

HB25-1105: PERA True-up of Denver Public Schools Division

PERA rates for its member divisions are set by statute. Under law, the PERA DPS Division and the State School Division were scheduled to merge into one fund by 2039. To ensure fairness in that transition, the law requires a "true-up" of DPS's employer contribution rate every five years to align both plans before the merger. Since merging with PERA in 2009, DPS has paid over \$1 billion more than necessary compared to the Schools Division. This bill corrects that imbalance by reducing DPS's employer contribution rate by 3%.

- Splits the 3% reduction between:
 - 0.82% from the DPS Health Care Trust Fund (HCTF), which is now fully funded
 - 2.18% from the employer contribution rate, ensuring DPS remains on track for full funding.
- The Segal independent analysis, commissioned by PERA, confirms DPS could reduce its employer rate by up to 10.15% while remaining fully funded. Despite this, the bill only reduces the rate by 3%, ensuring a cautious and responsible adjustment.

Without legislative action, DPS will continue overpaying compared to other districts, further widening the funding gap.

Background:

- 2009: DPS was the only Colorado school district with its own pension plan, making teacher and staff mobility between districts difficult. [Senate Bill 09-282](#) merged DPS into PERA as a separate unit, ensuring neither DPS nor PERA would be responsible for the other's prior liabilities.
- 2010: [Senate Bill 10-001](#) increased employer contributions for both DPS and the Schools Division to reach full funding by 2039. DPS set at 3.6% higher than the School Division.
- 2015: [House Bill 15-1391](#) DPS True-Up, lowered DPS's rate from 13.75% to 10.15%
- 2018: [Senate Bill 18-200](#) raised DPS's employer contribution to 10.4% as part of broader PERA reforms.
- [Colo. Rev Stat. \(1.7\)\(e\)](#) gives the General Assembly explicit authority to adjust DPS's rate as needed.

Frequently Asked Questions and Answers:

- Does this take money out of PERA?
 - No. This simply adjusts DPS's future payments based on actuarial data.
- Why is DPS better funded than the Schools Division?
 - DPS entered PERA financially strong in 2009 and paid more than necessary between 2010-2015. These factors created today's funding imbalance.
- Does this put pensions at risk?
 - No. The DPS Division remains on track to be fully funded by 2039, even with this adjustment.
- Why not wait until 2030?
 - Waiting would cost DPS employees over \$160 million in lost earnings. The time to act is now.
- Why did a True-Up not happen in 2020?
 - A True-Up was planned, but the COVID-19 pandemic disrupted the legislative session.
- Would this trigger an automatic adjustment under Colo. Rev. Stat. 24-51-413?
 - No. DPS's unfunded liability decreases under all scenarios after 2025. The projected difference at that time is just 0.03% of all unfunded liabilities—far too small to trigger an adjustment.
- How will DPS use the savings?
 - DPS will reinvest the savings directly into employee pay. A Memorandum of Understanding (MOU) with our Unions outlines these plans. The average teacher will see over \$2,500 in salary growth.

Further Context

DPS is on track to be fully funded before 2039, even under conservative projections that include a 2.18% reduction in employer contributions ([PERA 2023 Annual Report](#)). Currently, PERA’s own projections confirm DPS will be fully funded by 2033, while the Schools Division is expected to take at least 27 more years to reach full funding. Even with a 2.18% reduction, DPS remains on track to be fully funded between 2035 and 2036—far ahead of the Schools Division.

Projected Funding Levels
(Funding % Based on Actuarial Value of Assets - AVA)

Year	PERA Baseline	PERA Projections	Projections -2.18% Reduction	Projections -3% Reduction
	Baseline (1.00% COLA - 1.00% Growth) (%)	1.00% COLA - 1.00% Growth w 2024 ROR=10.0%; +1.8% Liab; +2.0% NC (%)	1.00% COLA - 1.00% Growth w 2024 ROR=10.0%; +1.8% Liab; +2.0% NC; -2.18% cont (%)	1.00% COLA - 1.00% Growth w 2024 ROR=10.0%; +1.8% Liab; +2.0% NC; -3.00% cont (%)
2023	89.58	89.58	89.58	89.58
2024	88.81	87.79	87.79	87.79
2025	86.77	86.07	85.87	85.79
2026	89.35	88.83	88.21	87.97
2027	90.98	90.59	89.54	89.15
2028	92.75	91.95	90.47	89.91
2029	94.65	93.42	91.49	90.76
2030	96.70	95.00	92.61	91.71
2031	98.88	96.69	93.82	92.74
2032	101.19	98.47	95.12	93.86
2033	103.65	100.35	96.51	95.07
2034	106.24	102.33	97.99	96.35
2035	108.97	104.41	99.55	97.73
2036	111.84	106.58	101.2	99.18
2037	114.85	108.84	102.93	100.7
2038	119.04	112.13	105.67	103.24
2039	123.35	115.48	108.47	105.83
2040	127.79	118.89	111.31	108.46

