Attachment D

Senate Bill 10-001

Hearing Before the House Finance Committee

February 10, 2010

COLORADO PERA

Colorado Public Employees' Retirement Association
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October 30, 2009

The Honorable Bill Ritter, Jr.
Governor of the State of Colorado
136 State Capitol
200 E. Colfax
Denver, CO 80203

Dear Governor Ritter:

Created in 1931, the Colorado Public Employees' Retirement Association (PERA) provides retirement and other benefits to more than 440,000 state, school, and local government employees. Over 400 public employers participate in PERA. While PERA's assets have a market value of over $32 billion, the market downturn of 2008 had a significant impact on the sustainability of the plan. Accordingly, the PERA Board of Trustees took action in late 2008 and began to develop options for returning the system to long-term sustainability. This legislative proposal is designed to have little or no short-term impact on member behavior.

The General Assembly was also concerned about the 2008 conditions, and as part of Senate Bill 09-282, which merged the Denver Public Schools Retirement System with the Public Employees' Retirement Association (PERA), the General Assembly directed the PERA Board of Trustees in C.R.S. § 24-51-211(2) to:

> [S]ubmit specific, comprehensive recommendations to the General Assembly regarding the possible methods to respond to the decrease in the value of the association's assets, including real estate, private equity, and other investments, to decrease the amortization period of each division of the association, and to ensure that each division of the association will become and remain fully funded.

The statute required such submission on or before November 1, 2009. Although Senate Bill 09-282 became effective on May 21, 2009, the PERA Board of Trustees began addressing the issues surrounding PERA's funded status long before that date. Beginning in the latter part of 2008, the PERA Board directed staff to review all alternatives to improve PERA's funded status. The Board ultimately commissioned the following steps to guide them in developing a comprehensive proposal:

- May 2009—PERA conducted its regular actuarial valuation for 2008
- May 2009—PERA completed projections of PERA's future funded status
- June 2009—PERA prepared an actuarial experience study
- July 2009—PERA hired a separate actuarial firm to conduct an actuarial audit
- July 2009—PERA directed its actuaries to cost each of the components of the defined benefit plan
- August 2009—PERA Board conducted eight Listening Tour Board meetings around the state

The PERA Board used this information at its September 2009 planning session to set the following guiding principles in the development of this comprehensive package:

- Shared responsibility among members, retirees, and employers;
- Intergenerational equity;
- Long-term sustainability;
- Preservation of the defined benefit plan; and
- Maintaining the same benefit structure for PERA's different divisions to preserve portability.

In addition, the recommendations are designed to have little or no short-term impact on member behavior. As an initial step toward achieving these goals, in September 2009, the Board adopted an 8 percent assumed rate of return (down from 8.5 percent) to better reflect market expectations. The Board also adopted the goal of a 30-year amortization period, meaning that the trust funds would be on track to be fully funded within three decades. The goal of a 30-year amortization period is in line with existing PERA law at C.R.S. § 24-51-211(1), which states that "A maximum amortization period of thirty years shall be deemed actuarially sound." A 30-year amortization period is also consistent with the General Accounting Standards Board (GASB) standards.

At its regularly scheduled meeting on October 16, 2009, the PERA Board voted unanimously on a package of recommendations to submit to the Colorado General Assembly for its consideration in the 2010 Legislative Session. The recommendations are designed to return PERA to long-term fiscal sustainability. Because this is a package of interdependent elements, it is important that all the recommendations be viewed together as a complete proposal rather than separate options that can be considered in isolation. Changes to one part of the proposal could jeopardize the viability of the entire package.

Enclosed you will find:

1. Summary of PERA Board recommended legislation in 2010
2. Timeline for Development of PERA's Comprehensive Legislative Proposal
3. Actuarial projections showing 2007 and 2008 valuation results for the State, School, Local Government, and Judicial Divisions
4. Actuarial asset value charts illustrating the results of the PERA Board's recommendations for the 2010 legislative session for the State, School, Local Government, and Judicial Divisions
5. Letter dated October 13, 2009, from Cavanaugh Macdonald Consulting, LLC, stating that certain pieces of the legislation cannot be priced to determine the financial impact
6. Final certification letter dated October 27, 2009, from Cavanaugh Macdonald Consulting, LLC, stating that the PERA Board's proposal is a sound actuarial response to PERA's current actuarial situation
7. PERA's *Summary Annual Financial Report* for the fiscal year ended December 31, 2008
8. Presentation to PERA Board by Cavanaugh Macdonald Consulting, LLC, summarizing their Report of the Actuarial Valuation of PERA as of December 31, 2008
9. A study measuring the economic and fiscal impacts of PERA's benefit payments to Colorado recipients and providing a description of PERA members (active and benefit recipients), prepared by Pacey Economic Group

