Pinnacol

Rep. Sirota: The request mentions that even if we change statute to allow Pinnacol to insure across state lines, some states would not allow them to insure their residents because they are a political subdivision. Which states would not allow a resident to be covered by Pinnacol as long as it is a political subdivision?

Half of the states in the U.S. have a prohibition in their statute that prevents a political subdivision from being a licensed insurance carrier in their state.

- Alabama
- Alaska
- Arkansas
- Colorado
- Connecticut
- Delaware
- Georgia
- Hawaii
- Idaho
- Kansas
- Kentucky
- Maine
- Maryland
- Minnesota
- Montana
- Nevada
- New Hampshire
- New Mexico
- New York
- North Dakota
- Ohio
- Oklahoma
- Rhode Island
- Washington
- Wyoming

Sen. Amabile: What is Pinnacol's current reserve? How much of the reserve is over and above liabilities? Can we be sure that selling it on a private market would not allow someone to liquidate?

Pinnacol's current reserve liability for injured worker payments is approximately $1.3b.

As we evaluate a potential disaffiliation, Pinnacol must carefully balance adequate reserves to cover all claims and support injured workers. Financial stewardship is a foundational responsibility; capital adequacy and long-term solvency are critical among our core priorities.

Pinnacol is not being sold on the private market. The conversion in the governor's proposal relates to the state's remaining interest in Pinnacol. As such, Pinnacol will continue to operate as a mutual, and still be owned by its policyholders, as it is today.

Rep. Taggart: What is the plan for employees when considering moving from PERA to Social Security? Has any stakeholder considered how people's retirement benefits will be impacted by a conversion?

This is a very important subject to us. Our employees are the heartbeat of our organization - and we are very proud of our culture of service and caring. Pinnacol has been named a top workplace in Colorado for much of the last decade.

We're constantly evaluating our employee benefits and compensation to align and compete for top level talent in the market. While we do offer enhancements to remain competitive in the marketplace - our benefit structure today is anchored in PERA because it's a statutory requirement. If Pinnacol were disaffiliated from the state, it would continue to offer a market-competitive package, and we would continue to invest the same amount in our employees' retirement benefits as we do today.

We do recognize that PERA is unique - and that all employees will be impacted differently if Pinnacol were disaffiliated from PERA. It's our goal that our employees would have an opportunity to earn a similar level of retirement benefits as they would by remaining in PERA.

Importantly, we'd note that the Federal government recently repealed the Social Security Windfall Elimination Provision and Government Pension Offset. Until that happened, social security benefits were reduced due to state retirement plan benefits. Moving forward, there will no longer be any reduction in social security benefits due to state pension benefits. That will help our employees if Pinnacol becomes subject to Social Security in the near future.

Sen. Amabile: How was the $100,000 number determined? Please explain the evolution of the request as a whole and the thought process behind its mechanics.

Based on the governor's budget proposal, the $100m represents a portion of the state's remaining interest in Pinnacol that would be utilized for the state's 2025-26 figure setting. We interpret the remainder of the state's proposed interest in Pinnacol to be used for budgets over the next several years.

It's important from Pinnacol's perspective to remind the Committee that Pinnacol was mostly spun off from the state about 20 years ago - and was directed to operate as a mutual insurance company, as it does today. The state transferred ownership of roughly $80m to Pinnacol and its policyholders at that time. So, the state's remaining interest in Pinnacol is mostly grounded in that transfer, adjusted for time value of money. Operating as a mutual since 2002, our policyholders account for nearly all of Pinnacol's overall value.

MEMORANDUM

JOINT BUDGET COMMITTEE

To	Members of the Joint Budget Committee
From	Michelle Curry, JBC Staff (303) 866-2062
Date	January 15, 2024
Subject	Actuarial Analysis of Pinnacol Assurance Disaffiliation

Please see the attached letter from Segal Consulting regarding the potential impact created by the disaffiliation of Pinnacol Assurance from PERA. The letter includes explanation of the methodology used to determine the impact of disaffiliation based on valuation results and trust fund amounts as of December 31, 2023. The reported amounts represent an estimate since the actual disaffiliation cost would be determined by the valuation on the disaffiliation effective date.

