

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION
FY 2025-26 JOINT BUDGET COMMITTEE HEARING AGENDA

Tuesday, December 10, 2024

1:30pm – 2:30 pm

1:30-1:35 INTRODUCTIONS AND OPENING COMMENTS

Presenter: Andrew Roth, PERA Chief Executive Officer/Executive Director

1:35-2:30 UPDATE ON THE 2023 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Main Presenters:

- Andrew Roth, PERA Chief Executive Officer/Executive Director
- Amy C. McGarrity, PERA Chief Investment Officer/Chief Operating Officer
- Michael Steppat, PERA Director of Public & Government Affairs



Joint Budget Committee

December 10, 2024

Andrew Roth, Chief Executive Officer/Executive Director

Amy C. McGarrity, Chief Investment Officer/Chief Operating Officer

Michael Steppat, Director of Public & Government Affairs



Agenda

- **Overview**
- **2023 Annual Comprehensive Financial Report (ACFR)**
 - **Facts & Figures**
 - **Investment Performance**
- **What to Expect Moving Forward**
 - **Legacy Modernization**
 - **2025 Legislative Priorities/Issues**



Public Employees' Retirement Association of Colorado (PERA)

Defined Benefit Plan

Stable benefit payments to over 138,000 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

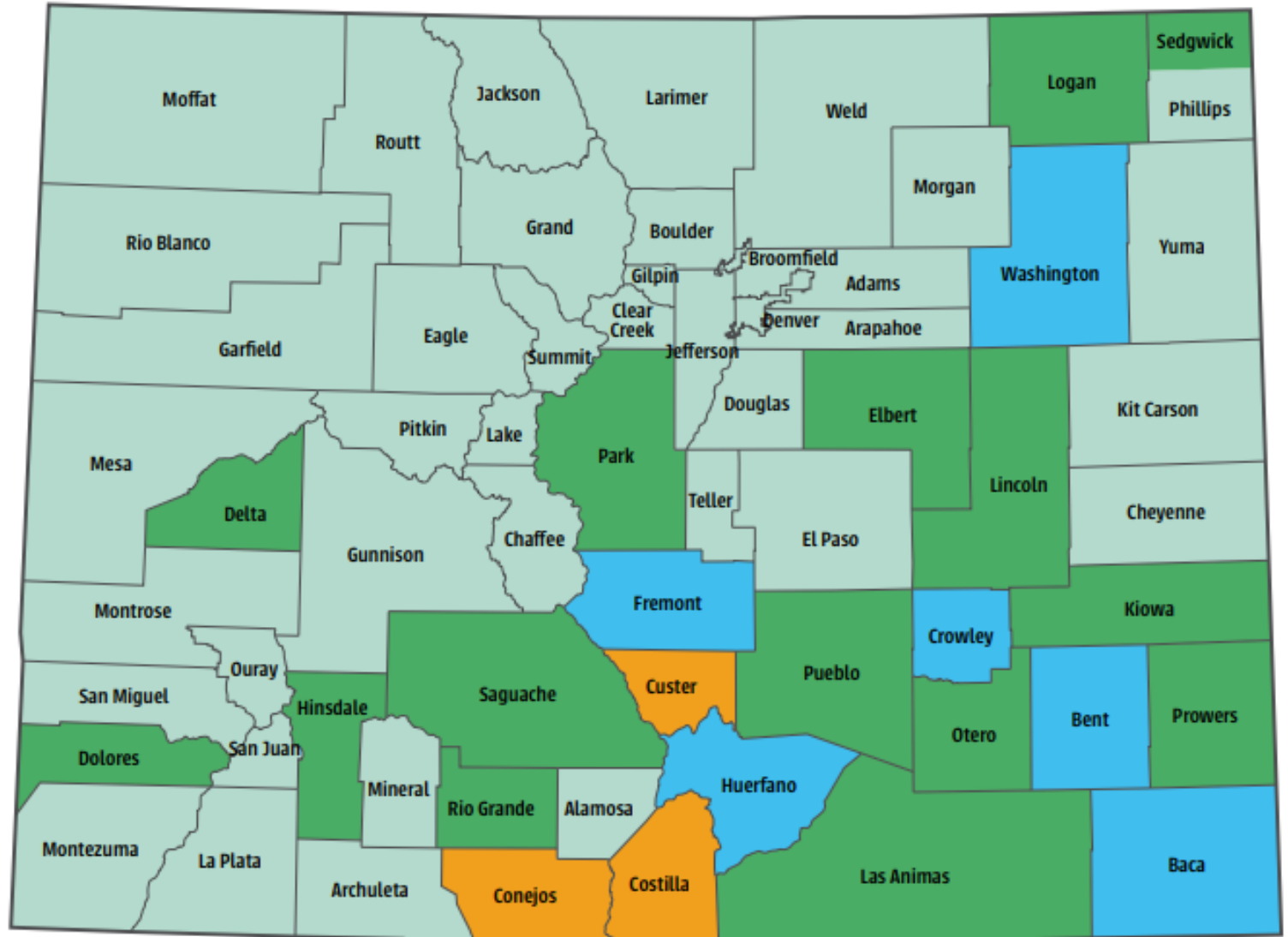
- Sets benefit and contribution structure, along with other plan requirements
- Provides legislative oversight via the following committees:
 - Legislative Audit Committee
 - Joint Budget Committee
 - Joint Finance Committee (SMART Act)
 - Pension Review Commission
 - Pension Review Subcommittee



