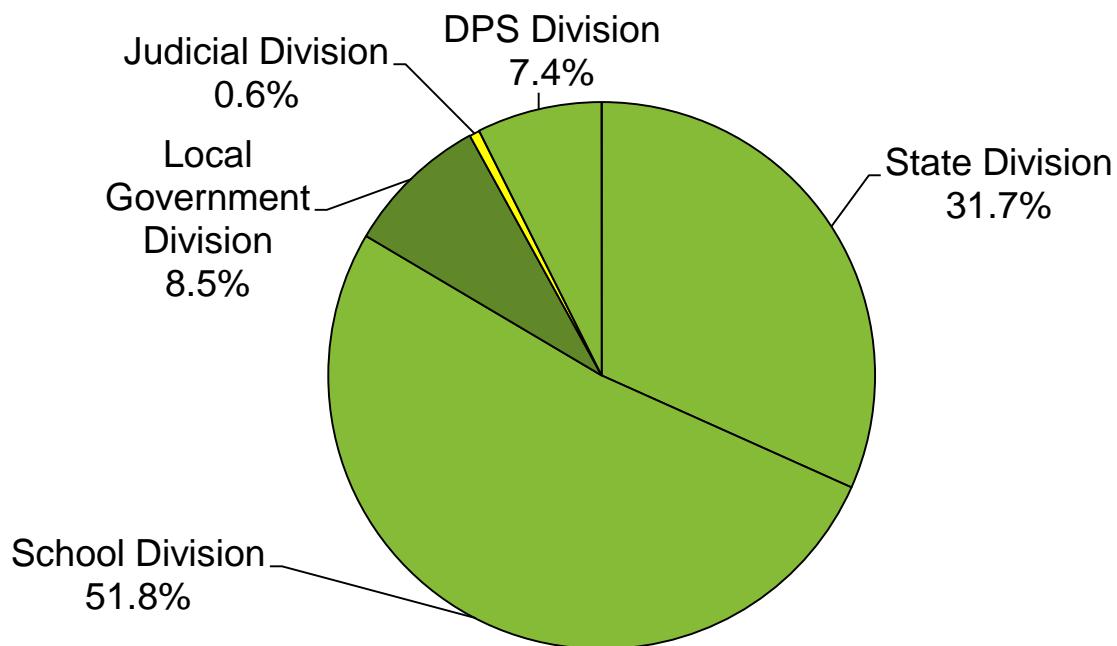
» **Assumed Rate of Return**

- The anticipated annual rate of investment return over time

Review of SB 14-214 Studies – Sensitivity Study



Signal Light Indicator *Weighted by Market Value of Assets*

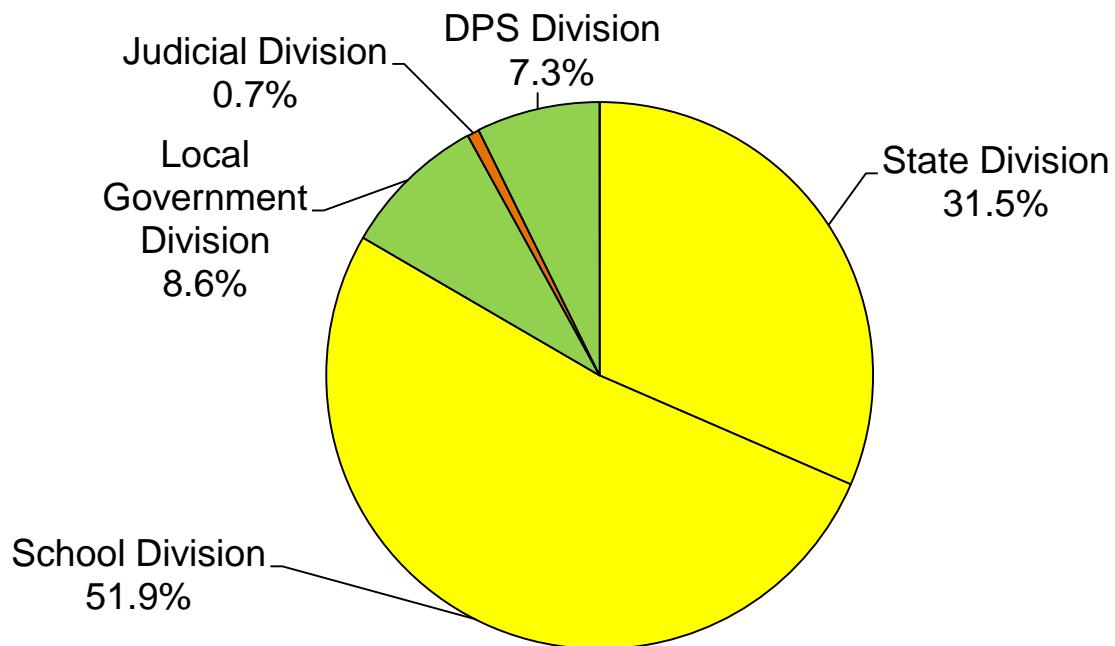


- » As of December 31, 2014, for each PERA division, reflecting the SB 1 reforms and applying PERA's set of actuarial assumptions as of the end of 2014

2015 Signal Light Indicator



Signal Light Indicator *Weighted by Market Value of Assets*



- » As of December 31, 2015, for each PERA division, reflecting the SB 1 reforms and applying PERA's set of actuarial assumptions at end of 2015, results may change based upon recent assumption adjustments

2015 Projection Results



- » Factors contributing to increase in projected full funding date

Increase/(Decrease) in Projected Full Funding Date (Years)					
	State	School	Local Government	Judicial	DPS
Investment	4.8	5.7	9.4	25.1	5.5
Population/ Salary Growth	0.3	0.4	1.3	(0.8)	(1.2)
Demographic	0.8	1.3	1.6	1.9	(0.2)
Other*	(0.2)	0.0	0.0	0.0	0.0
Total	5.7	7.4	12.3	26.2	4.1

* DC payroll projections

PERA Annual Update: Recent Board Action



- » At its November 20, 2016, the Board adopted new economic and demographic actuarial assumptions based on the actuarial experience study (conducted periodically) for the years 2012-2015
 - New mortality tables reflecting the anticipated extension of life expectancies of the PERA membership going forward
 - Long-term rate of return assumption lowered from 7.5 percent to 7.25 percent.
 - The actuaries are working to calculate the new amortization periods for each of the Divisions

PERA Next Steps



- » 2017 education and outreach effort
 - Engage a range of stakeholders in conversation about PERA's financial condition – members, taxpayers, policymakers, business leaders, and other stakeholders
 - Connect with stakeholders throughout the state both in-person and virtually
 - Provide fact-based information
- » Additional actuarial information
 - After the January 2017 Board meeting, PERA will make available amortization impact information to the members of the General Assembly and other stakeholders
- » Judicial Division

Contact Us



- » Web address
 - www.copera.org
- » Social media
 - PERA on the Issues, www.peraontheissues.com
 - The Dime, www.thedimecolorado.com
 - Twitter, @ColoradoPERA and @thedimeCO
 - Facebook, www.facebook.com/thedimecolorado
- » 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)