Currently, the assumed discount rate for Pinnacol's disaffiliation from PERA is 5.25 percent (Sec. 24-51-315(5), C.R.S.). However, Pinnacol requested disaffiliation estimates for alternative discount rates for informational purposes. The following table indicates the estimated impact based on various discount percentages:

Pinnacol Disaffiliation Cost Estimates	
Discount Rate	Cost Estimate
5.25%	$316,799,445
6.25%	$242,598,032
7.25%	$183,471,641

Again, these numbers reflect an estimate only. Further explanation can be found in the attached letter from Segal Consulting.

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November 21, 2024

Koren L. Holden, FCA, EA, MAAA
Senior Actuary
Public Employees' Retirement Association of Colorado
1301 Pennsylvania Street
Denver, CO 80203-2386

Re: Actuarial Analysis of Pinnacol Assurance Disaffiliation

Dear Koren:

As requested, we have estimated the impact of the disaffiliation of Pinnacol Assurance (Pinnacol) from the State Division of PERA. The letter includes the results of our analysis, which is based on the valuation results and trust fund amounts as of December 31, 2023. The method used to calculate the full disaffiliation cost is described below. Please note the calculations and exhibits contained herein are only complete in their entirety. These measurements may not be appropriate for purposes other than those described in this letter.

Background

The purpose of this document is to describe the methodology used and to determine the disaffiliation cost upon Pinnacol disaffiliation from the State Division of PERA effective December 31, 2023. It addresses the determination of whether there are sufficient assets to cover the benefit payments for members that remain in PERA, both as it pertains to the State Division Trust Fund, regarding pension benefits, and the Health Care Trust Fund (HCTF), regarding other post-employment benefits (OPEB).

The data provided for the regular December 31, 2023, actuarial valuation of PERA was utilized in making the calculations presented in this report. The following table provides some basic information regarding that data.

State Division Member Demographics as of December 31, 2023

Item	Pinnacol Members	Total State Division Members
Actives		
Number	663	53,687
Average Age	44.3	44.8
Average Service	10.1	8.8
Average Annual Salary	$115,676	$66,612
Retirees		
Number	409	44,415
Average Annual Benefit	$50,852	$41,152
Terminated Vested		
Number	152	9,887
Deferred Survivor		
Number	0	102
Terminated Non-Vested		
Number	323	94,780

Health Care Trust Fund Demographics as of December 31, 2023

Item	Pinnacol Members	Total HCTF Members
Actives		
Number	663	197,922
Average Age	44.3	44.6
Average Service	10.1	8.8
Retirees		
Number	187	56,252
Terminated Vested		
Number	152	37,651

Parameters and Assumptions

The calculations were performed using the December 31, 2023, valuation results. In the analysis that follows, it is assumed that all member accounts as of the disaffiliation effective date will remain and the member will either draw benefits when eligible or refund the account with the statutory match.

The final asset sufficiency calculations can only be done as of the disaffiliation effective date when all existing member account balances, market value of assets, and net present value of liabilities can be determined. All numbers provided prior to that time are merely estimates of the financial impact of the disaffiliation. If the disaffiliation effective date is other than calendar year-end, liabilities will have to be rolled forward from the prior actuarial valuation and the market value of PERA assets will have to be determined as of the disaffiliation date.

Based on C.R.S. § 24-51-315(5), legislation applicable to the Local Government Division, the discount rate to be used for disaffiliation purposes is PERA's current investment return assumption minus 200 basis points, resulting in a 5.25% disaffiliation discount rate. Pursuant to Pinnacol's request, Segal has also prepared disaffiliation estimates considering alternative discount rates of 6.25% and 7.25%.

The steps required to determine asset sufficiency and the disaffiliation costs are as follows:

1. The first step will be to determine what assets at market value are held in the State Division Trust Fund to cover employer-financed accrued liabilities. The market value of assets less the Annual Increase Reserve, to the extent sufficient, will be allocated to categories in the following order:
   (a) Inactive member contribution account balances
   (b) Active member contribution account balances
   (c) Retiree and survivor liabilities
   (d) Employer-financed inactive member liabilities
   (e) Employer-financed active member liabilities

2. The market value of assets to be allocated to the disaffiliating agency will be determined as follows:

   a. If the assets are first depleted in category 1(a), the assets to be credited to the disaffiliating agency are equal to the market value of the assets times the ratio of the agency's inactive member account balances to the entire State Division inactive member account balances.

   b. If the assets are first depleted in category 1(b), the assets to be credited to the disaffiliating agency are equal to the member account balances of the inactive members of the agency plus the remaining market value of the assets times the ratio of the agency's active member account balances to the entire State Division active member account balances.

