



## Legislative Council Staff

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## Pension Review Subcommittee

October 20, 2022

**TO:** Colorado Citizens

**FROM:** Pension Review Subcommittee

**SUBJECT:** Annual Report to Colorado Citizens on the Funded Status of the Colorado Public Employees' Retirement Association

### **About the Public Employees' Retirement Association (PERA)**

The state legislature established the Colorado Public Employees' Retirement Association in 1931 to provide a pension benefit to state and local government employees, predating the federal Social Security Act of 1935 by four years. PERA is administered under Article 51 of Title 24 of the Colorado Revised Statutes. PERA is a substitute for Social Security for most participating public employees. PERA benefits are pre-funded, which means that while a member is working, both the employer and the employee contribute a percentage of the employee's salary to the retirement trust fund.

### **PERA's Current Unfunded Liability**

At the end of 2021, the most recent year for which data are available, PERA had a \$27.2 billion unfunded liability. "Unfunded liability" represents the difference between the estimated cost of future pension benefits compared to the assets that have been set aside to pay for them. On a per citizen basis, using 5.78 million as the state's population per the State Demography Office, this equates to about \$4,705 per person. To put it another way, the pension is 67.8 percent funded.

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. This full-funding assumption is also based on the provisions of Senate Bill 18-200 remaining unchanged. Often referred to as the "shared sacrifice," these include:

- **State distribution and employer contribution.** Beginning in 2018, Senate Bill 18-200 requires an annual distribution of \$225 million from state funds to PERA until the pension is fully funded. Beginning in 2019, the bill creates a 0.25 percent increase in employer contributions for all divisions except local government.

- **Current PERA members.** The bill phases in a three-year, 2 percent contribution rate increase for all employees who are members of PERA.
- **Retirees.** The bill freezes the cost-of-living adjustment (COLA) for retirees for two additional years after retirement; combined with past legislation, the freeze is now three years for all new retirees. After that time period, the COLA is set at 1.5 percent each year.
- **Future PERA members.** For employees hired beginning July 2019, the PERA benefit will be assessed on gross salary instead of net salary after health- and transportation-related pre-tax payroll deductions. For employees hired after 2020, the bill changes the required number of service years and required age for retirement, as well as the way that retirement is calculated through adjustments to the Highest Average Salary (HAS) calculation.
- **Automatic adjustment provision.** The bill creates an automatic contribution rate adjustment for employers, employees, and retirees that increases or decreases contribution and COLA rates depending on funding outcomes for the PERA trusts. Based on PERA's 2021 Annual Comprehensive Financial Report, which indicates that PERA is on schedule to meet its funding goals, no changes to the automatic adjustment provision will be triggered in 2023.
- **DC supplement.** PERA's defined benefit (DB) plan is a traditional pension plan where retirement benefits are guaranteed for an individual's lifetime. Its defined contribution (DC) plan, which is available only to state and local government division employees, is comparable to a 401(k), where a person's benefits are contingent upon the success of the investments. SB 18-200 requires employer contribution rates to be adjusted to supplement the DB trusts for employees electing the DC plan and therefore not contributing to the traditional pension.

## About this Report

Section 24-51.1-101 (4)(e), C.R.S., requires the Pension Review Subcommittee to annually report in writing to the citizens of Colorado regarding whether or not PERA is on track to achieve full funding by 2048 and, if not, the corrective actions recommended by the subcommittee or PERA to the General Assembly to rectify the shortfall.