Appendix

Timeline



Amortization
Period *

State Division	Infinite
School Division	Infinite
Local Gov't Division	Infinite
Judicial Division	Infinite

Assumed Rate
of Return

8.50%

December 31,
2003

Board Actions

- Increased cost of purchasing service credit
- Conducted Asset Liability Study
- Reviewed actuarial assumptions
- Decreased assumed rate of return to 8.5% from 8.75%

Board Legislative Recommendations

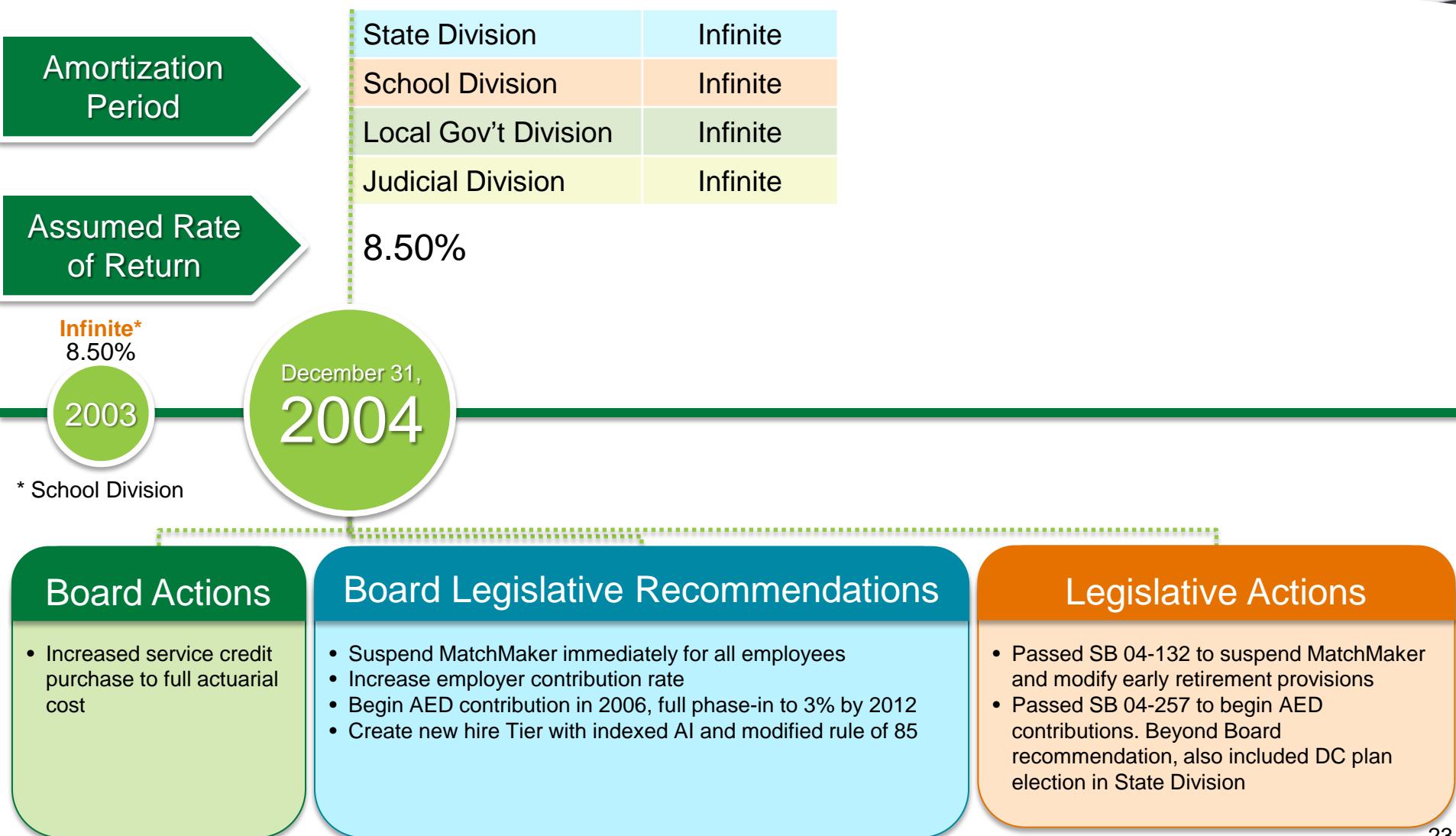
- Place 10-year limit on service credit purchase
- Increase contributions, add contribution rate corridors, suspend MatchMaker

Legislative Actions

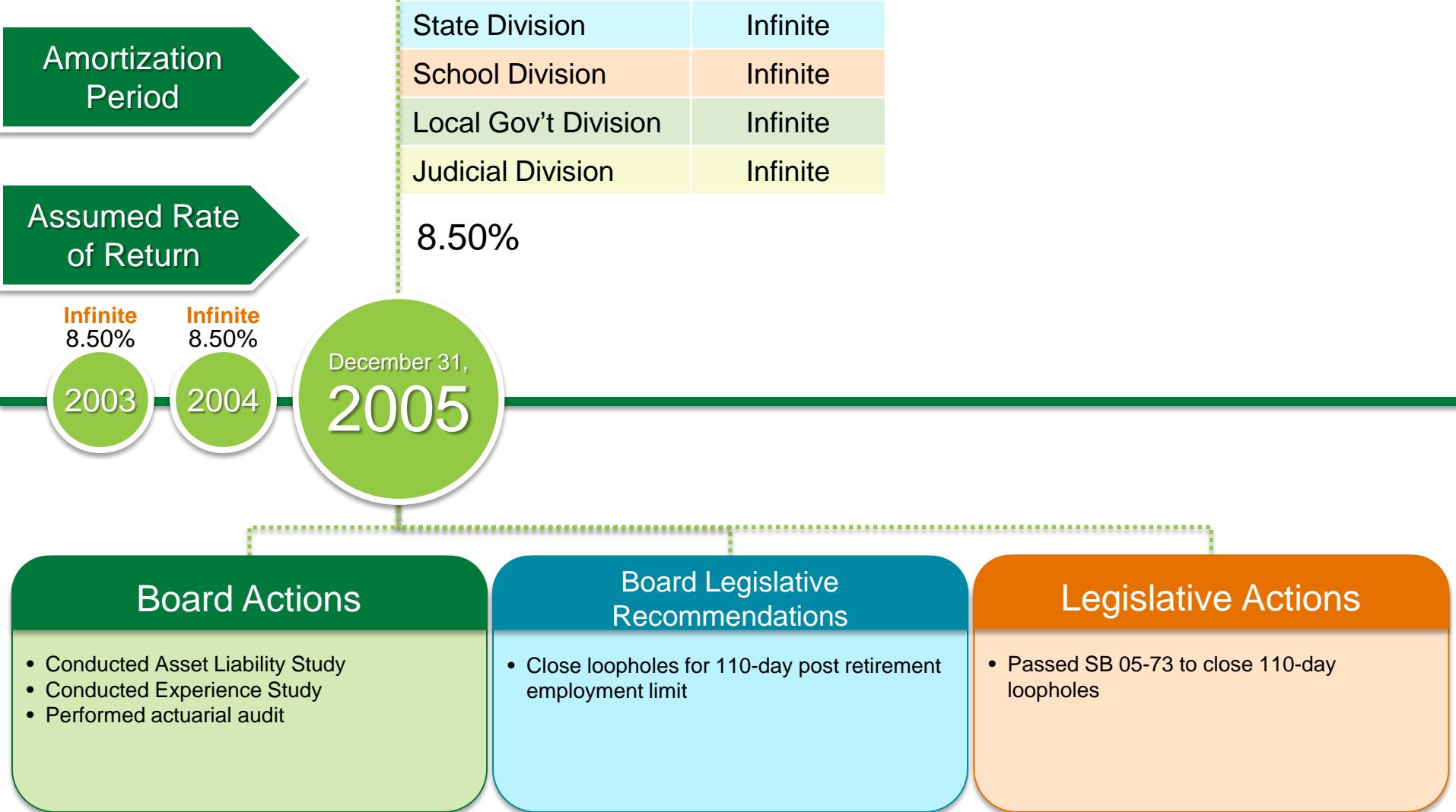
- Passed SB 03-90 to limit service credit purchase
- Passed SB 03-101 to increase contributions, suspend MatchMaker (vetoed by the Governor)