   c. If the assets are first depleted in category 1(c), the assets to be credited to the disaffiliating agency are equal to the member account balances of the inactive members of the agency plus the member account balances of the active members of the agency plus the remaining market value of assets times the ratio of the agency's retiree and survivor accrued liability to the entire State Division retiree and survivor accrued liability. In each case, the accrued liability will be equal to the retiree and survivor accrued liability determined using current actuarial valuation assumptions and methods.

   d. If the assets are first depleted in category 1(d), the assets to be credited to the disaffiliating agency are equal to the member account balances of the inactive members of the agency plus the member account balances of the active members of the agency plus the agency's retiree and survivor accrued liability plus the remaining market value of assets times the ratio of the agency's employer-financed inactive accrued liability to the entire State Division employer-financed inactive accrued liability. In each case, the employer-financed accrued liability will be equal to the inactive accrued liability determined using current actuarial valuation assumptions and methods less the inactive member contribution account balances.

e. If the assets are not depleted in category 1(d), the assets to be credited to the disaffiliating agency are equal to the member account balances of the inactive members of the agency plus the member account balances of the active members of the agency plus the agency's retiree and survivor accrued liability plus the agency's employer-financed inactive accrued liability plus the remaining market value of assets times the ratio of the agency's employer-financed active accrued liability to the entire State Division employer-financed active accrued liability. Again, in each case, the employer-financed accrued liability will be equal to the active accrued liability determined using current actuarial valuation assumptions and methods less the active member contribution account balances.

3. The next step will be to determine the assets needed to fund the liabilities for those members of the disaffiliating agency that remain with PERA. The approach is similar to that performed in the previous paragraph. The total liability for the accrued benefits of the disaffiliating agency will be equal to the sum of the agency's liabilities for items 1(a) through 1(e), determined using current actuarial valuation assumptions and methods, and prepared under three discount rates of 5.25%, pursuant to C.R.S. Section 24-51-315(5), and the additionally requested discount rates of 6.25% and 7.25%. To the extent the agency's share of the market value of assets is not sufficient to cover the total liability, the net will be paid to PERA. To the extent the agency's share of the market value of assets is greater than the total liability, the net will be paid to the agency.

4. This step is designed to ensure that the actuarially determined contribution (ADC) rate pertaining to pension liabilities for the remaining agencies in the State Division does not increase as a result of the disaffiliation. An actuarial determination is made to see if an additional required amount from the disaffiliating agency is necessary to maintain the ADC at the same rate, with or without disaffiliation. The change in the pension ADC is calculated on a percentage of payroll basis and, if the resulting amount is an increase, it is amortized by using the current actuarial valuation assumptions and methods. Given the Automatic Adjustment Provisions (AAP) adopted under SB 200, this step is necessary to ensure any disaffiliation does not adversely impact the outcome of future AAP assessments resulting in unexpected or otherwise accelerated adjustments to contributions and annual increases for all members of PERA.

5. The impact of a disaffiliating agency on the Health Care Trust Fund must also be determined. To determine the assets available to fund the liabilities for the members remaining in PERA, the market value of assets will be allocated first to retirees, then to inactives, and finally to actives as is done for the pension assets. The disaffiliating agency's "share" of the assets will be determined by the ratio of the agency's liability to the total liability of the first group that is not fully funded. The liability used to calculate the asset share for the disaffiliating agency is determined using current actuarial valuation assumptions and methods. For example, if the market value of assets represents 50% of the retiree liability, then the share allocated to the disaffiliating agency will be 50% of the agency's retiree liability. Since the market value of assets covers only about 67% the total retiree liability, then Pinnacol's share of the unfunded liability is approximately 33% of their valuation liability for retirees. To this result, we add the additional liability for the disaffiliating agency's membership using the applicable disaffiliation discount rate, pursuant to C.R.S. §

24-51-315(5) and the requested alternative discount rates of 6.25% and 7.25%. This includes the additional liability from retirees based on the disaffiliation assumption and the entire disaffiliation liability so determined for inactive members and active members. To the extent the total liabilities exceed the assets, the net will be paid to PERA. To the extent the assets exceed the total liabilities, the net will be paid to the agency.

