August 3, 2023

Members of the Pension Review Subcommittee:

In response to requests received during the July 17th, 2023, Pension Review Subcommittee meeting, PERA staff has prepared the attached information.

Please let us know if any members would like to discuss this information in greater detail.

Thank you,

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Interim Executive Director/Chief Investment Officer

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COLORADO PERA

Benefit-related Topics

1. **Social Security vs. PERA Benefit Comparison**

| Feature | Colorado PERA (for most members) | Social Security |
|---|---|---|
| **Contribution Rate** | 11% (subject to change as a result of the AAP) | 6.20% |
| **Contribution Status** | Tax-deferred | After-tax |
| **Member Account Earning Interest** | Yes | No |
| **Refundable** | Yes | No |
| **Pre-Funded** | Yes | No |
| **Full Retirement Age** | 64 | 67 |
| **Early Retirement Age** | 55 w/ 25 years<br>60 w/ 5 years<br>Any w/ 35 years | 62 |
| **Average Monthly Benefit** | $3,238 | $1,720 |
| **Annual Increase (AI)** | 1% AI cap (subject to change as a result of the AAP) | Varies (tied to CPI-W) |
| **Funded Status** | 69.9%; full funding goal by 2047 | 100% for each year; insolvent by 2034 |
| **Average Replacement Income** | 57.5% (with 23 years – avg at retirement) up to 100% with 40 years or more | 40% (lower % for higher earners) |
| **Death Benefit** | Survivor benefits or lump sum (actives)<br>Joint-and-Survivor payment options (retirees) | Survivor benefits if deceased had sufficient credits plus possible $255 lump sum death benefit |
| **Maximum Monthly Benefit** | 100% of HAS | $3,345 |
| **Minimum Service Required to receive a benefit** | 1 month | 10 years |

2. **Annual Increase Reserve - (C.R.S. § 24-51-1009)**

As of January 1, 2007, an Annual Increase Reserve (AIR) was created for each division trust fund for the purpose of funding annual increases for PERA benefit structure members hired on or after January 1, 2007, and prior non-DPSRS members (part-time employees of DPS not covered by DPSRS) who became PERA members as of the January 1, 2010, merger date. To fund each AIR, a portion of the employer contribution, equal to one percent of the salaries of affected members, is accumulated in the applicable AIR to be paid out to eligible annuitants in annual increases each July 1, to the extent affordable.

A separate annual actuarial valuation determines the affordability and the annual increase to be awarded as a percentage of current benefits to the eligible members within the defined groups.

The maximum annual increase awarded, if any, by the PERA Board is the least of:

a) 1.00% (or current AI cap, if different),

b) The average of the annual CPI-W increase determined each month published for the preceding calendar year, and

c) An increase that will exhaust 10% of the year-end market value of the AIR.

The AI cap noted in this section is subject to change pursuant to the Automatic Adjustment Provision.

## Investment-related Topics

**3. Fixed Income Portfolio Duration (in years)**

- As of 12/31/2022: 6.295 vs. the benchmark of 6.320
- As of 07/17/2023: 6.207 vs. the benchmark of 6.227

**4. SEC Filings Requirements**

- SEC Filing requirements apply only to equities. There are no filing requirements for fixed income holdings.

## Other Topics

**5. When a PERA Division reaches full funding:**

a. **what is the impact to the allocation of the $225m Direct Distribution Payment?** Pursuant to C.R.S. § 24-51-414, subsection (3) states that "The distribution…shall end when there are no unfunded actuarial accrued liabilities of any division of the association that receives such distribution.", and subsection (4) requires that PERA "shall allocate the direct distribution to the trust funds…in a manner that is proportionate to the annual payroll of each division…"; with the exception of the Local Government Division, which does not receive an allocation of the direct distribution.

There would be no impact to the allocation of the direct distribution payment under this scenario based on the current statute. It will continue to be allocated to each of the division trust funds (except the Local Government Division as noted above) based on payroll.

**b. what is the impact on the Automatic Adjustment Provision (AAP) calculation?**

To determine the weighting across the five division trust funds for purposes of calculating the "blended total contribution amount" and the "blended total required contribution," C.R.S. §24-51-413(1)(c), defines "weighted average" as "the proportion of unfunded actuarial accrued liability attributable to each division reported as of the most recent valuation date."