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

Annual PERA Retirement Distributions by County

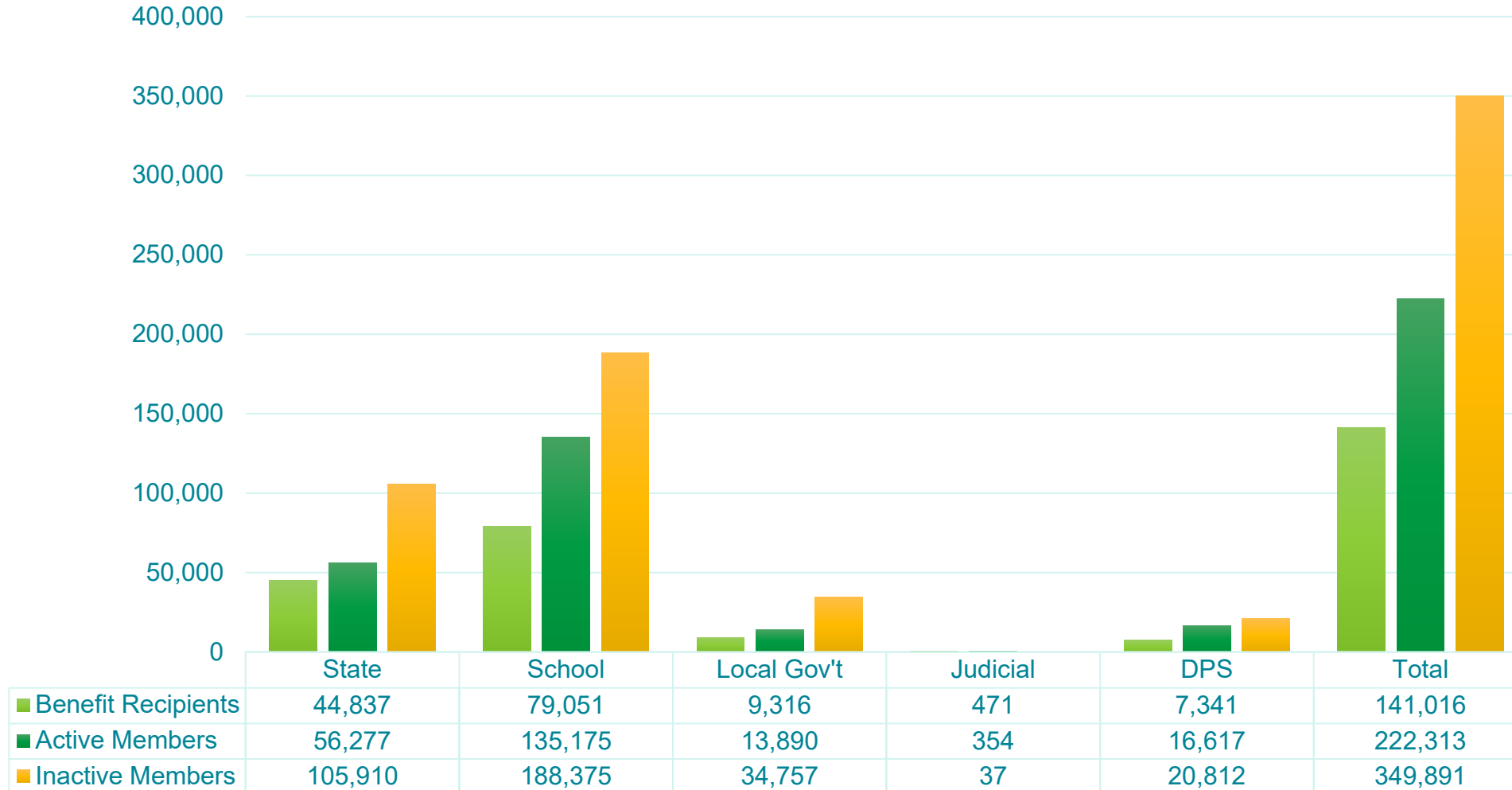


Over 25 percent of Payroll 15-25 percent of Payroll 10-15 percent of Payroll Less than 10 percent of Payroll

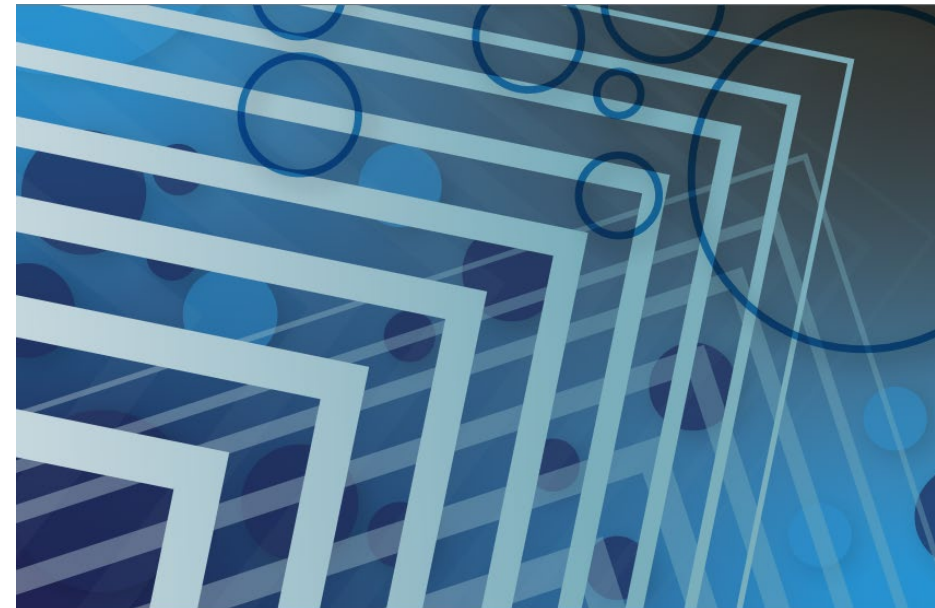
1 in 10 Coloradans are members of PERA

As of September 30, 2024

Total: 731,220



2023 Annual Report



**Evolve.
Innovate.
Invest.**

Annual Comprehensive Financial Report

FOR THE YEAR ENDED DECEMBER 31, 2023

Public Employees' Retirement Association of Colorado





Investment Portfolio Fair Value
\$61.5 billion
(Defined Benefit Plans)



Net Rate of Return
13.4%



Members Actively
 Contributing to PERA
213,548



Employers
410



Total Covered Participants
59,470
(In PERACare Health Benefits Program)



Funded Status
69.6%
(Division Trust Funds)



