



National Conference on
Public Employee Retirement Systems — *The Voice for Public Pensions*

**Written Testimony before the Colorado General Assembly
House Finance Committee**

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Introduction

Good afternoon. My name is Hank Kim and I am the Executive Director and Counsel of the National Conference on Public Employee Retirement Systems (NCPERS). I want to thank Chair Leslie Herod, Vice Chair Shannon Bird, and the members of the Finance Committee for this opportunity to testify in support of HB20-1044, which addresses a number of important issues for the Fire & Police Pension Association of Colorado (FPPA).

NCPERS is the largest trade association for public sector pension funds, representing 500 plans, plan sponsors, and employee groups, including the Fire & Police Pension Association of Colorado, throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials, and investment, actuarial and legal professionals who collectively manage more than \$4 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders. Further, NCPERS promotes retirement security for *all* workers by advocating for state-facilitated retirement savings programs and plans to those who do not have access to an employer plan.

In addition to serving as Executive Director and Counsel for NCPERS, I currently serve as Vice-Chair of the Fairfax County Uniform Retirement System, a \$1.8 billion public employee retirement system providing pension coverage for the Fire & Rescue Department, Sheriff's Department, and certain other sworn employees of Fairfax, Virginia. Additionally, I serve as Treasurer of the National Institute on Retirement Security, a Washington, D.C. based think tank focusing on retirement security.

I am also an Editorial Advisory Panel member of the *Benefits Law Journal*, a quarterly law journal that for over 20 years has featured the most respected and accomplished employee benefits professionals who have shared their expertise. Each quarterly issue

offers in-depth analysis of new legislation, regulations, case law, and current trends governing employee benefits: pension plans, welfare benefits, executive compensation, and tax and ERISA issues.

HB20-1044 Overview

HB20-1044, the legislation that this committee is evaluating today, is an affordable, sensible, and sustainable proposal that culminates months of preparatory work by a taskforce and the FPPA. If enacted, the proposal would address a few shortfalls to the current the Statewide Defined Benefit Plan (SWDB), the Statewide Death & Disability Plan (SWD&D) and the affiliated Old Hire Fire and Police (Old Hire) plans as they wind down. Below are additional details on select provisions that impact plan contributions or sustainability.

SWDB Amendments

Employer contribution would increase to 12% over eight years, from 8% at present. This provision would require the employer contribution rate to increase by 50 basis points over each of the next eight years—to 8.5%, then to 9%, et cetera. It would also empower the FPPA Board to further increase the required contributions, dividing them equally between employer and employee, if approved in a vote by both members and employers. The Board's current statutory authority to roll back benefits to maintain actuarial soundness would remain in statute. Increasing employer contributions over eight years would help protect the plan from adverse market conditions and changes in actuarial assumptions. This increase will also equalize the contribution rates paid by members and employers. Up until 2014, contribution rates for both members and employers were set at 8%. Then in 2014, FPPA's members elected to increase their contributions over an eight-year period, raising their contribution from 8% to 12% between 2015-2022. The election did not affect employer rates, which stayed at 8%. This provision would raise employer contributions to once again match the rate paid by members.

Rule of 80: This provision will provide for a normal retirement if a member's combined years of service and age totals 80 or more. To fund the Rule of 80, a corresponding one percentage point increase in employer contributions will be implemented after any other approved employer contribution increases. To qualify for an unreduced benefit under the Rule of 80, a firefighter or police officer would most likely need to begin working at an FPPA department in their early 20s, and then work their entire career as a first responder in Colorado. In many cases, working as a first responder for so long takes an enormous physical and mental toll, and often these members must consider taking a reduced, early retirement. This rule would help to reduce such instances and reward these members' service.