6. Because the healthcare contributions are taken from the overall statutory contributions made to PERA, an additional determination is made to ensure that the actuarially determined contribution (ADC) to the HCTF for remaining agencies does not increase as a result of the disaffiliation. To the extent that this would be the case, an additional required amount from the agency is calculated so as to keep the ADC at the same rate, with or without the disaffiliation.

7. The amount owed by PERA to the disaffiliating agency, or owed by the agency to PERA, is the net sum of the net pension liability, the additional pension reserves required, the net healthcare liability, and the additional amounts needed to stabilize the ADCs related to the State Division Trust Fund and the HCTF.

Results

The following tables (1.1-1.7) summarize the results of each step used to estimate Pinnacol's Full Disaffiliation Cost using a discount rate of 5.25%.

Table 1.1 – Determination of Point of Asset Depletion

	Item	Category	Allocation	Remaining Amount
1.	Market Value of Assets for the State Division Trust Fund			$18,269,648,326
2.	Less Annual Increase Reserve		$311,386,627	17,958,261,699
3.	Less Inactive Member Account Balances	(a)	798,103,571	17,160,158,128
4.	Less Active Member Account Balances	(b)	3,146,892,084	14,013,266,044
5.	Less Retiree and Survivor Accrued Liabilities[1]	(c)	$18,657,598,227	($4,644,332,183)

[1] Determined using a discount rate of 7.25%.

Table 1.2 – Pinnacol Asset Allocation

	Item	State Division Total (a)	Pinnacol (b)
1.	Market Value of Assets less Annual Increase Reserve	$17,958,261,699	
2.	Inactive Member Account Balances	798,103,571	$16,697,269
3.	Active Member Account Balances	3,146,892,084	69,261,381
4.	Remaining Market Value of Assets: (1a) - (2a) - (3a)	14,013,266,044	
5.	Retiree and Survivor Accrued Liabilities[2]	$18,657,598,227	$236,103,743
6.	Pinnacol Ratio: (5b) / (5a)		1.2655%
7.	Pinnacol Share of Remaining Assets: (4a) x (6b)		$177,337,882
8.	Total Pinnacol Asset Allocation: (2b) + (3b) + (7b)		$263,296,532

Table 1.3 – Pension Reserves Needed as of December 31, 2023

	Item	Category	Intermediate Step	Pinnacol
1.	Inactive Member Account Balances	(a)		$16,697,269
2.	Active Member Account Balances	(b)		69,261,381
3.	Retiree and Survivor Accrued Liabilities[3]	(c)		284,889,652
4.	Liabilities for Inactive Members[3]		$29,959,042	
5.	Inactive Member Account Balances		16,697,269	
6.	Employer-financed Vested Liabilities for Inactives[3]: (4) - (5)	(d)		$13,261,773
7.	Present Value of Accrued Benefits for Active Members[3]		$243,517,902	
8.	Active Member Account Balances		69,261,381	
9.	Employer-financed Vested Liabilities for Actives[3]: (7) - (8)	(e)		$174,256,521
10.	Total Pinnacol Pension Reserves Required: (1)+(2)+(3)+(6)+(9)			$558,366,596

[2] Determined using a discount rate of 7.25%; Liabilities for Pinnacol do not include benefits in excess of the projected IRC Section 415 limits. Pinnacol is assumed to be responsible for paying any excess benefits on a "pay as you go" basis.

[3] Determined using a discount rate of 5.25%; Liabilities for Pinnacol do not include benefits in excess of the projected IRC Section 415 limits.

Table 1.4 – Pension – Adjustment to ADC

Item		State Division Total (a)	After Pinnacol Disaffiliation Assuming No Payment Made (b)
1.	Employer Contribution as % of Payroll:		
i.	Normal Cost	1.8475%	1.8532%
ii.	Unfunded Actuarial Accrued Liability	16.9327%	16.9600%
iii.	Total	18.7801%	18.8132%
2.	Increase in ADC: (1b) – (1a)		0.0331%
3.	Projected Payroll	$3,753,519,463	$3,673,118,784
4.	Amortization Factor[4]		13.994245
5.	Additional Reserve Required: (2b) x (3b) x (4b)		$17,014,236

Table 1.5 – Health Care Trust Fund (OPEB) Reserves Required

Item		HCTF Total (a)	HCTF Pinnacol (b)
1.	Total Liability for Retirees on Valuation Basis[5]	$910,875,758	$2,668,548
2.	Market Value of Assets	611,911,149	
3.	Unfunded Retiree Liability: (1a) - (2a)	$298,964,609	
4.	Unfunded Portion: (3a) / (1a)	32.8217%	
5.	Pinnacol Unfunded Retiree Liability: (1b) x (4a)		$875,862
6.	Additional Termination Liability for Retirees[6]		487,280
7.	Vested Termination Liability for Terminated Vesteds[6]		239,109
8.	Vested Termination Liability for Active Members[6]		1,711,120
9.	Total Pinnacol OPEB Reserves Required: (5b) + (6b) + (7b) + (8b)		$3,313,371

[4] 20-year amortization, level % of pay used consistent with pension and OPEB benefit plans.