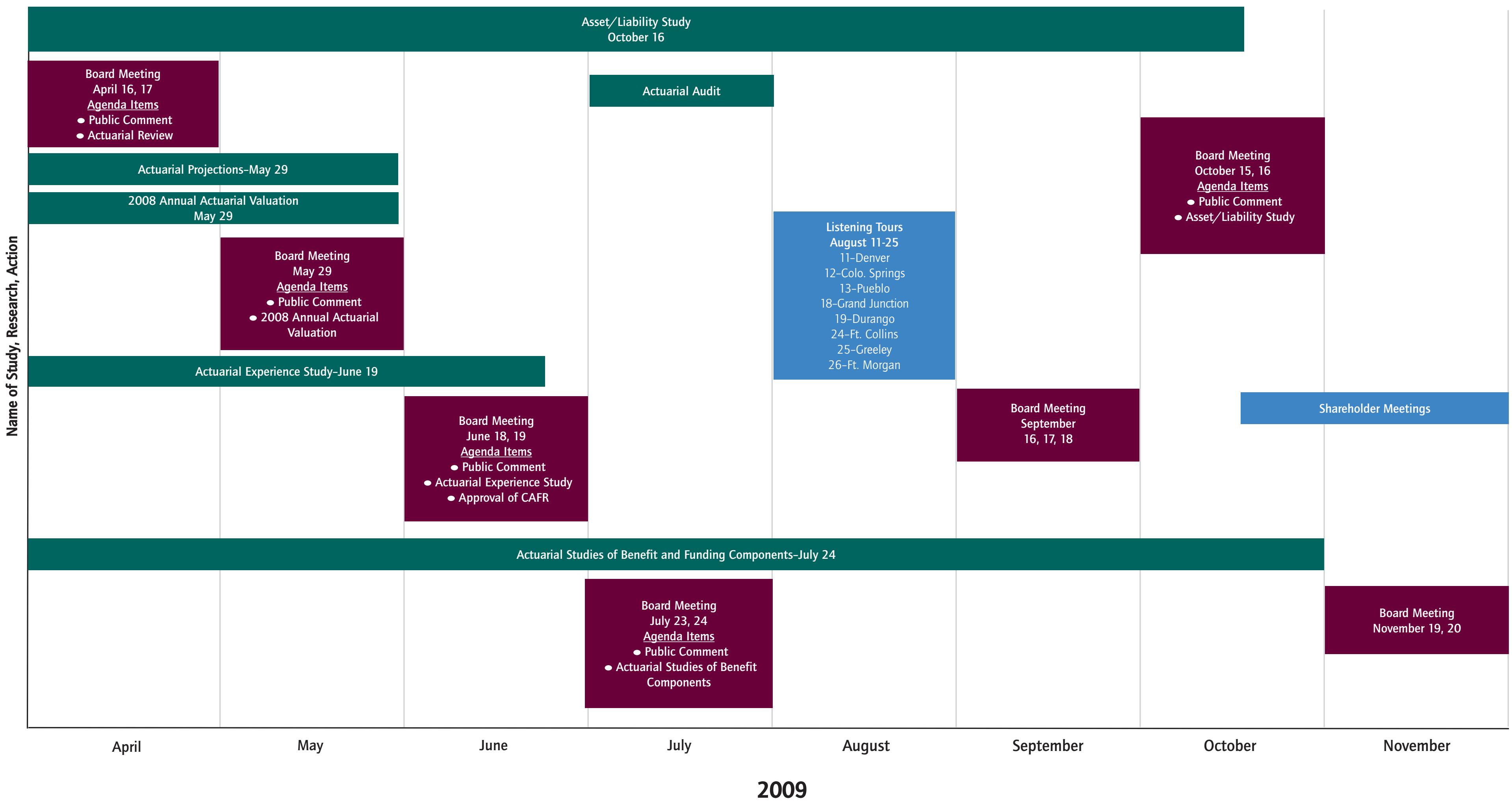
We look forward to our meeting on November 2, 2009, with the Legislative Audit Committee to further explain the Board's proposal and answer any questions the committees may have. We will then meet with the Joint Finance Committee on November 16, 2009, and the Joint Budget Committee on December 17, 2009. Along the way, PERA will seek out legislative sponsors for the Board's comprehensive proposal. As always, PERA staff is prepared to meet with anyone at any time regarding these important issues.