SWD&D Amendment

Gives the Board the ability to adjust plan contributions by up to 20 basis points every year: This statutory change would allow the FPPA board to adjust the required contribution rate to the SWD&D Plan by up to 20 basis points per year. SWD&D provides benefits to Colorado first responders and their families if the member is seriously injured or killed. Members are covered 24/7, both on- and off-duty, until they either retire or otherwise separate from the plan. The plan and its benefits are greatly appreciated by the members and their families, knowing they have a safety net should the unthinkable happen. In the last decade, FPPA has seen a significant increase in disability claims by plan members. This influx in claims, coupled with increasing life expectancy and declining investment return assumptions, has resulted in a funding shortfall. Therefore, FPPA Board needs the ability to increase contributions to place the plan on a path towards being fully funded.

Old Hire Plans Amendments

Allows the FPPA Board to set contribution policies for affiliated Old Hire Fire and Police plans as they wind down: Old Hire plans cover employees hired prior to April 8, 1978, whose employers chose to affiliate with FPPA for certain administrative functions but maintained independent status outside of the larger Defined Benefit System. These plans are managed by FPPA and are no longer adding new members. As a result, these plans primarily consist of members who are retired. Thus, these plans are "winding down" and will only exist until they have finished paying benefits to existing members and their beneficiaries. More than 50% of the remaining Old Hire plans have 10 or fewer payees. This provision allows the Board to set contribution policies for so-called Old Hire plans that are different from other plans currently managed by FPPA, in order to address the unique needs of each plan.

HB20-1044 Affordable, Sensible, and Sustainable

Even with the proposed changes in HB20-1044, FPPA would be in keeping and very much within the norms of state and local public safety plans.

NCPERS Study

The 2019 NCPERS Public Retirement Systems (PRS) Study, published in January 2020, includes responses from 155 state and local government pension funds with more than 12.6 million active and retired members and assets exceeding \$1.4 trillion in actuarial and market value. From September to December 2019, NCPERS undertook a comprehensive study exploring retirement practices of the public sector. In partnership

with Cobalt Community Research, NCPERS has collected and analyzed the most current data available on funds' fiscal condition and steps they are taking to ensure fiscal and operational integrity. The 2019 RPS Study is our 9th consecutive year of reporting.

Among the Study's findings is data on contributions to plans from employees and plan sponsors. In 2019, the average contribution rates for all 155 Study participants, as a percentage of payroll, were 9% for employees (members) and 22% for employers (plan sponsors) for a total of 31% of payroll. Specifically for the 103 public safety plans participating in the Study (including plans with public safety members), the contribution rates were 10% for employees and 24% for employers for a total contribution rate of 34%.

Even after eight years and at full phase-in, the employer contribution rates for FPPA – should this bill be enacted – would be substantially less than what a typical public safety plan would pay.

The Public Plans Data

Another source for FPPA comparison is the Public Plans Data (PPD). The PPD is developed and maintained through a collaboration of the Center for Retirement Research at Boston College, the Center for State and Local Government Excellence, and the National Association of State Retirement Administrators.

In 2019, the average required employer contribution for the 27 public safety plans was 28.01% of payroll. Moreover, according to the 2019 PPD, FPPA has one of the lowest benefit formula at 2.0% multiplier of the highest average salary for the first 10 years, then 2.5% after that. Most public safety plans in the PPD reported 2.5% or even 3.0% for all years of service. Many plans allow full retirement at age 50 without the rule of 80. Such an example is the Colorado State Patrol, which is in PERA. Its benefit multiplier is 2.5% for all years. It also allows unreduced retirement at age 50 for participants with 25 years of service.

Conclusion

NCPERS wishes to thank Chair Leslie Herod, Vice Chair Shannon Bird, and the members of the Finance Committee for this opportunity to testify in support of HB20-1044. We believe that through this hearing, you are taking an important step towards addressing a few areas that need reform and keeps FPPA affordable, competitive, and sustainable. NCPERS stands ready to assist you with facts, research, and expertise as this body deliberates and Colorado ultimately enacts this bill. Please contact us should you need additional information. Thank you.