[5] Determined using a discount rate of 7.25%.

[6] Determined using a discount rate of 5.25%.

Table 1.6 - OPEB – Adjustment to ADC

	Item	HCTF Total (a)	HCTF After Pinnacol Disaffiliation Assuming No Payment Made (b)
1.	Employer Contribution as % of Payroll:		
i.	Normal Cost	0.1517%	0.1523%
ii.	Unfunded Actuarial Accrued Liability	0.4170%	0.4173%
iii.	Total	0.5687%	0.5696%
2.	Increase in ADC: (1b) – (1a)		0.0009%
3.	Projected Payroll	$11,210,167,265	$11,129,766,586
4.	Amortization Factor[7]		13.994245
5.	Additional Reserve Required[8]: (2b) x (3b) x (4b)		$1,401,774

Table 1.7 – Summary of Costs at Discount Rate of 5.25%

	Item	Pinnacol Required Reserves No Payment Made
1.	Step 3 – Pension Reserves Required	$558,366,596
2.	Step 2 – State Division Trust Fund (Pension) Assets Allocated to Pinnacol	(263,296,532)
3.	Step 4 – Additional Reserves for ADC Adjustment – Pension	17,014,236
4.	Step 5 – Net OPEB Reserves Required	3,313,371
5.	Step 6 – Additional Reserves for ADC Adjustment – OPEB	1,401,774
6.	Net Pinnacol Assurance Payment Required: (1) + (2) + (3) + (4) + (5)	$316,799,445

Thus, based on the results using a discount rate of 5.25%, the total potential impact created by the disaffiliation of Pinnacol from PERA is estimated to be $316,799,445 as of December 31, 2023. This amount includes $18,416,010 ($17,014,236 + $1,401,774) of adverse impact to the ADC calculations for the Pension and OPEB plans, respectively, due to the departing members, if no payment is made. However, a timely estimated payment of $298,383,435 ($316,799,445 - $18,416,010) would avoid an adverse financial impact on the actuarial soundness of the State Division Trust Fund and the Health Care Trust Fund.

[7] 20-year amortization, level % of pay used consistent with pension and OPEB benefit plans.

[8] Total in item 5 may not compute as exhibited due to rounding.

The following tables (2.1-2.7) summarize the results of each step used to estimate Pinnacol's Full Disaffiliation Cost using a discount rate of 6.25%.

Table 2.1 – Determination of Point of Asset Depletion

Item	Category	Allocation	Remaining Amount
1. Market Value of Assets for the State Division Trust Fund			$18,269,648,326
2. Less Annual Increase Reserve		$311,386,627	17,958,261,699
3. Less Inactive Member Account Balances	(a)	798,103,571	17,160,158,128
4. Less Active Member Account Balances	(b)	3,146,892,084	14,013,266,044
5. Less Retiree and Survivor Accrued Liabilities[9]	(c)	$18,657,598,227	($4,644,332,183)

Table 2.2 – Pinnacol Asset Allocation

Item	State Division Total (a)	Pinnacol (b)
1. Market Value of Assets less Annual Increase Reserve	$17,958,261,699	
2. Inactive Member Account Balances	798,103,571	$16,697,269
3. Active Member Account Balances	3,146,892,084	69,261,381
4. Remaining Market Value of Assets: (1a) - (2a) - (3a)	14,013,266,044	
5. Retiree and Survivor Accrued Liabilities[10]	$18,657,598,227	$236,103,743
6. Pinnacol Ratio: (5b) / (5a)		1.2655%
7. Pinnacol Share of Remaining Assets: (4a) x (6b)		$177,337,882
8. Total Pinnacol Asset Allocation: (2b) + (3b) + (7b)		$263,296,532

[9] Determined using a discount rate of 7.25%.