* Valuation Results

Timeline



Timeline



Timeline



Amortization Period

State Division	Infinite
School Division	52
Local Gov't Division	17
Judicial Division	28

Assumed Rate of Return

8.50%

Infinite
8.50% **Infinite**
8.50% **Infinite**
8.50%

2003

2004

2005

December 31,
2006

Board Legislative Recommendations

- Limit “spiking” of salaries for HAS calculation
- Accelerate AED phase-in schedule
- Establish Tier 2 benefits for new employees with 2.1% multiplier, no guaranteed AI with the creation of the AI reserve, 7% contribution
- Reduce health premium subsidy for members under 65 and new members
- Change statute to reflect amortization period of 30 years for sound system

Legislative Actions

- Passed SB 06-235 to implement Supplemental AED and new benefit tier

Timeline



Amortization
Period *

State Division	40 years
School Division	31 years
Local Gov't Division	12 years
Judicial Division	12 years

Assumed Rate
of Return

8.50%

Infinite
8.50%

Infinite
8.50%

Infinite
8.50%

52 years
8.50%

December 31,
2007

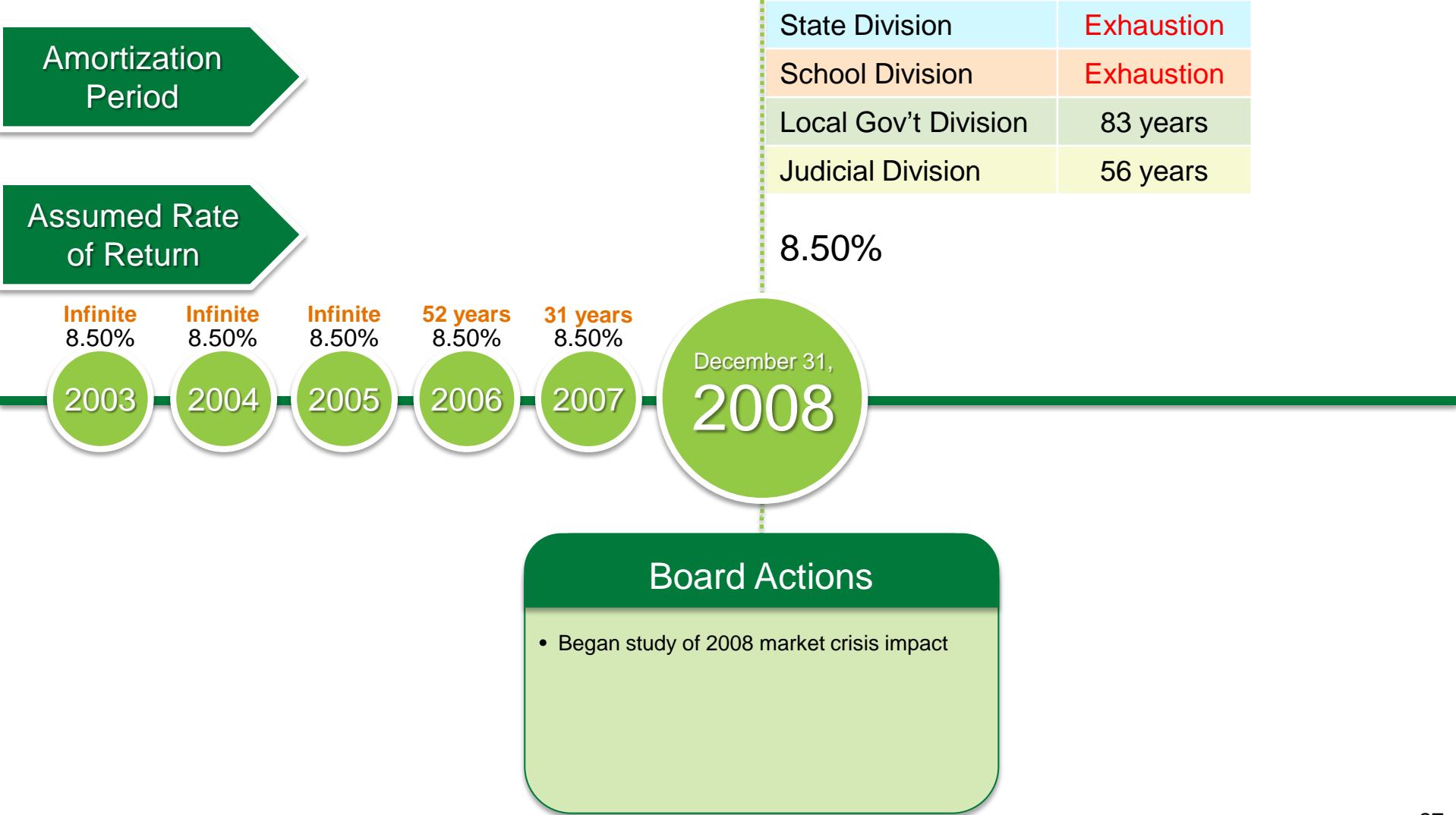
2003

2004

2005

2006

Timeline

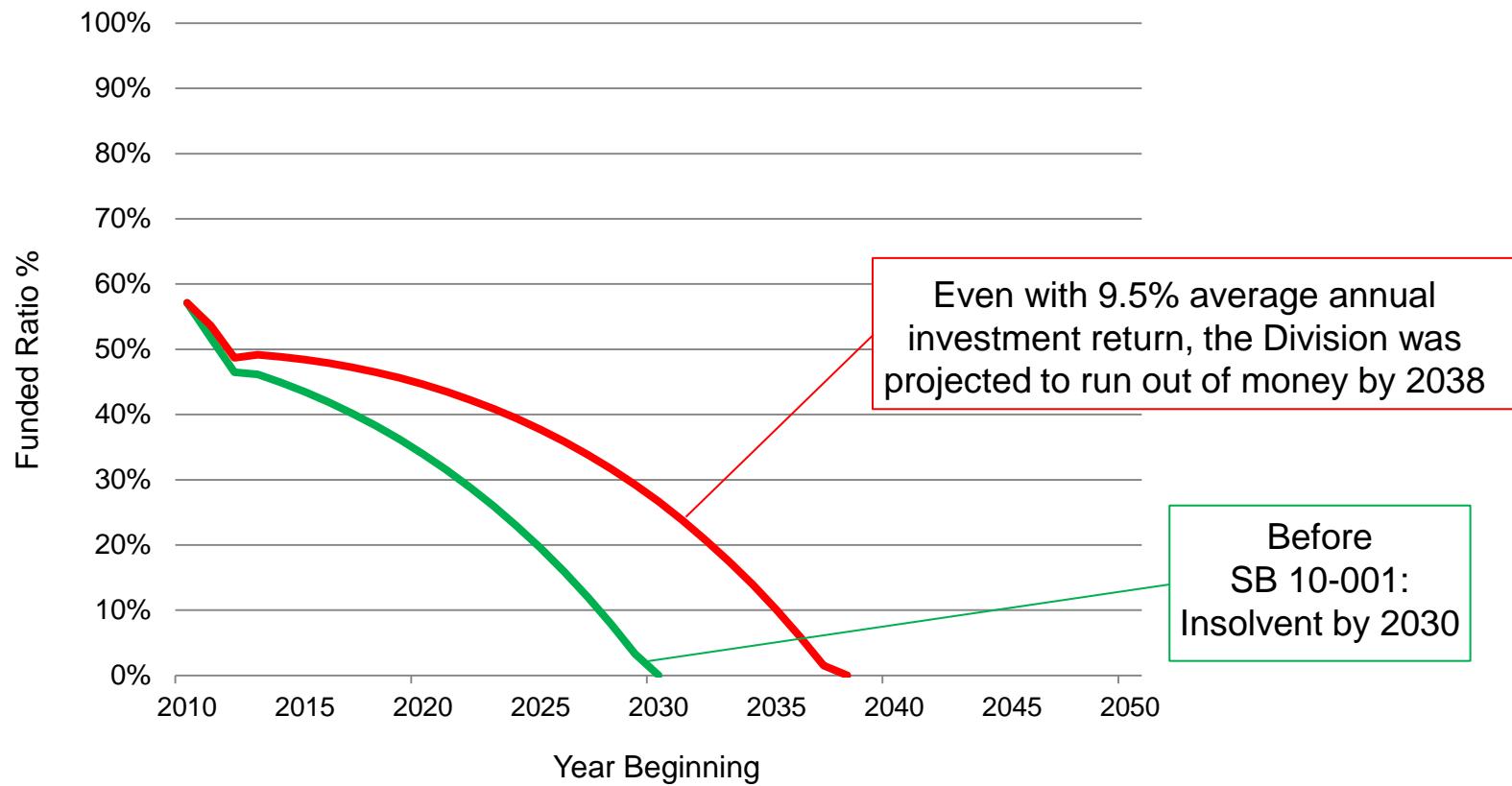


Projection of Funded Status

Pre-SB 10-001



State Division



— A1 [Pre-SB 1, Projections as performed in 2010 at an 8.0% discount rate and assumed LTROR, Run at 12/31/2009]

— A2 [Pre-SB 1, Projections as performed in 2010 at an 8.0% discount rate and 9.5% assumed LTROR, Run at 12/31/2009]

Timeline



Amortization Period

Assumed Rate of Return

Infinite
8.50%

2003

Infinite
8.50%

2004

Infinite
8.50%

2005

52 years
8.50%

2006

31 years
8.50%

2007

Infinite
8.50%

2008

December 31,
2009

State Division	36 years
School Division	33 years
Local Gov't Division	30 years
Judicial Division	32 years

8.00%

Board Actions

- Decreased assumed rate of return to 8.0%