Retirees and Benefit Recipients
138,553



Annual Retirement
 Benefit Payments
\$5.3 billion



Invested in Colorado-Based Companies,
 Partnerships, and Assets
\$788.9 million



30-Year Rate of Return
8.3%
(Annualized, Gross-of-Fees)

2023 in Review

Facts & Figures as
 of December 31,
 2023

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, 2023 (\$ in millions)	\$9,608.8	\$16,766.1	\$571.8	\$57.3	\$520.7	\$27,524.7
2 Member contribution rate	11.14%	11.00%	9.02%	11.00%	11.00%	11.01%
3 Employer contribution rate*	20.06%	19.74%	13.06%	23.23%	9.94%	19.53%
4 Actuarially determined employer contribution rate	18.78%	20.49%	8.22%	12.20%	6.08%	19.35%
5 Direct distribution rate						1.80%
6 Blended total contribution rate: 2 + 3 + 5						32.34%
7 Blended total required contribution: 2 + 4						30.36%
8 Ratio of blended total contribution rate to blended total required contribution: 6 ÷ 7						106.52%

★ Segal

Automatic Adjustment Provision (AAP)

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, 2023, this ratio is equal to **106.52%**

Automatic Adjustment Provision (AAP) – levers available

PERA's current positioning on the four levers is shown below

- The right-side of the exhibit represents the limit on each lever to improve the funded ratio



- » The AAP was triggered for the 2020 and 2022 plan years resulting in:
 - Cumulative 1% increase to member and employer contributions
 - Cumulative 0.5% reduction in the annual increase to retirees (from 1.5% to 1.0%)
 - No change to the direct distribution



INTERNAL AND EXTERNAL MANAGEMENT EXPENSES

\$218.5 million



ASSETS MANAGED IN-HOUSE BY PERA STAFF

59.8%



SAVINGS IN 2023 DUE TO INTERNAL INVESTMENT MANAGEMENT

\$65 million



BASIS POINTS OF TOTAL ASSETS SPENT ON MANAGEMENT

35.5

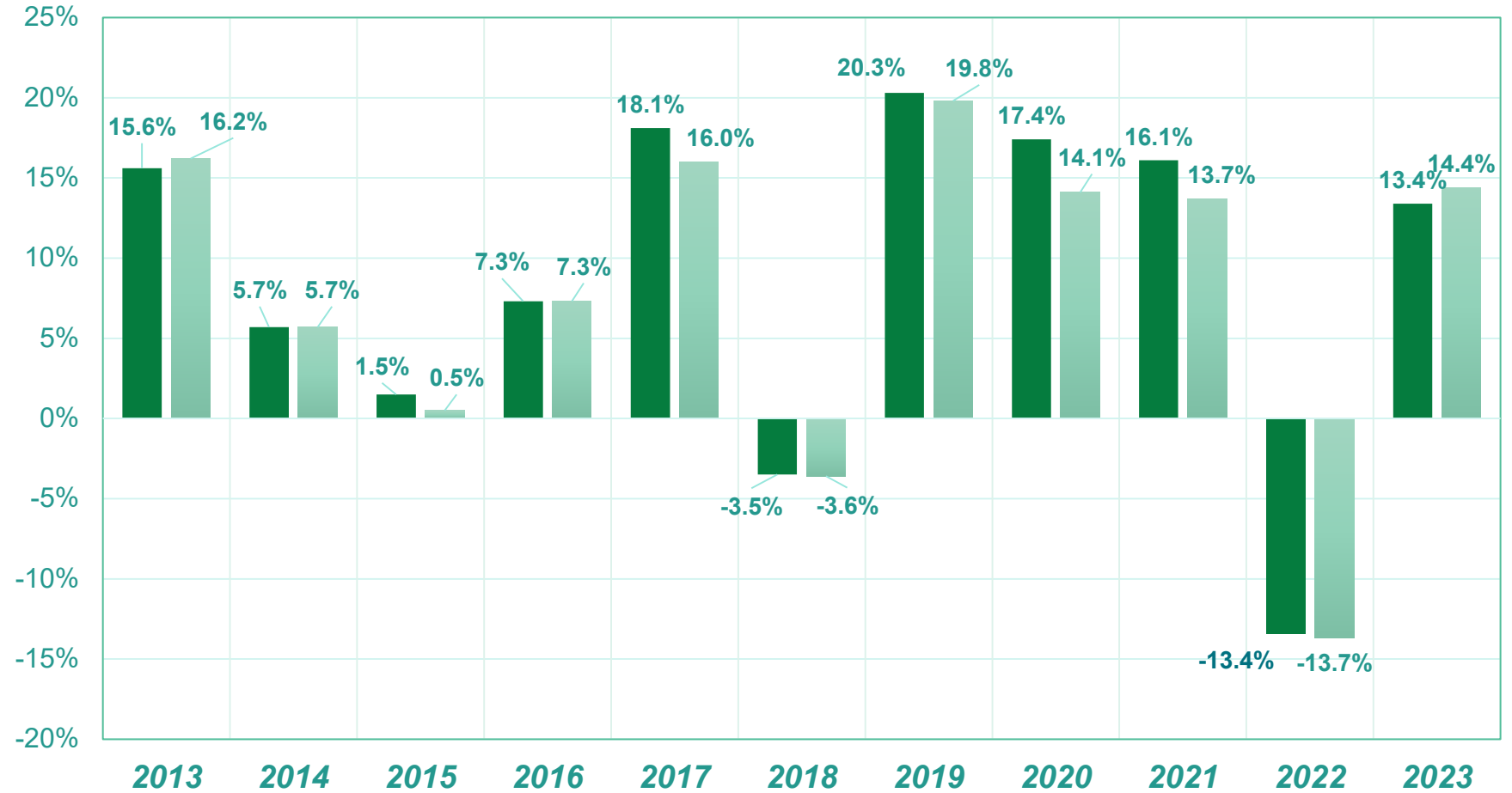
PERA's Investment Program

2023 Investment Performance

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

■ Rates of Return
■ Policy Benchmark

The 10-year annualized return is 7.8%



2024 Asset/Liability Study Asset Allocation Changes

Incremental increase in Private Equity and Real Estate, small reduction in Global Equity