Safeguarding Against an Auto Adjustment

DPS is actively working with [Secure PERA](#), a coalition of PERA members, retirees, and supporters, to introduce an amendment that protects against an automatic adjustment (AAP). The amendment, which will be introduced at committee, proposes: A 0.5% increase to the DPS employer rate in addition to the existing AAP rate. For example, if an AAP is triggered anytime between July 2025 and July 2030, the PERA Board may increase the employer contribution rate for DPS employers by 0.5% per instance. This safeguard ensures that DPS remains financially responsible while preventing any unintended financial instability within PERA.



101 North Wacker Drive
Suite 500
Chicago, IL 60606-1724
T 312.984.8500
segalco.com

November 4, 2024

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

Re: Denver Public Schools Division True-Up Calculation

Dear Koren:

As requested by the Board, we have calculated the "true-up" adjustment to the Employer Contribution Rate of the Denver Public Schools Division (DPS Division), effective January 1, 2025, as required to be evaluated by the Colorado Public Employees' Retirement Association (PERA) per Section 24-51-401(1.7)(e) of Colorado Revised Statutes (PERA Law). The calculations were based upon the audited results of the December 31, 2023 valuation of PERA's School Division and DPS Division, including the projection model developed using the audited valuation results.

In recognition of the effort to equalize the funded status of the School Division and DPS Division, Section 24-51-401(1.7)(e) of PERA Law (Attachment A) requires:

1. PERA to calculate a true-up to confirm the equalization status of the DPS Division and the School Division; and
2. PERA's Board to recommend to the general assembly an adjustment to the DPS Division's Employer Contribution Rate to assure the equalization of the School Division's and the DPS Division's ratios of unfunded actuarial accrued liability (UAAL) to payroll, as of December 31, 2039, if needed.

In 2010 the Denver Public Schools Retirement System (DPSRS) was merged with PERA as a separate division. At that time the Employer Contribution Rate for the DPS Division was determined as 13.75% of payroll. Based on the results of the 2015 True-up calculation, HB 15-1391 reduced the Employer Contribution Rate for the DPS Division from 13.75% to 10.15%, effective January 1, 2015.

On May 9, 2018, SB 18-200 was passed by the Colorado General Assembly that affected the Employer and Member Contribution Rates for the School and DPS Divisions as follows:

- Increase the Member Contribution Rate by an additional 2.00% of pay (phased-in beginning July 1, 2019) totaling 10.00% by July 1, 2021
- Increase the Employer Contribution Rate by an additional 0.25% totaling 10.40%, effective July 1, 2019

- Receive an allocated portion of an annual direct distribution from the State budget of \$225 million, starting July 1, 2018
- Implement an Automatic Adjustment Provision (AAP) that initiates automatic changes to Employer and Member Contribution Rates:
 - The AAP assessment, performed as of December 31, 2018, the Employer and Member Contribution Rates increased by 0.50% totaling 10.90% for the Employer and 10.50% for the Member, effective July 1, 2020.
 - The AAP assessment, performed as of December 31, 2020, the Employer and Member Contribution Rates increased by 0.50% totaling 11.40% for the Employer and 11.00% for the Member, effective July 1, 2022.
 - The AAP assessments, performed as of December 31, 2019, December 31, 2021, December 31, 2022, and December 31, 2023, did not indicate the need to modify the Employer and Member Contribution Rates beginning July 1, 2021, July 1, 2023, July 1, 2024, and July 1, 2025, respectively.