- Performed actuarial audit
- Conducted Asset Liability Study
- Conducted Experience Study
- Conducted Board listening tour
- Set principals of reform and closed 30-year amortization period goal

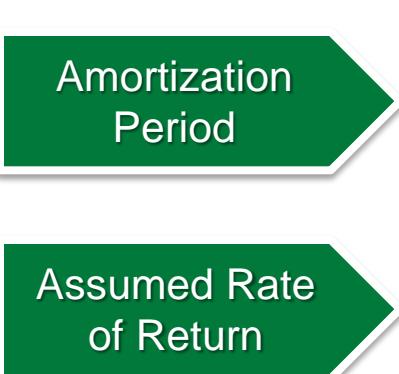
Board Legislative Recommendations

- Increase AED and SAED for select divisions, hold current rates for others
- Increase retirement age and service requirements for full benefits for new hires and non-vested members
- Change HAS calculation
- Change the AI for retirees, members, and new hires

Legislative Actions

- Passed SB 09-282 mandating the merger of DPSRS into PERA effective January 1, 2010
- Directed PERA to submit recommendations to address unfunded liability

Timeline



State Division	35 years
School Division	32 years
Local Gov't Division	26 years
Judicial Division	35 years
DPS Division	22 years



SB 10-001 Reforms Effect on Benefits



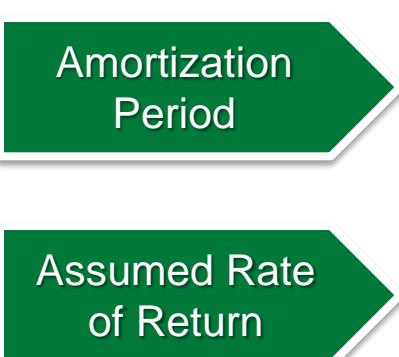
Estimated Decrease in Benefits Received—Early Retirement

	Pre SB 1	Post SB 1*	Difference	% Decrease
Retirement Age	55	55		
Years of Service	25	25		
HAS	\$5,000	\$5,000		
Assumed Years in Receipt	25	25		
Estimated Monthly Benefit	\$3,125	\$2,625	\$500	(16.0%)
Benefits Received During 25-Year Period				
Base Benefits	\$937,500	\$787,500	\$150,000	(16.0%)
Annual Increases	523,120	221,454	301,666	(57.7%)
Total Benefits	\$1,460,620	\$1,008,954	\$451,666	(30.9%)

Equivalent to 12 years of base benefits

* Membership prior to January 1, 2007, and not vested as of January 1, 2011

Timeline



State Division	36 years
School Division	35 years
Local Gov't Division	25 years
Judicial Division	52 years
DPS Division	28 years

8.00%

December 31,
2011

Board Actions

- Conducted Actuarial Assumptions Workshop

Legislative Actions

- Passed SB 11-076 to continue 2.5% reduction for State and Judicial for another fiscal year