Asset Class	Current Policy Benchmark Weight	New Target Allocation**	Current Permissible Range	New Permissible Range**
Global Equity	54.0%	↓ 51.0%	48% - 60%	45% - 57%
Fixed Income	23.0%	↔ 23.0%	18% - 28%	18% - 28%
Private Equity	8.5%	↑ 10.0%	4% - 13%	5% - 15%
Real Estate	8.5%	↑ 10.0%	4% - 13%	5% - 15%
Alternatives	6.0%	↔ 6.0%	0% - 12%	1% - 11%
Cash/Short Term*	0.0%	↔ 0.0%	0% - 3%	0% - 3%
Total	100%	100%		

* Includes Cash Overlay

** Effective 1/1/2025

Asset/Liability Study

Takes into account each plan's unique circumstances to determine the Strategic Asset Allocation

Real Estate: 10.0%*

- Expected 30-year return: 6.5%
- Source of alternative income and downside protection

Global Equities: 51.0%*

- Expected 30-year return: 7.4%
- Primary driver of portfolio return in the long-run
- Provides liquidity to the portfolio

Cash: 0%*

- Expected 30-year return: 4.2%
- Held for liquidity purposes

Alternatives: 6.0%*

- Expected 30-year return: 7.6%
- Provides good risk-adjusted returns and diversification

Private Equity: 10.0%*

- Expected 30-year return: 10.1%
- Enhances returns beyond what is available in public equity
- Provides diversification

Fixed Income: 23.0%*

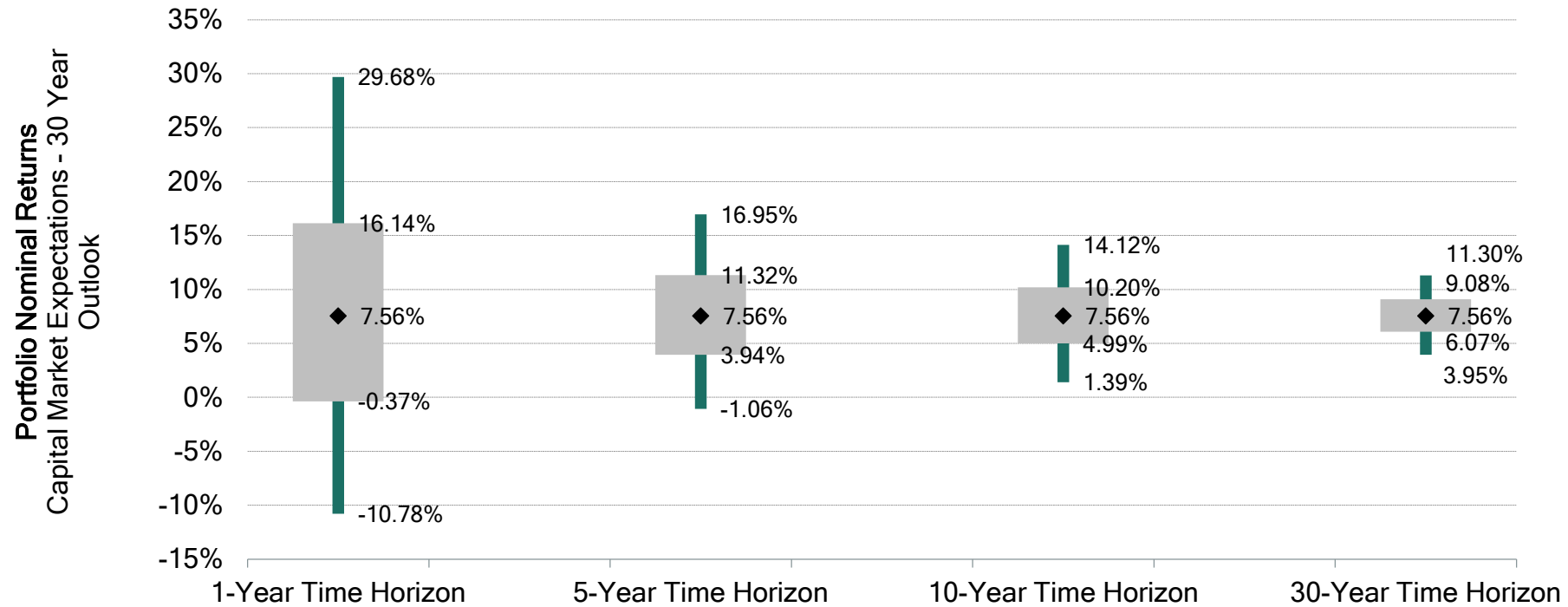
- Expected 30-year return: 5.0%
- Provides diversification and liquidity while reducing portfolio volatility

* Long-Term target allocation

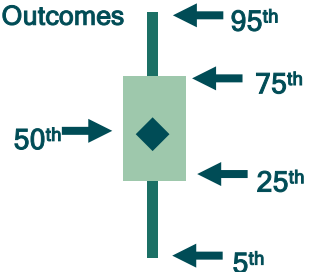
Note: Expected 30-year returns were as of Q3 2023, were provided by the Board's external consultant (Aon), and were used in the 2024 asset/liability study.