Since the weighting is based on the unfunded actuarial accrued liability, the contribution rates (employer contribution, member contribution, actuarially determined contribution, and direct distribution, if applicable) of any fully funded division(s) **will not be** factored into either the "blended total contribution amount" or the "blended total required contribution" and therefore, not considered in the AAP assessment. However, any resulting adjustments will continue to apply to all divisions, including the fully funded division(s).

6. **Amortization Equalization Disbursement (AED) and Supplemental Amortization Equalization Disbursement (SAED) - (C.R.S. § 24-51-411)**

   The Amortization Equalization Disbursement (AED) and Supplemental Amortization Equalization Disbursement (SAED) are additional contributions remitted by employers. These additional contributions, which are equal to a percentage of total payroll of PERA members are designed to reduce PERA's unfunded liability and amortization period.

   If, at any time, the actuarial funded ratio for a division is 103% or more, the amount of the each of the AED and SAED will be reduced by 0.5% of pay. Thus, reductions in these contributions will not impact the AAP because, as explained above, the contributions of any division with a funded ratio of 103% would not be included in the AAP weighted average calculation for the "blended total contribution amount."

7. **Differences in UAAL/Funded Status of PERA Divisions (Why is the State/School division in much worse funded positions than the other PERA divisions?)**

   The differences in funded status from one division to the next reflect a number of factors, the most impactful of which include **differences in:**

   - **Demographic experience:** meaning actual member behaviors versus actuarial demographic assumptions such as rates of retirement, termination/withdrawal, disability, and death. Each division trust fund has its own unique set of demographic assumptions and each year, how well those assumptions perform, can differ. Divisions whose demographic assumptions underperform in any given year may experience larger unfavorable growth in unfunded actuarial accrued liability (UAAL) more so than a division applying demographic assumptions that more accurately predicted member behaviors. For example, the State Division may experience less volatility in demographic gains and losses than the School Division this year, and next year, the School Division's demographic assumptions may perform better than the State's.

     Actuarial gains and losses are carefully gauged each year through the valuation process and reported in the PERA ACFR. In addition, a full experience analysis must be performed at least every five years, pursuant to PERA Board Governance, but typically is performed every four years.

   - **Economic experience:** meaning differences between actual and expected investment return, inflation, and payroll increases. Although the division trust funds are invested as a pooled/total trust fund, varying degrees of "cashflow" (payments and expenses versus contributions and investment income) from one division to another, and the difference in expected versus actual contributions (based on actual versus expected payroll growth), will influence differences in funding levels.

   - **Contribution deficiency/surplus:** meaning the statutory contribution rates in place which did not equal the actuarially determined contribution required to maintain 100% funded level each year. Each division has a different employer normal cost rate based on differing member contribution rates, plan provisions, and demographic assumptions as to member behaviors for that particular division.

The funded status of each of the five divisions may be inequitably influenced by the differences between 1) the total of the employer normal cost plus any amortization payment on the UAAL, and 2) the total of the employer base and supplemental contribution rates. To the extent the statutory rates are insufficient to cover the annual costs, a contribution deficiency results. If statutory rates are more than sufficient, a contribution surplus is the result. Of the last 20 years, a contribution deficiency (considering all five divisions in total) has resulted in 18 of those 20 years. The amount and degree of deficiency/surplus varies by year and by division, contributing to the disparity of funded status from one division to another.

- **Population growth patterns:** meaning some divisions have experienced substantial, or at least sustained, population growth over certain periods, while other divisions have experienced the opposite over the same periods. The growth or decline in each division's population contributes to varied patterns of contributions (above and beyond variances resulting from ill-performing pay increase assumptions as mentioned above), which in turn, affects the funded statuses of the division trust funds.
- **Career and employment patterns:** meaning each division more-or-less covers a different industry/employee base often with notably different career experiences and retirement patterns from one division to the next. The various career patterns and changes to those patterns overtime have contributed to the disparity of funded status from one division to another. As time goes on, and once full funding is achieved for all divisions, the continued practice of the selection and application of unique assumptions for each division (as this, historically, was not done), should virtually negate the impact of this factor in the future.