Timeline



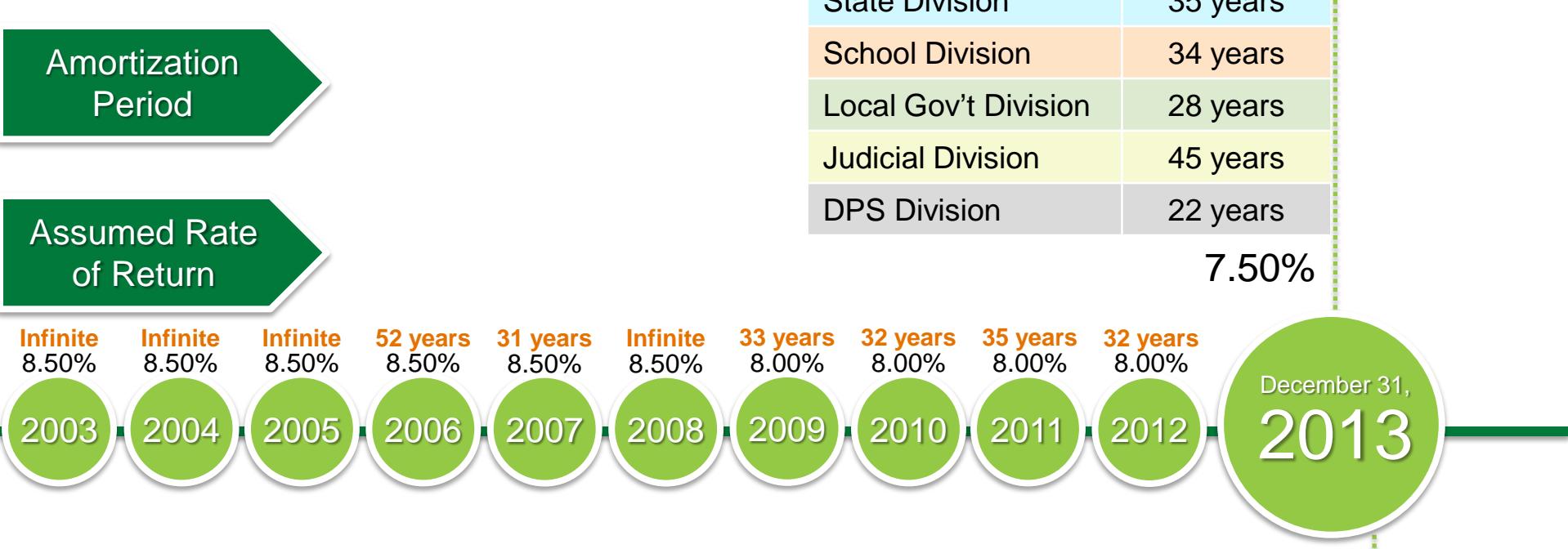
State Division	35 years
School Division	32 years
Local Gov't Division	26 years
Judicial Division	43 years
DPS Division	22 years

8.00%

Board Actions

- Performed Experience Study
- Conducted Actuarial Assumptions Workshop

Timeline



Board Actions

- Conducted Actuarial Assumption Workshop
- Decreased assumed rate of return to 7.5%

Timeline



Amortization Period

Assumed Rate of Return



Board Actions

- Conducted actuarial audit

Board Legislative Recommendations

- Endorsed SB 14-214

Legislative Actions

- Passed SB 14-214 providing for three independent studies on PERA

Timeline



Amortization Period

Assumed Rate of Return

Infinite 8.50% Infinite 8.50% Infinite 8.50% 52 years 8.50% 31 years 8.50% Infinite 8.50% 33 years 8.00% 32 years 8.00% 35 years 8.00% 32 years 8.00% 34 years 7.50% 38 years 7.50%



State Division	42 years
School Division	44 years
Local Gov't Division	36 years
Judicial Division	73 years
DPS Division	36 years

7.50%

Board Actions

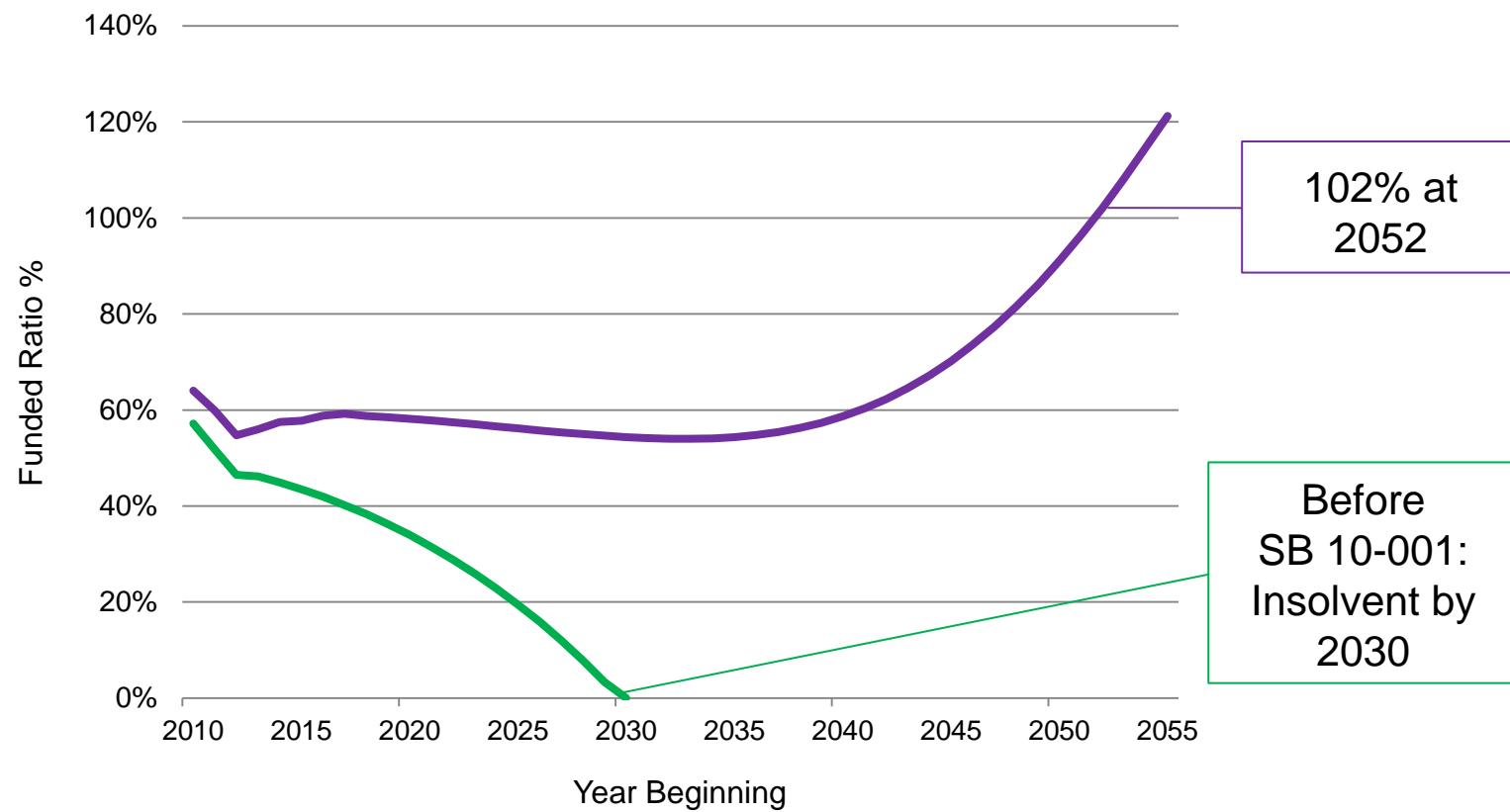
- Conducted Actuarial Assumptions Workshop
- Conducted Asset Liability Study