Portfolio Analysis – Range of Nominal Returns

Wide variability in the short term, expected returns that narrow over the longer term



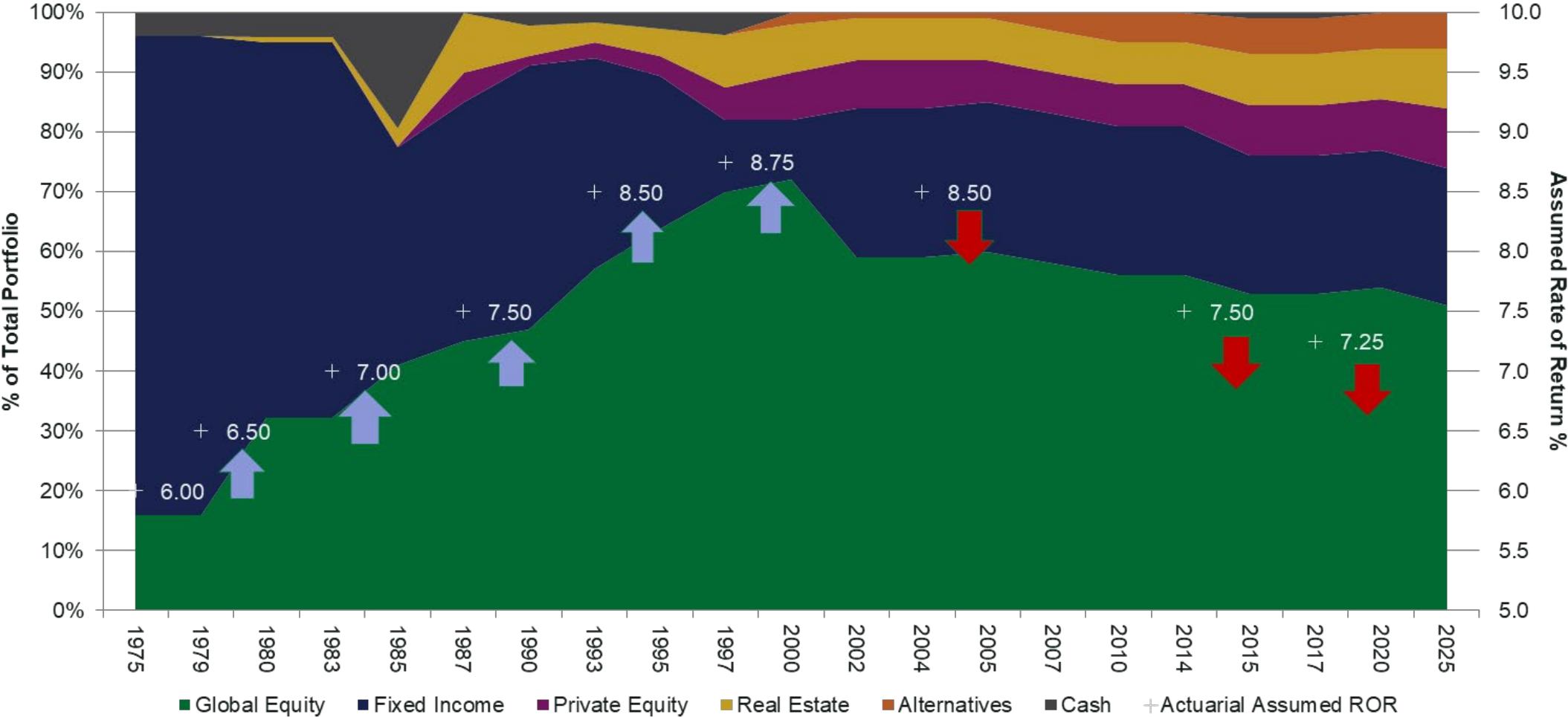
Legend: Distribution of Outcomes



50th percentile example: We would expect this return 50% of the time.

Historic Asset Allocation

PERA's Historical Strategic Asset Allocation Targets and Actuarial Assumed Rates of Return

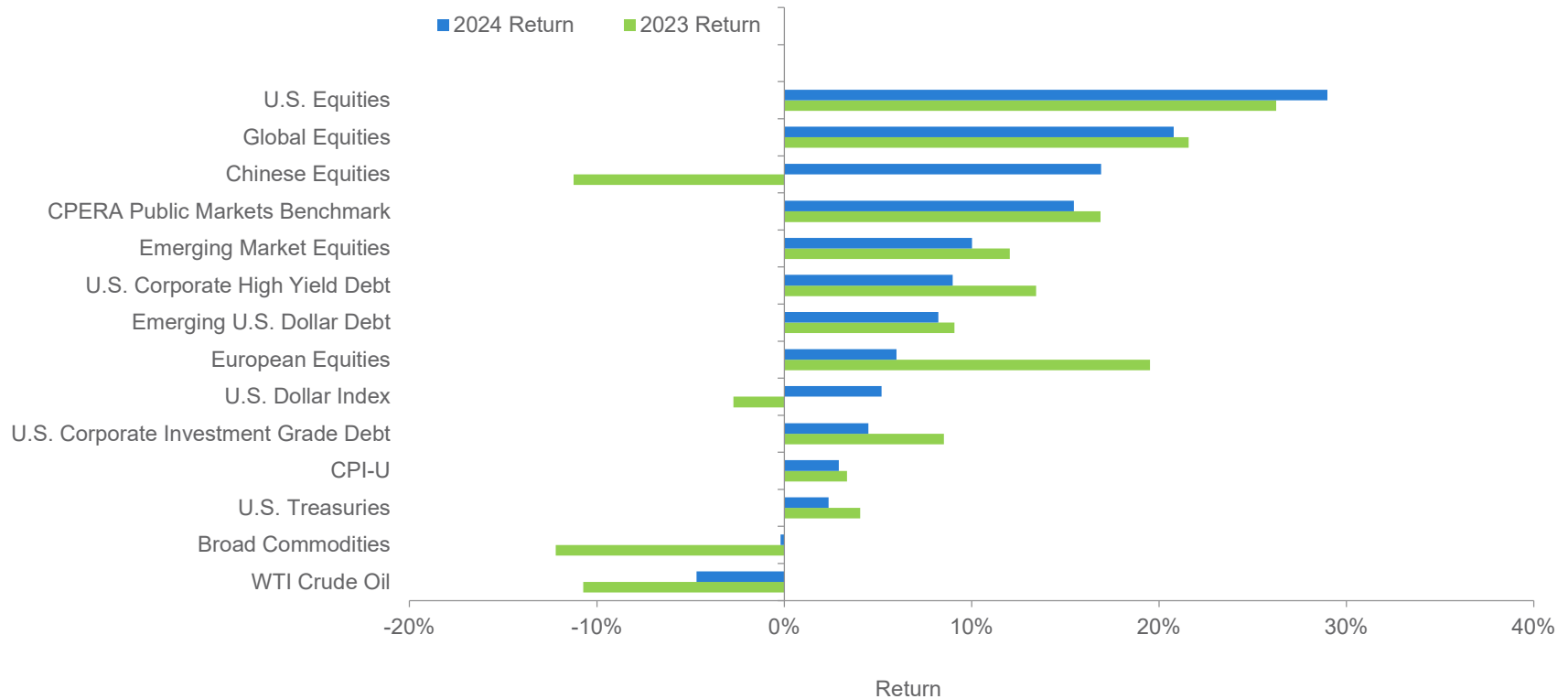
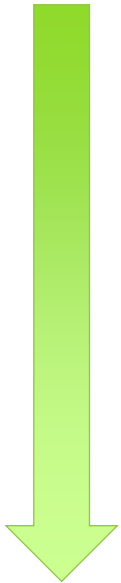