The current Employer Contribution Rates for the School and DPS Divisions are the following:

Effective Date	School and DPS Divisions
Prior to July 1, 2019	10.15%
July 1, 2019	10.40%
July 1, 2020	10.90%
July 1, 2022	11.40%

In addition, for the DPS Division, the Employer Contribution Rate, including AED and SAED contributions, is currently reduced by an amount equal to the principal payments plus interest at 8.5% necessary each year to finance the Pension Certificates of Participation (PCOPs) issued in 1997 and 2008 and refinanced thereafter. In our calculations, we are using the latest PCOP credit table shown in Attachment B.

The overall experience for the DPS Division has been more favorable than the School Division. As of December 31, 2023, the funded ratio is 89.6% for the DPS Division, compared to 66.7% for the School Division.

**December 31, 2023, Valuation Results,
 (\$ in millions)**

Division	UAAL	Projected Payroll	UAAL/Projected Payroll Ratio	Funded Ratio
School	\$16,766.1	\$6,506.1	2.577	66.7%
DPS	\$520.7	\$950.5	0.548	89.6%

In calculating the true-up adjustment, we used our projection model based on the December 31, 2023, valuation and the following assumptions:

- 7.25% return on market-value of assets for all future years
- 1.00% increase per year in the number of active members

- New members have similar characteristics as those hired in last five years
- Starting salaries for new entrants is assumed to grow at 2.30% per year
- No changes to Employer and Member Contribution Rates due to future AAP assessments

The projection results as shown in the table below indicate that the Employer Contribution Rate for the DPS Division would need to be lowered to meet the goal of equalization of the School Division's and the DPS Division's ratios of projected UAAL to payroll as of December 31, 2039.

**December 31, 2023, Valuation Projection Results,
 (\$ in millions)**

Division	UAAL as of December 31, 2039	Projected Payroll as of December 31, 2039	UAAL/Projected Payroll Ratio	Funded Ratio
School	\$15,336.7	\$9,498.4	1.615	78.6%
DPS	(\$2,023.9)	\$1,611.8	(1.256)	123.4%

As shown in the table above, the ratio of the projected UAAL to payroll as of December 31, 2039, is much higher for the School Division. In order to equalize this ratio, for the two Divisions, the Employer Contribution Rate for the DPS Division could be reduced by 10.15%; however, Section 24-51-412(2) of PERA Law (Attachment A) and SB 18-200 would effectively limit the adjustments such that the base Employer Contribution Rates would be 1.46% for 2025 and 1.25% for 2026 and thereafter, as highlighted in the table below.

Item	CY2025	CY2026	CY2027	CY2028	CY2029	CY2030
Base Employer Contribution Rate after adjustments	1.46%	1.25%	1.25%	1.25%	1.25%	1.25%
AED and SAED	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
HCTF	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%
AIR	-0.75%	-0.77%	-0.79%	-0.81%	-0.83%	-0.85%
PCOP credit	-9.69%	-9.19%	-8.82%	-8.46%	-8.13%	-7.81%
Direct Distribution	1.92%	1.85%	1.79%	1.73%	1.67%	1.62%
Non-Member Contribution to Pension ¹	1.92%	2.12%	2.41%	2.69%	2.94%	3.19%

¹ Since Section 24-51-412(2) does not reference Section 24-51-414 as an amount that can be offset, the remaining amount contributed toward pension is generally equal to the allocated portion of the Direct Distribution as a percent of payroll.

The results using these adjusted contribution rates are summarized in the table below.

**December 31, 2023 Valuation Projection Results,
Limited Adjustments to Employer Contribution Rates,
(\$ in millions):**

Division	UAAL as of December 31, 2039	Projected Payroll as of December 31, 2039	UAAL/Projected Payroll Ratio	Funded Ratio
School	\$15,336.7	\$9,498.4	1.615	78.6%
DPS	\$1,225.8	\$1,611.8	0.761	85.9%

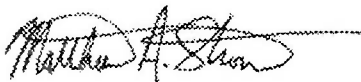
Based on the revised projected results using the adjusted Employer Contribution Rates for the DPS Division and the baseline projections for the other four divisions, the adjustments to the Employer Contribution Rates would lower the ratio on the AAP test by approximately 1%. This effect is estimated assuming all experience emerges as expected. Regardless of the magnitude of an employer contribution rate reduction for the DPS Division, any such rate reduction will have an adverse effect on the AAP assessment, potentially affecting all five PERA divisions with AAP adjustments or, at least, accelerating the next potential AAP adjustment.