Projection of Funded Status

Pre- and Post-SB 10-001



State Division



— A1 [Pre-SB 1, Projections as performed in 2010 at an 8.0% discount rate and assumed LTROR, Run at 12/31/2009]

— D [Post-SB 1, Projections using current asset values and data at a 7.5% discount rate and assumed LTROR, Run at 12/31/2015]

Proposed Timeline for 2017 Milestones



Planning and Outreach

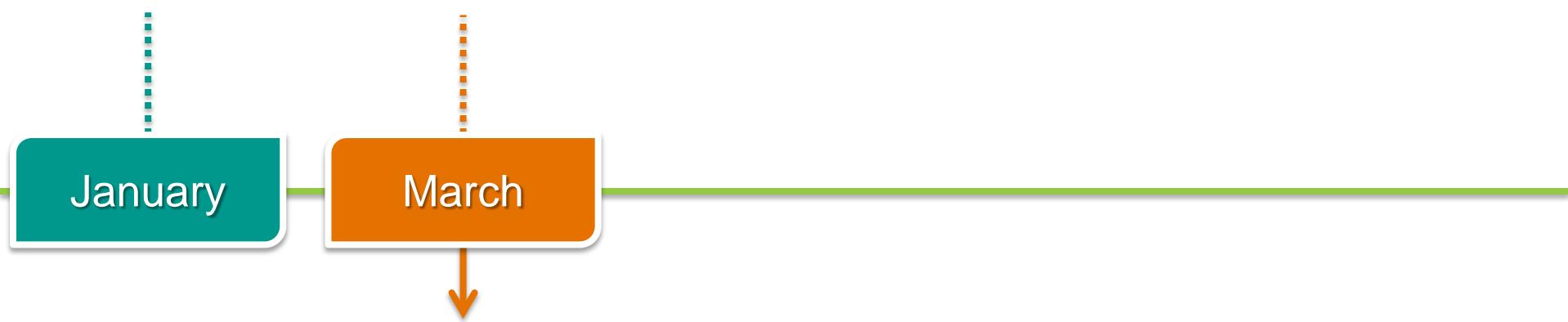
January

- Timeline for outreach
- Educational materials
- Other legislative action

Proposed Timeline for 2017 Milestones

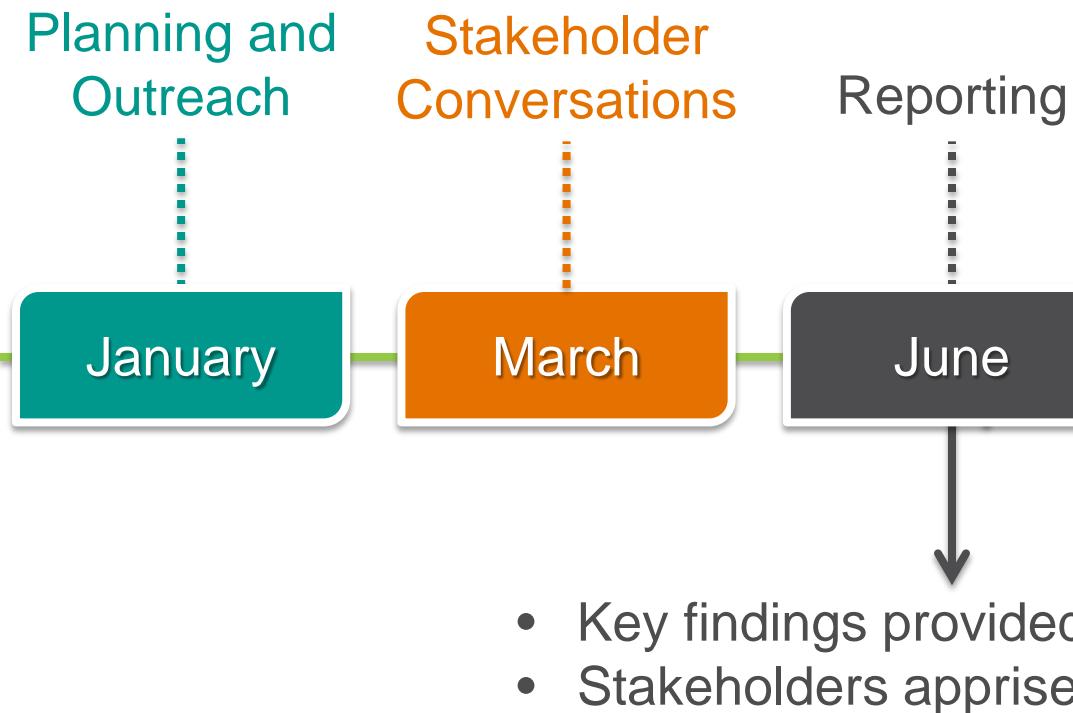


Planning and Outreach Stakeholder Conversations

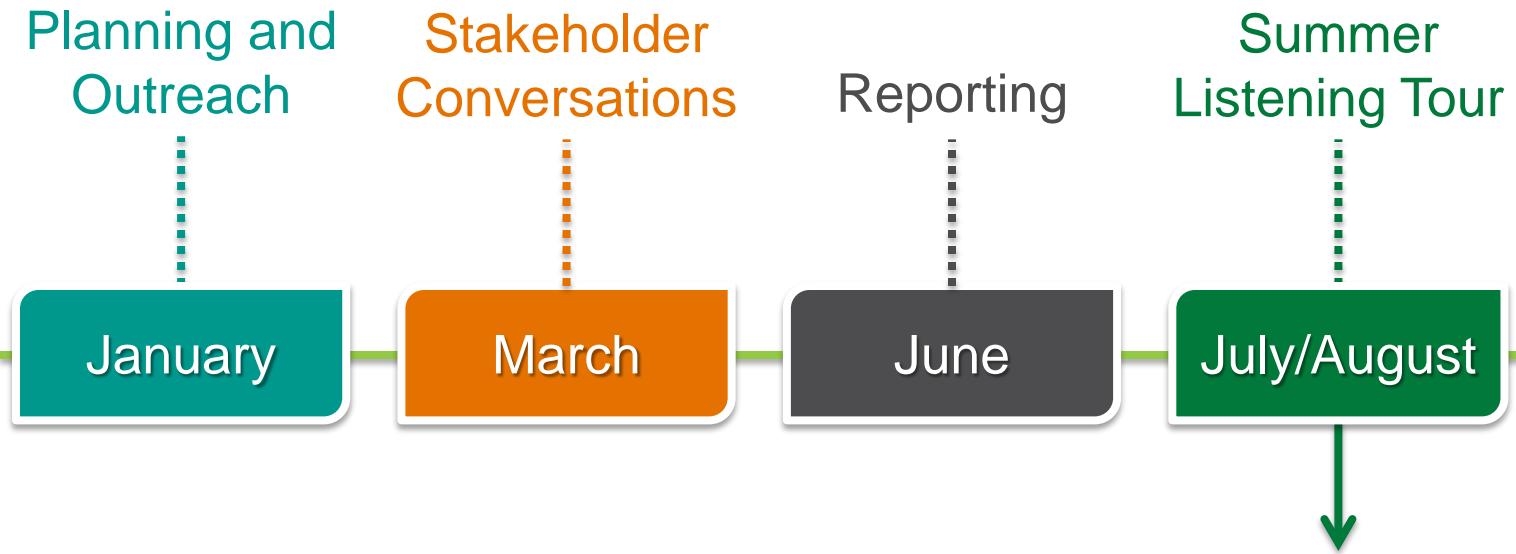


- In-person, geographically dispersed meetings
- Telephone town halls and other virtual forums
- Up-to-date resource library available

Proposed Timeline for 2017 Milestones

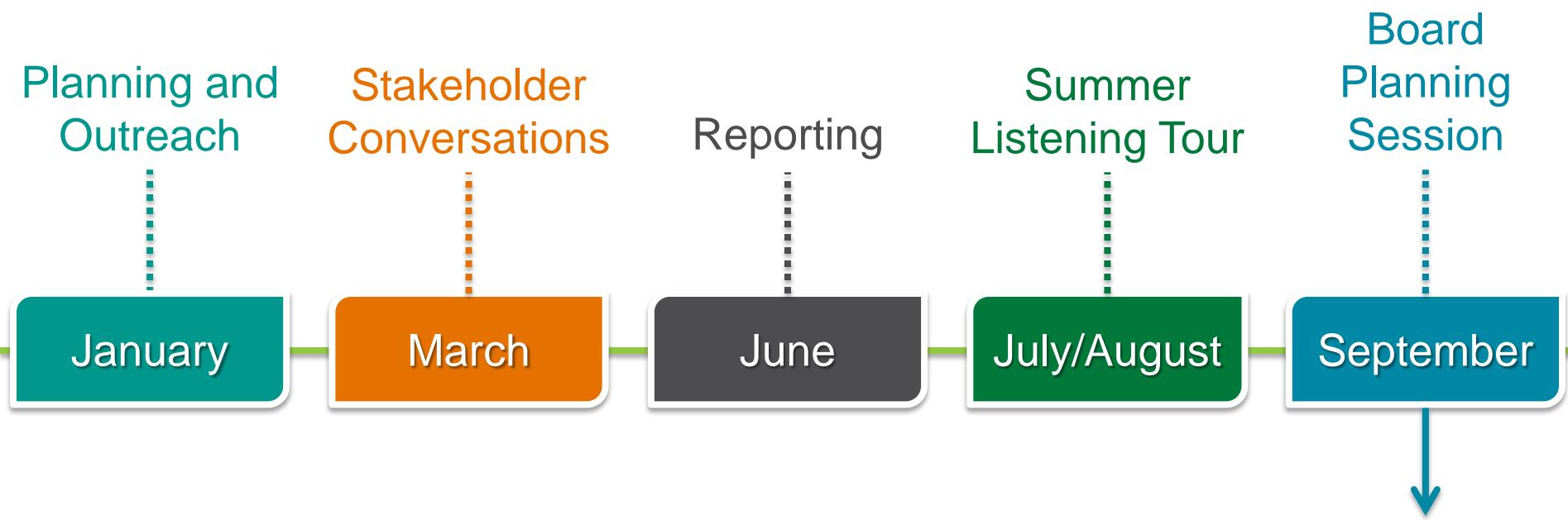


Proposed Timeline for 2017 Milestones



- Meetings with members, employers, other stakeholders
- Trustee participation

Proposed Timeline for 2017 Milestones



- Assimilate insights
- Determine next steps

DEPARTMENT OF PERSONNEL and PERA
FY 2017-18 JOINT BUDGET COMMITTEE HEARING AGENDA

Wednesday, December 14, 2016
9 am – 12 pm

9:00-9:10 INTRODUCTIONS AND OPENING COMMENTS

9:10-9:50 DEPARTMENT OVERVIEW AND OTHER QUESTIONS

Workers' Compensation

1. Please provide a brief history of workers' compensation experience since FY 2011-12 that includes an explanation for variations in claims experience from year to year as well as administrative or program changes and their effect on costs.
2. Are payments for *injury on the job* tied in to the workers' compensation program? If so, please explain this component.

Statewide Indirect Costs

3. Please provide a primer on the concept of indirect costs and how they play out in the budget.
4. Please discuss the statewide indirect cost assessment and recovery process as administered in the State Controller's Office. Why do indirect costs vary from year to year? What might cause indirect costs to increase? Please explain how the federal government plays a role in the indirect cost process and how federal funds are collected to pay for indirect cost assessments? Does the federal government pay for a fair share of State overhead costs through this process?

CNG Vehicles

5. Please explain the Department's approach to including CNG vehicles in the annual vehicle replacement process. Please explain the Department's interpretation of statute regarding assessing lifecycle costs for alternative fuel vehicles.