Market Performance:

2024 YTD* vs. 2023 Calendar Year

Equities have continued their upward trend from 2023 while oil and commodities again turned negative for the year after rebounding earlier in the year.

2024 Highest Performers



All returns are presented in unhedged USD terms
 *YTD as of 12/5/2024 (CPI-U YTD as of 10/31/2024)

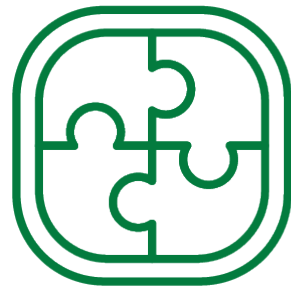
Investing for the Future

Each pillar of Colorado PERA's investment stewardship supports our mission to provide retirement benefits to our members while ensuring the sustainability of the fund.



PROTECT

Protect members' interests by watching costs



INTEGRATE

Integrate relevant factors into PERA's investment strategy



ADVOCATE

Advocate for robust markets



EVALUATE

Evaluate exposures and recognize limitations

Less is More

How PERA Limits Investment Costs to Maximize Returns



\$61.5 billion

Assets under management on behalf of PERA membership



\$218.5 million

Internal and external investment management expenses



60%

Assets managed in-house by PERA staff



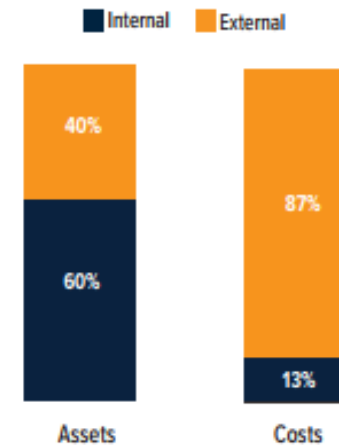
\$65 million

Savings in 2023 due to the use of internal investment management

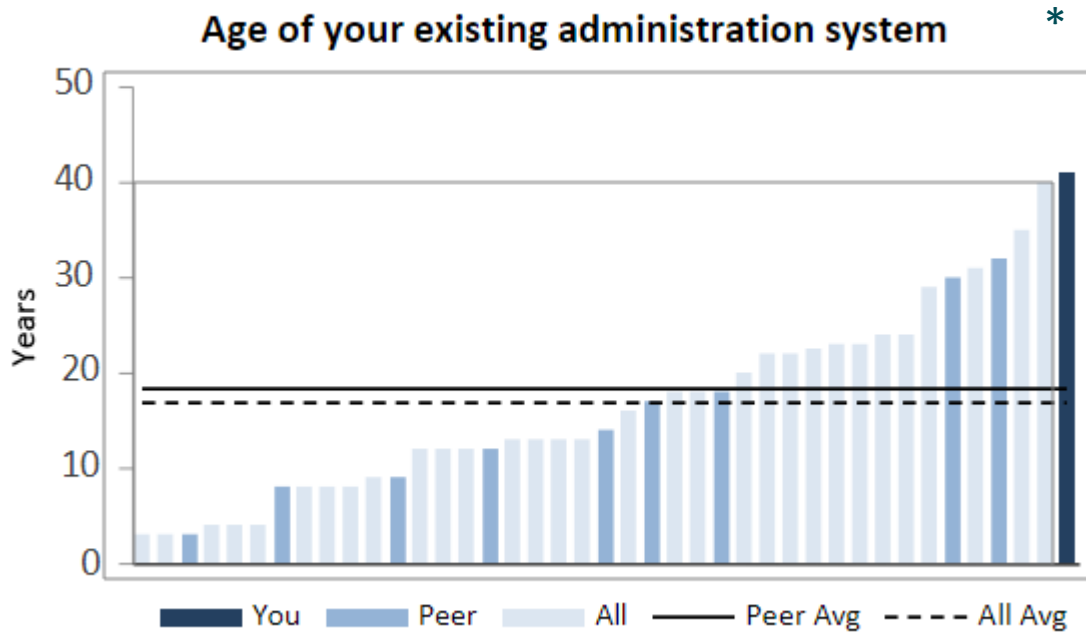
INTERNAL/EXTERNAL MANAGEMENT FEES



INTERNAL/EXTERNAL ASSETS AND COSTS



Legacy Modernization: Risk and Rationale for Acting Now

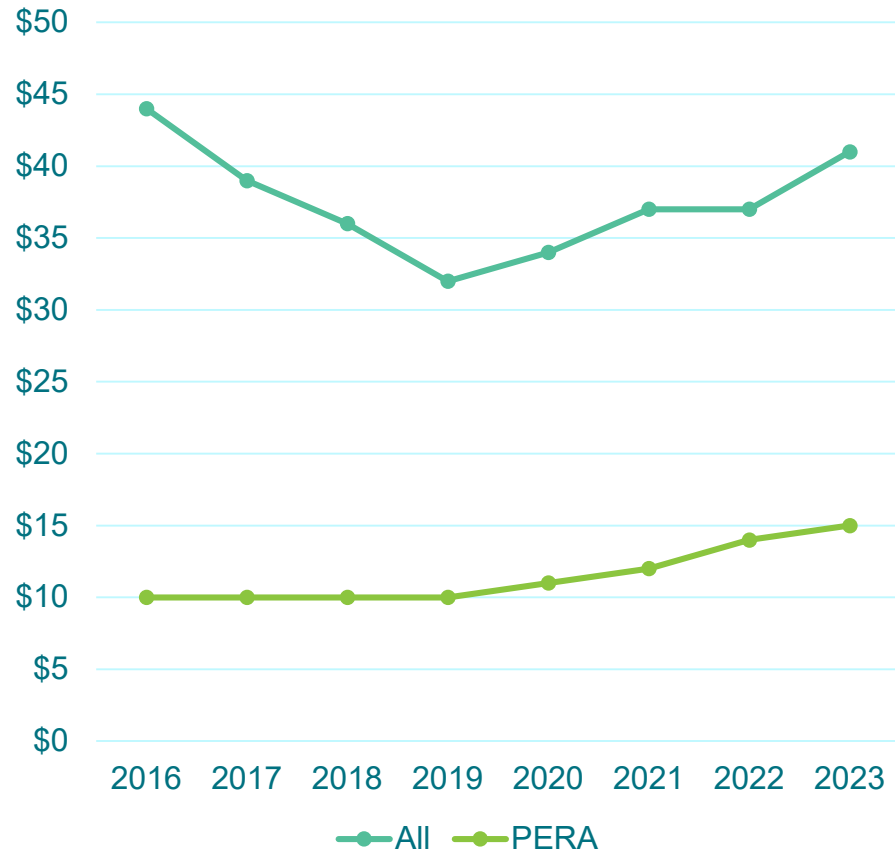


- » Colorado PERA has the oldest Pension Administration System in the CEM universe
- » The risks of failing to modernize technology can be profound. Southwest Airlines is an example of the enormous cost, member impact, and reputational damage