Per Section 24-51-401(1.7)(e) of PERA Law, the "true-up" calculation for the DPS Division is to be performed every five years; another evaluation will be performed as of December 31, 2028. Many factors will impact the projections performed in the future, and the Employer Contribution Rate may vary in future determinations.

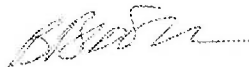
It must be noted that projections are designed to identify anticipated trends rather than predicting a specific future state of events. The projections are based on the financial status of PERA's School Division and DPS Division as of December 31, 2023, and project future events on a deterministic basis using one set of assumptions out of a range of many possibilities. The projections do not predict the financial condition of PERA's School Division and DPS Division or each division's ability to pay benefits in the future and do not provide any guarantee of future financial soundness of the Plan. Emerging results may differ significantly if the actual experience proves to be different from the assumptions. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

If we can provide any further details regarding these calculations, please do not hesitate to contact us. 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,



Matthew Strom, FSA, MAAA, EA
Senior Vice President and Actuary



Brad Ramirez, FSA, MAAA, EA
Vice President and Actuary

Attachment A

24-51-401(1.7)(e)

In recognition of the effort to equalize the funded status of the Denver public schools division and the association's school division as more fully provided in section 24-51-412, beginning January 1, 2015, and every fifth year thereafter, the association shall calculate a true-up to confirm the equalization status of the Denver public schools division and the association's school division, and, if necessary, the board shall recommend that the general assembly adjust the Denver public schools total employer rate to assure the equalization of the Denver public schools division's ratio of unfunded actuarial accrued liability over payroll to the association's school division's ratio of unfunded actuarial accrued liability over payroll at the end of the thirty-year period. The true-up shall be based on audited results of the association's school division's and the Denver public schools division's actual unfunded actuarial liability and payroll experience at every point of true-up. If the ratios of unfunded actuarial accrued liability over payroll based on actual experience are not projected to equalize over the thirty-year period, the board shall recommend that the Denver public schools division total employer rate be adjusted by the general assembly.

24-51-412(2)

Due to the circumstances specified in subsection (1) of this section, contributions required to be made by employers in the Denver public schools division pursuant to section 24-51-401(1.7)(a) and disbursements required to be made pursuant to section 24-51-411 shall be reduced by an amount in each year equal to the obligations of the Denver public schools with respect to outstanding PCOPS, or any obligations incurred to refinance the PCOPS, at a fixed effective annual interest rate of eight and one-half percent and with principal maturities as they exist on January 1, 2010, or on the date of issuance of any obligations to refinance the PCOPS, recognizing that it is not the intention to increase substantially the offset by accelerating principal maturities through refinancing. The annual offset may be applied by the Denver public schools in installments as it determines so long as there are sufficient monthly contributions to fund the DPS health care trust fund and the annual increase reserve required pursuant to section 24-51-1009, taking into account the true-up provisions in section 24-51-401, and the calculation of the offset shall be included in the contribution reports required by section 24-51-401(1.7)(a). Since, as stated in paragraph (b) of subsection (1) of this section, the funded ratio of the Denver public schools retirement system trust fund presently exceeds that of the school division of the association, the anticipated equalization of the funded ratios over a thirty-year period of the two divisions provided in section 24-51-401 (2) may necessarily result in a decline in the funded ratio of the Denver public schools division trust fund. Denver public schools shall annually submit to the association audited financial statements showing the actual debt service experience related to the PCOPs.