6. What is the additional cost associated with the purchase of CNG vehicles.
7. Please provide statistics related to the current or recent usage of CNG and gasoline for dual-fuel vehicles by department and statewide.

CORE

8. Describe the Department's experience with the implementation of the new CORE accounting system, with specific focus on document management and training.
 - a. How has the implementation improved business processes in the Department?
 - b. What challenges has the Department experienced since implementation and how have they been resolved (i.e. training, processes, reports, payroll)?
 - c. What impact have these challenges had on the Department's access to funding streams?
 - d. How has the implementation of CORE affected staff workload?
- e. Do you anticipate that CORE implementation will result in the need for a permanent increase in staff? If so, indicate whether the Department is requesting additional funding for FY 2016-17 to address it.

Reporting SERF Transfers as Expenditures in Budget Schedules

9. Please describe the policy for including preliminary SERF transfer amounts within actual expenditures in budget schedules. Please explain why this policy was made and how this reporting policy serves the budget process and enhances information regarding actual expenditures in line items.

9:50-10:20 ISSUE 1: TOTAL COMPENSATION REQUEST OVERVIEW

10. Please explain the difference between classified and non-classified employees and how compensation policies affect or guide compensation for each group. How are non-classified salaries determined?
11. Please explain the concept of range adjustments generally. Please explain how range adjustments affect employees at the bottom and top of the range, particularly in the context of an across-the-board increase that exceeds the range adjustment.
12. Does the executive request for compensation common policies for state employees consider increases for community provider payments? If so, please explain how. If not, please explain why not.
13. Please explain why employee benefits such as Health, Life, and Dental tend to be better compensated in state employee pay than in the market generally.
14. Does the Department like the Governor's request for an across-the-board increase? Are there other ways that the Department believes the amount for the increase could be used for total

compensation? What does the Department think about the Governor's request to transfer the balance in the State Employee Reserve Fund (SERF) to the General Fund?