- » Increasingly aging technology integrates poorly, making the adoption of new technology more difficult, expensive, and riskier
- » The programming and developing skills necessary to maintain the aging system are dwindling
- » Modernizing with inadequate resources adds risk and ultimately expense
- » Finding the necessary talent to maintain aging systems is already difficult and expensive

* Source: CEM Benchmarking 2024 PERA Report

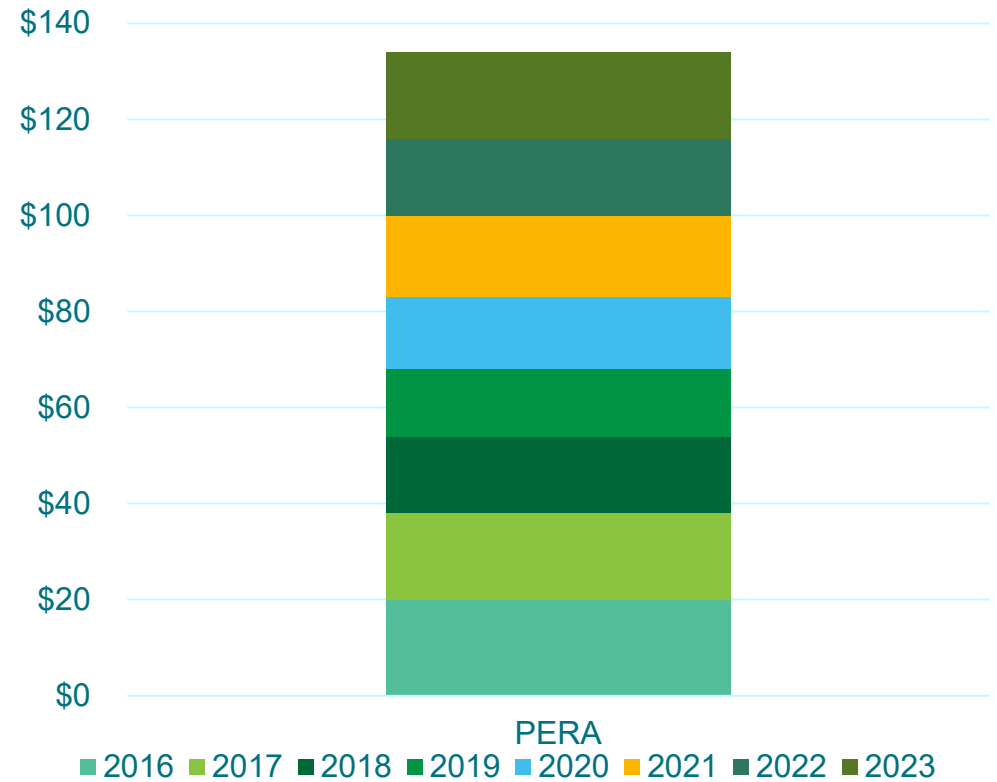
Legacy Modernization: Deferred Maintenance

Cost Per Member – IT and Major Projects*



* Source: CEM Benchmarking 2024 PERA Report

PERA's Deferred IT and Major Projects Cost*~



~Numbers in millions

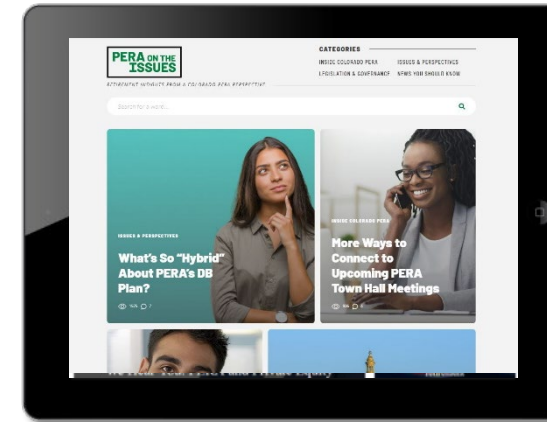
2025 Legislative Priorities/Issues

- » Pinnacol Conversion (and disaffiliation from PERA)
- » State Funds Investment Concept
- » Fiscal Notes & Routing of PERA-related Legislation

Stay in Touch



Website
www.copera.org



Retirement Insights
www.peraontheissues.com

Social Media
[@coloradopera](https://twitter.com/coloradopera)



Call us at
800-759-7372



Appendix

Funding Period Progress¹

40-Year Projections – Projected Years Until 100% Funded

Division Trust Fund	December 31, 2023	December 31, 2022	Change
State	23 Years	32 Years	-9
School	27 Years	34 Years	-7
Local Government	14 Years	23 Years	-9
Judicial	8 Years	12 Years	-4
Denver Public Schools (DPS)	9 Years	13 Years	-4

¹Funding periods are determined on an open-group basis and shown as of the current valuation date only.

