Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Pension Review Subcommittee

September 23, 2024

TO: Members of the Pension Review Commission, the Joint Budget Committee, and the Colorado General Assembly

FROM: Members of the Pension Review Subcommittee

SUBJECT: Funded Status of the Colorado Public Employees' Retirement Association

Section 24-51.1-101 (4)(d), C.R.S., requires the Pension Review Subcommittee to review semi-annually the planned reduction of the unfunded liability of the Public Employees' Retirement Association (PERA). If, upon that review, the subcommittee determines that PERA does not have at least a 67 percent likelihood of achieving full funding by 2048, then PERA is required to provide recommendations to the subcommittee for policy changes, of which the subcommittee is required to inform the Pension Review Commission, the Joint Budget Committee, and the Colorado General Assembly.

Public Employees' Retirement Association Response and Recommendations

This year, PERA's contracted actuaries at the Segal Group explained how the "67 percent likelihood" metric is out of sync with the way PERA reports its progress. From Segal's report:

> The 67% likelihood metric does not coordinate well with PERA's:
>
> - Automatic Adjustment Provision (AAP) Assessment enacted through Senate Bill 18-200
> - Pension Funding Policy intentionally updated in 2018 to coordinate with the recently enacted annual AAP Assessment
> - Periodic AUM analysis or Board investment policies used in setting economic assumptions

At the top of the following page, Segal provided a table illustrating scenarios that would have to occur for the pension to achieve a 67 percent likelihood of full funding.

What is required in each scenario that results in PERA achieving the 67% likelihood metric[1]?

Proposed Scenario	Assumed Long-Term Rate of Return	Proposed Change / Action Required to Meet Goal	Estimated Achieved Metric	Notes
Combination of benefit and contribution changes	7.25%	• 1.75% multiplier • 8-Year Avg HAS • Trigger last two AAP adj • $4B Lump Sum	67%	Significant changes to new tier of benefit provisions, plus large lump sum
Lump Sum	7.25%	$20B ($13B without considering AAP[2])	67%	
Lump Sum	6.71%	$38B ($27B without considering AAP[2])	67%	
Indexing on Direct Distribution (assume 3%, per annum)	7.25%	Indexing the Direct Distribution at Local CPI	Improved Metric from 52% to 54%	Assumed Indexing at 3.0%, per annum (approximate 10-year annualized Local CPI)

[1] 67% likelihood of achieving 100% funded status by 2048.
[2] Additional dollars needed if considering the AAP, due to the greater likelihood of triggering "120% AAP Adjustments" with large infusion of cash.

Segal

As a result of Segal's analysis, PERA informed the subcommittee that they have no recommendations for changes to the pension. PERA staff suggested that allowing the provisions of Senate Bill 18-200 to continue, particularly the Automatic Adjustment Provision, will keep the pension on-track for full funding by 2048.

Subcommittee's Response and Recommendations

Assuming a 7.25 percent rate of return on PERA's investments and minimal changes to beneficiary demographics, PERA's actuaries estimate that all divisions of PERA—State, School, Local Government, Judicial, and Denver Public Schools—are on track to reach full funding by 2048 with a probability of 52 percent, subject to market conditions. PERA's actuaries estimate that for all divisions of PERA to have a 67 percent probability of full funding by 2048, a benchmark in statute, would require substantial additional funding. The subcommittee will continue to evaluate PERA's funded status annually. This interim, the subcommittee is contemplating corrective action through its recommendations to the PERA Board and to the Pension Review Commission, which can be found on the Pension Review Subcommittee's website.