[10] Determined using a discount rate of 7.25%; Liabilities for Pinnacol do not include benefits in excess of the projected IRC Section 415 limits. Pinnacol is assumed to be responsible for paying any excess benefits on a "pay as you go" basis.

Table 2.3 – Pension Reserves Needed as of December 31, 2023

	Item	Category	Intermediate Step	Pinnacol
1.	Inactive Member Account Balances	(a)		$16,697,269
2.	Active Member Account Balances	(b)		69,261,381
3.	Retiree and Survivor Accrued Liabilities[11]	(c)		258,423,089
4.	Liabilities for Inactive Members[11]		$25,438,911	
5.	Inactive Member Account Balances		16,697,269	
6.	Employer-financed Vested Liabilities for Inactives[11]: (4) - (5)	(d)		$8,741,642
7.	Present Value of Accrued Benefits for Active Members[11]		$200,845,100	
8.	Active Member Account Balances		69,261,381	
9.	Employer-financed Vested Liabilities for Actives[11]: (7) - (8)	(e)		$131,583,719
10.	Total Pinnacol Pension Reserves Required: (1)+(2)+(3)+(6)+(9)			$484,707,100

Table 2.4 – Pension – Adjustment to ADC

	Item	State Division Total (a)	After Pinnacol Disaffiliation Assuming No Payment Made (b)
1.	Employer Contribution as % of Payroll:		
i.	Normal Cost	1.8475%	1.8532%
ii.	Unfunded Actuarial Accrued Liability	16.9327%	16.9600%
iii.	Total	18.7801%	18.8132%
2.	Increase in ADC: (1b) – (1a)		0.0331%
3.	Projected Payroll	$3,753,519,463	$3,673,118,784
4.	Amortization Factor[12]		13.994245
5.	Additional Reserve Required: (2b) x (3b) x (4b)		$17,014,236

[11] Determined using a discount rate of 6.25%; Liabilities for Pinnacol do not include benefits in excess of the projected IRC Section 415 limits.

[12] 20-year amortization, level % of pay used consistent with pension and OPEB benefit plans.

Table 2.5 – Health Care Trust Fund (OPEB) Reserves Required

Item	HCTF Total (a)	HCTF Pinnacol (b)
1. Total Liability for Retirees on Valuation Basis[13]	$910,875,758	$2,668,548
2. Market Value of Assets	611,911,149	
3. Unfunded Retiree Liability: (1a) - (2a)	$298,964,609	
4. Unfunded Portion: (3a) / (1a)	32.8217%	
5. Pinnacol Unfunded Retiree Liability: (1b) x (4a)		$875,862
6. Additional Termination Liability for Retirees[14]		224,703
7. Vested Termination Liability for Terminated Vesteds[14]		205,621
8. Vested Termination Liability for Active Members[14]		1,465,268
9. Total Pinnacol OPEB Reserves Required: (5b) + (6b) + (7b) + (8b)		$2,771,454

Table 2.6 - OPEB – Adjustment to ADC

Item	HCTF Total (a)	HCTF After Pinnacol Disaffiliation Assuming No Payment Made (b)
1. Employer Contribution as % of Payroll:		
i. Normal Cost	0.1517%	0.1523%
ii. Unfunded Actuarial Accrued Liability	0.4170%	0.4173%
iii. Total	0.5687%	0.5696%
2. Increase in ADC: (1b) – (1a)		0.0009%
3. Projected Payroll	$11,210,167,265	$11,129,766,586
4. Amortization Factor[15]		13.994245
5. Additional Reserve Required[16]: (2b) x (3b) x (4b)		$1,401,774

[13] Determined using a discount rate of 7.25%.

[14] Determined using a discount rate of 6.25%.

[15] 20-year amortization, level % of pay used consistent with pension and OPEB benefit plans.

[16] Total in item 5 may not compute as exhibited due to rounding.

