Bill 3

Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

BILL 3: PERA RISK-REDUCTION MEASURES

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Fiscal note status: The fiscal note reflects the bill draft requested by the Pension Review Commission.

Summary Information

Overview. The bill requires the Public Employees' Retirement Association (PERA) to conduct its actuarial experience study and periodical actuarial audit every three years. The Office of State Auditor must commission an independent review of the periodic actuarial audit conducted by PERA in the preceding year.

Types of impacts. The bill is projected to affect the following areas:

- State Expenditures
- Statutory Public Entity

Appropriations. No appropriation is required.

Table 1
State Fiscal Impacts

Type of Impact	Budget Year FY 2025-26	Out Year FY 2026-27
State Revenue	$0	$0
State Expenditures (General Fund)	$0	$125,000
Transferred Funds	$0	$0
Change in TABOR Refunds	$0	$0
Change in State FTE	0.0 FTE	0.2 FTE

Summary of Legislation

The bill requires the Public Employees' Retirement Association's (PERA) Board of Trustees (the board) to conduct its actuarial experience study and periodic actuarial audit every three years.

Beginning in 2027, and every three years thereafter, the Office of State Auditor (OSA) must commission an independent review of the periodic actuarial audit conducted by the board in the prior calendar year.

Background

Pursuant to its Governance Manual, PERA currently contracts with an actuary to conduct an actuarial experience study at least once every five years. These studies review the demographics of plan members and compare actuarial assumptions to the actual economic performance of PERA's investments. The board uses these studies when considering any adjustments to their actuarial assumptions. PERA last experience study was conducted in 2020, and the next study will be published in early 2025.

Also pursuant to its Governance Manual, PERA conducts an actuarial audit at least once every five years. A periodic actuarial audit is a report that evaluates the accuracy of the actuarial experience study by having an external provider review the actuary's assumptions and replicate them. PERA's last actuarial audit was conducted in 2022, and the next audit is scheduled for 2027.

Bill 3 both codifies the required studies and accelerates the scheduled conduct for each from a minimum of every five years under current practice to a required schedule of every three years beginning in 2025.

State Expenditures

The bill increases costs in the OSA in FY 2026-27 by $125,000, paid from the General Fund. The OSA will contract with a third-party to review PERA's periodic actuarial audit from the preceding year. The first contracted audit will be conducted in 2027 (FY 2026-27), and is estimated to require $110,000 for the contract and approximately $15,000 for 0.2 FTE Contract Administrator at the OSA to develop, administer and monitor the contract. This cost recurs every three years thereafter, not including inflationary increases.

Statutory Public Entity

The bill increases costs for PERA, paid from the PERA trusts. Accelerating the schedule of actuarial experience studies and the independent audits increases the total number of studies the PERA board will contract over time. Under current practice, the studies are anticipated to occur approximately 10 times in the next 20 years at an average contract cost of about $140,000, which assumes a periodic increase in contract costs for inflation across these years.

Under Bill 3, the total number of studies is anticipated to increase to 14 in the next 20 years at an increased expense of about $500,000 more than the association would pay under current practice. PERA will also have an increase in workload and administrative expenses as a result of these more frequent reporting requirements.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Public Employees' Retirement Association
Treasury
State Auditor