10:20-10:30 BREAK

10:30-11:15 ISSUE 2: FUNDING MERIT PAY

15. In years that merit pay was funded, please detail the percentage distribution of employees within the merit pay matrix that have received a merit pay increase.
16. Please explain how the employee evaluation process has been affected by not funding merit pay? What training and other processes are in place to assure that evaluators are fairly assessing employees through the performance evaluation process? Does the Department have concerns with how the merit and performance evaluation process operate in practice? How might we ensure the integrity of the evaluation system?
17. Please comment on other government systems for salary and performance evaluation. How might we provide opportunities for employees to move out and back in to state employment to refresh their skills outside of state employment? For example, how might we encourage opportunities for IT professionals and other science or engineering professionals to get out of the state workforce temporarily to refresh their skills without penalizing them?
18. If a goal is to move employees to salary mid-range over five years or some other defined period of time, isn't an automatic step system the better way to get employees there? Please explain how the merit pay system might address this goal more effectively or successfully than an automatic step system.
19. What have we done as a State to provide total compensation for state employees over the last ten years and how have we made adjustments to accomplish total compensation? Please provide a brief history of pay increases and benefits policies over the last ten years. How does merit pay funding help achieve the goals of total compensation policy?
20. Please provide the Department's perspective on the policy proposal in the staff document issue for funding merit pay. What does the Department think about the proposal? Does the Department think merit pay should be funded, more or less automatically, on an annual basis? Will regular funding of merit pay address the problem of state employee clustering at the bottom of the range? Does the Department believe that merit pay might partially be funded by vacancy and turnover savings? What are the technical challenges of moving to such a policy generally and providing funding through vacancy and turnover savings? If we choose not to fund merit pay regularly, should the State move back to a step system? Does the Department have another approach that might address clustering at the bottom of the range and providing for employee movement to a mid-range salary over a given period of time?

11:15-11:30 BREAK

11:30-11:40 PERA INTRODUCTIONS AND OPENING COMMENTS

11:40-12:00 Issue 3: PERA UPDATE AND S.B. 10-001 REPORT

1. Please provide a good definition of "unfunded liability".
2. What are PERA's thoughts on addressing the unfunded liability?
3. What legislative action was taken prior to 2010? Please provide a summary history.
4. Was PERA ever considered to be fully funded? At what points in the last 20 years was PERA considered to be fully funded? Were legislative actions taken as a result of the full funded status? Please describe such actions and PERA's position on those actions.

ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN RESPONSES ARE REQUESTED

1. Provide a list of any legislation that the Department has: (a) not implemented, or (b) partially implemented. Explain why the Department has not implemented or has only partially implemented the legislation on this list. Please explain any problems the Department is having implementing any legislation and any suggestions you have to modify legislation.
2. If the Department receives federal funds of any type, please respond to the following:
 - a. Please provide a detailed description of any federal sanctions or potential sanctions for state activities of which the Department is already aware. In addition, please provide a detailed description of any sanctions that MAY be issued against the Department by the federal government during FFY 2016-17.
 - b. Are expecting any changes in federal funding with the passage of the FFY 2016-17 federal budget? If yes, in which programs, and what is the match requirement for each of the programs?
3. Does the Department have any HIGH PRIORITY OUTSTANDING recommendations as identified in the "Annual Report of Audit Recommendations Not Fully Implemented" that was published by the State Auditor's Office and dated June 30, 2016 (link below)? What is the department doing to resolve the HIGH PRIORITY OUTSTANDING recommendations?

http://leg.colorado.gov/sites/default/files/documents/audits/1667s_annual_report_-_status_of_outstanding_recommendations_1.pdf

4. Is the department spending money on public awareness campaigns? What are these campaigns, what is the goal of the messaging, what is the cost of the campaign? Please distinguish between paid media and earned media. Do you have any indications or metrics regarding effectiveness?

How is the department working with other state or federal departments to coordinate the campaigns?

- 5 Based on the Department's most recent available record, what is the FTE vacancy and turnover rate by department and by division? To what does the Department attribute this turnover/vacancy?
- 6 For FY 2015-16, do any line items in your Department have reversions? If so, which line items, which programs within each line item, and for what amounts (by fund source)? What are the reasons for each reversion? Do you anticipate any reversions in FY 2016-17? If yes, in which programs and line items do you anticipate these reversions occurring? How much and in which fund sources do you anticipate the reversion being?
- 7 [Background Information: For FY 2017-18, the Department of Law has submitted a request to change the calculation of legal services appropriations as well as the monthly billing system for legal services provided to state agencies. Specifically, the proposal would: 1) calculate the number of budgeted legal services hours for each agency as the average of actual usage in the prior three years; 2) include a two-year average of "additional litigation costs" such as court reporting, travel for depositions, expert witness costs, etc., in the appropriation for legal services (these costs are not currently included in the appropriation and are often absorbed from other personal services and operating expenses line items); and 3) convert from monthly billing based on the actual hours of service provided to monthly billing based on twelve equal installments to fully spend each client agency's appropriation.]

Please discuss your agency's position on the Department of Law's proposed changes to the legal services system, including the potential impacts of the changes on your agency budget. That is, does your department support the proposed changes? How would you expect the changes to positively or negatively impact your department? Please explain.

- 8 What is the expected impact of Amendment 70 (minimum wage increase) on Department programs? Please address impacts related to state personnel, contracts, and providers of services.
- 9 Please provide an update on the Department's status, concerns, and plans of action for increasing levels of cybersecurity, including existing programs and resources. How does the Department work with the Cybersecurity Center in the Office of Information Technology?
- 10 Is the SMART Act an effective performance management and improvement tool for your Department? What other tools are you using? Do your performance tools inform your budget requests? If so, in what way?
- 11 Please identify how many rules you have promulgated in the past two years. With respect to these rules, have you done any cost-benefit analysis pursuant to Section 24-4-103 (2.5), C.R.S., regulatory analysis pursuant to Section 24-4-103 (4.5), C.R.S., or any other similar analysis? Have you conducted a cost-benefit analysis of the Department's rules as a whole? If so, please provide an overview of each analysis.

- 12 What has the department done to decrease red tape and make the department more navigable/easy to access?
- 13 What is the number one customer service complaint the department receives? What is the department doing to address it?
- 14 Section 24-75-1104.5 (1.3) (a.5) (II), C.R.S., requires the amount of money received in April 2017 and allocated to programs for FY 2017-18 be reduced by \$15.0 million in order to reduce the accelerated payment prior to the reduction of the April 2018 payment due to the elimination of the strategic contribution payment. Please discuss the impact on the Departments program of the FY 2017-18 funding reduction pursuant to Section 24-75-1104.5 (1.3) (a.5) (II), C.R.S.