Attachment B

DPS Division - COP Credit Summary

Year	2011 COP - B Obligation - Principal Retirement	2011 COP - B Outstanding Principal	2011 COP - B Interest Credited at 6.5%	2013 COP - B Principal Retirement	2013 COP - B Outstanding Principal	2013 COP - B Interest Credited at 6.5%	COP Offset Total
2023	\$11,850,000	\$335,190,000	\$29,454,247	\$19,230,000	\$400,330,000	\$35,590,948	\$96,125,195
2024	\$12,950,000	\$322,240,000	\$28,442,898	\$20,160,000	\$380,170,000	\$33,952,933	\$95,505,831
2025	\$14,125,000	\$308,115,000	\$27,337,770	\$21,140,000	\$359,030,000	\$32,235,682	\$94,838,452
2026	\$15,385,000	\$292,730,000	\$26,132,450	\$22,185,000	\$336,845,000	\$30,434,888	\$94,137,338
2027	\$16,790,000	\$275,940,000	\$24,819,490	\$23,305,000	\$313,540,000	\$28,544,990	\$93,459,480
2028	\$18,355,000	\$257,585,000	\$23,386,509	\$24,500,000	\$289,040,000	\$26,559,612	\$92,801,121
2029	\$20,040,000	\$237,545,000	\$21,820,055	\$25,825,000	\$263,215,000	\$24,472,175	\$92,157,231
2030	\$21,840,000	\$215,705,000	\$20,109,949	\$27,260,000	\$235,955,000	\$22,271,703	\$91,481,652
2031	\$23,780,000	\$191,925,000	\$18,246,320	\$28,750,000	\$207,205,000	\$19,949,052	\$90,725,372
2032	\$25,855,000	\$166,070,000	\$16,217,289	\$30,295,000	\$176,910,000	\$17,499,545	\$89,866,834
2033	\$28,090,000	\$137,980,000	\$14,011,286	\$31,900,000	\$145,010,000	\$14,918,490	\$88,919,776
2034	\$30,475,000	\$107,505,000	\$11,614,749	\$33,575,000	\$111,435,000	\$12,200,749	\$87,865,498
2035	\$33,035,000	\$74,470,000	\$9,014,836	\$35,310,000	\$76,125,000	\$9,340,409	\$86,700,245
2036	\$35,785,000	\$38,685,000	\$6,196,614	\$37,105,000	\$39,020,000	\$6,332,371	\$85,418,985
2037	\$38,685,000	\$-	\$3,144,084	\$39,020,000	\$-	\$3,171,310	\$84,020,394
2038	\$-	\$-	\$-	\$-	\$-	\$-	\$-

* As Confirmed by the Public Employees' Retirement Association of Colorado

HCTF 0.82% Split Amendment to HB 25-1105 DPS True-Up Bill

Explanation:

This Amendment is intended to lessen the impact to PERA funding by splitting the 3% reduction between DPS HCTF at 0.82% (which is now fully funded) and DPS PERA Pension Division at 2.12% (which is nearly fully funded).

PERA maintains two pre-funded defined benefit retiree health care subsidy plans [i.e., Health Care Trust Fund (HCTF) and the Denver Public Schools Health Care Trust Fund (DPS HCTF)], classified as other postemployment benefit (OPEB) plans. Each OPEB plan is funded through PERA-affiliated employer contributions, allocated purchase of service dollars, and the investment earnings resulting from those contributions. The fixed contribution rate at which each PERA-affiliated employer contributes is determined by statute and is equal to 1.02% of salary for employers (§24-51-208(1)(f)), which is funneled off of the employer base contribution rate (referenced in §24-51-401(1.7)). The DPS HCTF is now fully funded as of the most recent actuarial valuation and since there is no unfunded actuarial accrued liability that exists, the actuarially determined contribution is simply equal to the associated cost of the plan.

This amendment changes the current rate of 1.02% for the DPS HCTF to instead be 0.20% (essentially re-routing 0.82% to go toward Pension instead of HCTF), and then DPS Division could reduce their employer contribution base rate by that same amount (0.82%) to attain some contribution relief/savings but doing so in a way that is actuarially neutral to PERA.

Thus, instead of 1.02% of salary from that 7.4% being paid to the DPS HCTF, only .20% will go to the DPS HCTF. Thus, effectively shifting .82% to go toward the DPS DB Trust. Meaning, that DPS is only reducing its PERA contributions by 2.18% instead of 3%.

Amendment Sample Language:

Amend printed bill, page 3, after line 8 add new Section 2:

SECTION 2: In Colorado Revised Statute, amend 3037095454

(f.5)The Denver public schools division health care trust fund, created pursuant to the provisions of section 24-51-1201(2), which consists of a portion of the employer contributions equal to TWO TENTHS OF ONE PERCENT ~~one and two one hundredths percent~~ of member salaries; a portion of the amount paid by members to purchase service credit relating to noncovered employment as determined pursuant to section 24-51-505(7); deductions of premium amounts from monthly benefits of participating benefit recipients; premiums paid directly to the trust fund by participating benefit recipients, members, and dependents; monthly payments made by employers on behalf of participating benefit recipients, members, and dependents; and interest; in addition to a proportional share of investment income earned thereon;