Segal

Table 2.7 – Summary of Costs at Discount Rate of 6.25%

	Item	Pinnacol Required Reserves No Payment Made
1.	Step 3 – Pension Reserves Required	$484,707,100
2.	Step 2 – State Division Trust Fund (Pension) Assets Allocated to Pinnacol	(263,296,532)
3.	Step 4 – Additional Reserves for ADC Adjustment – Pension	17,014,236
4.	Step 5 – Net OPEB Reserves Required	2,771,454
5.	Step 6 – Additional Reserves for ADC Adjustment – OPEB	1,401,774
6.	Net Pinnacol Assurance Payment Required: (1) + (2) + (3) + (4) + (5)	$242,598,032

Thus, based on the results using a discount rate of 6.25%, the total potential impact created by the disaffiliation of Pinnacol from PERA is estimated to be $242,598,032 as of December 31, 2023. This amount includes $18,416,010 ($17,014,236 + $1,401,774) of adverse impact to the ADC calculations for the Pension and OPEB plans, respectively, due to the departing members, if no payment is made. However, a timely estimated payment of $224,182,022 ($242,598,032 - $18,416,010) would avoid an adverse financial impact on the actuarial soundness of the State Division Trust Fund and the Health Care Trust Fund.

The following tables (3.1-3.7) summarize the results of each step used to estimate Pinnacol's Full Disaffiliation Cost using a discount rate of 7.25%.

Table 3.1 – Determination of Point of Asset Depletion

	Item	Category	Allocation	Remaining Amount
1.	Market Value of Assets for the State Division Trust Fund			$18,269,648,326
2.	Less Annual Increase Reserve		$311,386,627	17,958,261,699
3.	Less Inactive Member Account Balances	(a)	798,103,571	17,160,158,128
4.	Less Active Member Account Balances	(b)	3,146,892,084	14,013,266,044
5.	Less Retiree and Survivor Accrued Liabilities[17]	(c)	$18,657,598,227	($4,644,332,183)

[17] Determined using a discount rate of 7.25%.

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Table 3.2 – Pinnacol Asset Allocation

	Item	State Division Total (a)	Pinnacol (b)
1.	Market Value of Assets less Annual Increase Reserve	$17,958,261,699	
2.	Inactive Member Account Balances	798,103,571	$16,697,269
3.	Active Member Account Balances	3,146,892,084	69,261,381
4.	Remaining Market Value of Assets: (1a) - (2a) - (3a)	14,013,266,044	
5.	Retiree and Survivor Accrued Liabilities[18]	$18,657,598,227	$236,103,743
6.	Pinnacol Ratio: (5b) / (5a)		1.2655%
7.	Pinnacol Share of Remaining Assets: (4a) x (6b)		$177,337,882
8.	Total Pinnacol Asset Allocation: (2b) + (3b) + (7b)		$263,296,532

Table 3.3 – Pension Reserves Needed as of December 31, 2023

	Item	Category	Intermediate Step	Pinnacol
1.	Inactive Member Account Balances	(a)		$16,697,269
2.	Active Member Account Balances	(b)		69,261,381
3.	Retiree and Survivor Accrued Liabilities[18]	(c)		236,103,743
4.	Liabilities for Inactive Members[18]		$21,952,047	
5.	Inactive Member Account Balances		16,697,269	
6.	Employer-financed Vested Liabilities for Inactives[18]: (4) - (5)	(d)		$5,254,778
7.	Present Value of Accrued Benefits for Active Members[18]		$167,972,812	
8.	Active Member Account Balances		69,261,381	
9.	Employer-financed Vested Liabilities for Actives[18]: (7) - (8)	(e)		$98,711,431
10.	Total Pinnacol Pension Reserves Required: (1)+(2)+(3)+(6)+(9)			$426,028,602

[18] Determined using a discount rate of 7.25%; Liabilities for Pinnacol do not include benefits in excess of the projected IRC Section 415 limits. Pinnacol is assumed to be responsible for paying any excess benefits on a “pay as you go” basis.

Table 3.4 – Pension – Adjustment to ADC

	Item	State Division Total (a)	After Pinnacol Disaffiliation Assuming No Payment Made (b)
1.	Employer Contribution as % of Payroll:		
i.	Normal Cost	1.8475%	1.8532%
ii.	Unfunded Actuarial Accrued Liability	16.9327%	16.9600%
iii.	Total	18.7801%	18.8132%
2.	Increase in ADC: (1b) – (1a)		0.0331%
3.	Projected Payroll	$3,753,519,463	$3,673,118,784
4.	Amortization Factor[19]		13.994245
5.	Additional Reserve Required: (2b) x (3b) x (4b)		$17,014,236