Funded Status

As of December 31, 2023

Total Unfunded Liability: \$27.5 billion
Funded Status: 69.6%



STATE UNFUNDED LIABILITY
\$9.6 billion

FUNDED STATUS
66.2%



SCHOOL UNFUNDED LIABILITY
\$16.8 billion

FUNDED STATUS
66.7%



LOCAL GOVT. UNFUNDED LIABILITY
\$572 million

FUNDED STATUS
90.7%



JUDICIAL UNFUNDED LIABILITY
\$58 million

FUNDED STATUS
89.2%



DPS UNFUNDED LIABILITY
\$521 million

FUNDED STATUS
89.6%

Membership (Pension) – Actives

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, 2023:							
Number	50,738	2,949	131,188	12,651	49	347	15,626
Average age	45.3	35.3	44.5	44.4	37.2	53.1	41.2
Average service	9.1	4.8	8.9	7.7	1.9	11.6	7.7
Average payroll	\$65,771	\$81,082	\$47,083	\$66,345	\$84,209	\$174,657	\$57,228
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
Change							
Number	+3.9%	+42.3%	+2.4%	+4.8%	+53.1%	+2.1%	+2.4%
Average payroll	+6.3%	+2.6%	+6.3%	+5.7%	+12.2%	+5.0%	+2.4%

Membership (Pension) – Retirees and Survivors

Item	State Division General	School Division	Local Government Division	Judicial Division	Denver Public Schools Division
December 31, 2023:					
Number	44,517	77,165	9,095	460	7,316
Average annual benefit	\$41,152	\$36,931	\$38,761	\$77,844	\$39,275
Average age	73.0	72.7	71.3	75.4	75.1
December 31, 2022:					
Number	43,860	75,094	8,829	446	7,256
Average annual benefit	\$40,909	\$36,798	\$38,530	\$76,355	\$39,250
Average age	72.6	72.4	70.9	75.2	74.9
Change					
Number	+1.5%	+2.8%	+3.0%	+3.1%	+0.8%
Average annual benefit	+0.6%	+0.4%	+0.6%	+2.0%	+0.1%
Average age	+0.4	+0.3	+0.4	+0.2	+0.2

★ Segal

Automatic Adjustment Provision

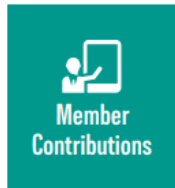
New rates effective July 1, 2024
(No Changes)

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 2023 *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 2025.

Current Provisions



Member contributions will not be affected by the automatic adjustment provision in July 2025.

	State, School, and DPS Divisions	Safety Officers	Local Government	Judicial Division
As of July 1, 2024	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 2025.

	State Division	Safety Officers (State)	School and DPS Divisions	Local Government	Safety Officers (Local Govt.)	Judicial Division
As of July 1, 2024	21.61%	24.31%	21.40%	14.78%	17.88%	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, 2025. See copera.org for more information on contribution rates.



The AI will not be affected by the automatic adjustment provision in July 2025. The AI paid to eligible benefit recipients in July 2024 will be 1.0%. The AI paid in July 2025 for most eligible benefit recipients will be 1.0%.



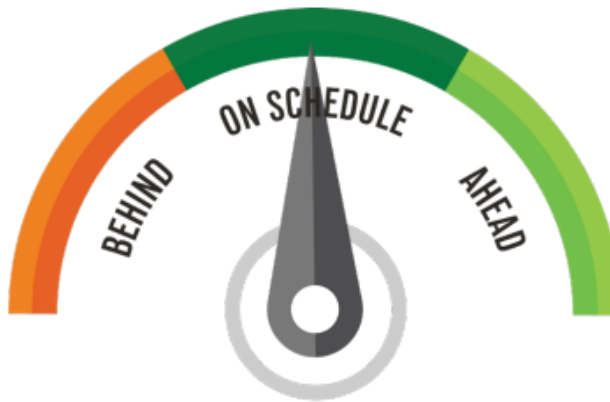
PERA will receive a direct distribution from the State budget for 2024.

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

2024 Investment Stewardship Report

Transparency and Trust Go Hand-In-Hand

- **C.R.S. § 24-51-220(2)(a)**
 - “How does PERA identify, assess, and manage climate-related risks and opportunities?” (p. 42)
 - **C.R.S. § 24-51-220(2)(b)**
 - “How does PERA consider the impact of climate-related risks and opportunities on its investment strategy and resilience?” (p. 43)
 - **C.R.S. § 24-51-220(2)(c)**
 - “What actions is PERA taking to manage risks that climate change poses to its operations?” (pp. 43-44)
 - **C.R.S. § 24-51-220(2)(d)**
 - “Advocating for Disclosure – Did You Know?” (p. 30)
- **PERA prioritizes financial value over personal values**
 - Investment stewardship philosophy (p. 4)
 - A portfolio built to last (pp. 5-6)
 - Engagement over divestment (p. 26, p.37)
 - **PERA takes an integrative approach when making investment and proxy voting decisions**
 - Material considerations (pp. 10-12)
 - ESG and PERA’s approach (p. 13, pp. 40-41)
 - Portfolio exposures to renewable energy and more (pp. 14-16, p. 33)
 - Proxy voting approach and examples (pp. 18-27, p. 41-42)

Download a copy of the *2024 Investment Stewardship Report* and explore interactive resources pertaining to PERA’s stewardship of plan assets at: <https://copera.org/investments/investment-stewardship>.

Legacy Modernization: Growth Categories



Legacy
Modernization
(54 positions)



Strategic
Growth
(5 positions)



Deferred
Investment
(10 positions)