Table 3.5 – Health Care Trust Fund (OPEB) Reserves Required

	Item	HCTF Total (a)	HCTF Pinnacol (b)
1.	Total Liability for Retirees on Valuation Basis[20]	$910,875,758	$2,668,548
2.	Market Value of Assets	611,911,149	
3.	Unfunded Retiree Liability: (1a) - (2a)	$298,964,609	
4.	Unfunded Portion: (3a) / (1a)	32.8217%	
5.	Pinnacol Unfunded Retiree Liability: (1b) x (4a)		$875,862
6.	Additional Termination Liability for Retirees[20]		0
7.	Vested Termination Liability for Terminated Vesteds[20]		178,959
8.	Vested Termination Liability for Active Members[20]		1,268,740
9.	Total Pinnacol OPEB Reserves Required: (5b) + (6b) + (7b) + (8b)		$2,323,561

[19] 20-year amortization, level % of pay used consistent with pension and OPEB benefit plans.
[20] Determined using a discount rate of 7.25%.

Table 3.6 - OPEB – Adjustment to ADC

	Item	HCTF Total (a)	HCTF After Pinnacol Disaffiliation Assuming No Payment Made (b)
1.	Employer Contribution as % of Payroll:		
i.	Normal Cost	0.1517%	0.1523%
ii.	Unfunded Actuarial Accrued Liability	0.4170%	0.4173%
iii.	Total	0.5687%	0.5696%
2.	Increase in ADC: (1b) – (1a)		0.0009%
3.	Projected Payroll	$11,210,167,265	$11,129,766,586
4.	Amortization Factor[21]		13.994245
5.	Additional Reserve Required[22]: (2b) x (3b) x (4b)		$1,401,774

Table 3.7 – Summary of Costs at Discount Rate of 7.25%

	Item	Pinnacol Required Reserves No Payment Made
1.	Step 3 – Pension Reserves Required	$426,028,602
2.	Step 2 – State Division Trust Fund (Pension) Assets Allocated to Pinnacol	(263,296,532)
3.	Step 4 – Additional Reserves for ADC Adjustment – Pension	17,014,236
4.	Step 5 – Net OPEB Reserves Required	2,323,561
5.	Step 6 – Additional Reserves for ADC Adjustment – OPEB	1,401,774
6.	Net Pinnacol Assurance Payment Required: (1) + (2) + (3) + (4) + (5)	$183,471,641

Thus, based on the results using a discount rate of 7.25%, the total potential impact created by the disaffiliation of Pinnacol from PERA is estimated to be $183,471,641 as of December 31, 2023. This amount includes $18,416,010 ($17,014,236 + $1,401,774) of adverse impact to the ADC calculations for the Pension and OPEB plans, respectively, due to the departing members, if no payment is made. However, a timely estimated payment of $165,055,631 ($183,471,641 - $18,416,010) would avoid an adverse financial impact on the actuarial soundness of the State Division Trust Fund and the Health Care Trust Fund.

[21] 20-year amortization, level % of pay used consistent with pension and OPEB benefit plans.
[22] Total in item 5 may not compute as exhibited due to rounding.

Comments

The following comments must be kept in mind when reviewing the results presented in this letter:

- The results are based on data and asset information available as of December 31, 2023. Any actual demographic or financial experience occurring subsequent to December 31, 2023, is not reflected in this analysis. We did not audit the supplied information, but it was reviewed for reasonableness and consistency. A final determination of the reserves required will need to be performed after the effective date of disaffiliation is known based on the data and asset information at that date.

- The results related to pensions are based on the December 31, 2023, actuarial valuation of the State Division Trust Fund. The results related to OPEB are based on the December 31, 2023, actuarial valuation of the Health Care Trust Fund. The next valuation may be available before the disaffiliation is finalized, and, if so, may alter the calculations shown in this letter. Please note the December 31, 2024 valuation report will reflect the updated actuarial assumptions based on the 2024 experience study for the four-year period from January 1, 2020, through December 31, 2023.

- The methodology used to determine Pinnacol's disaffiliation cost is consistent with C.R.S. § 24-51-313-319, and prior disaffiliation calculations. The adjusted interest rate applied in Tables 3, 5, and 7 is as specified in C.R.S. § 24-51-315(5) and also provided considering discount rates of 6.25% and 7.25%, as requested by Pinnacol. Since this section of PERA law does not address employer disaffiliations from the State Division Trust Fund, it is our understanding that legislation would be required prior to the disaffiliation of Pinnacol from PERA.

If you need any further information regarding this analysis, please do not hesitate to contact Segal. The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely yours,

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