Sincerely,

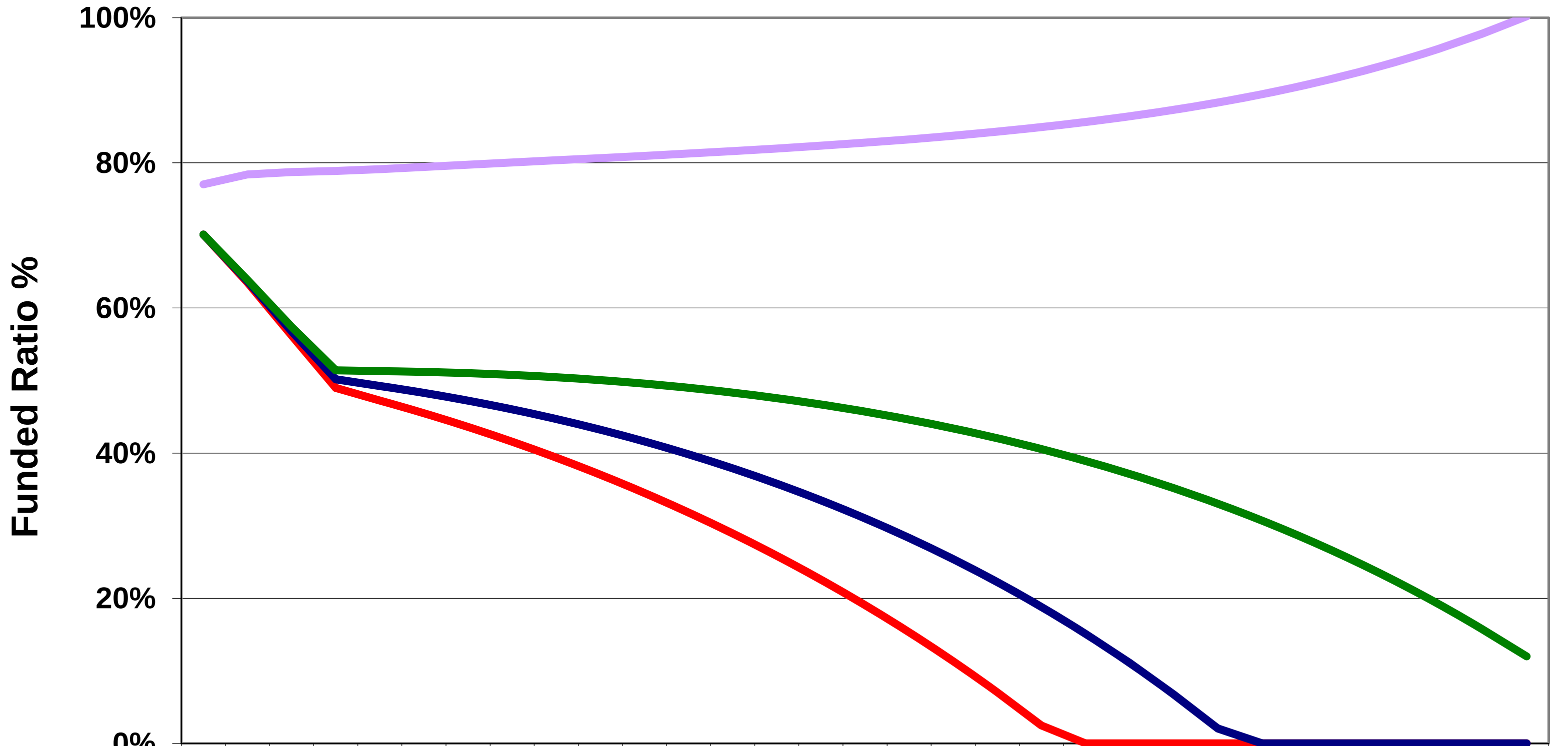
Mark Anderson
Chairman of the Board of Trustees
Colorado PERA

Enclosures

Timeline for Development of PERA's Comprehensive Legislative Proposal



School Division
Actuarial Projection



	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39
Pessimistic Return (7.0%)	70%	64%	56%	49%	47%	45%	44%	42%	39%	37%	35%	32%	29%	26%	23%	19%	15%	11%	7%	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Expected Return (8.5%)	70%	64%	57%	50%	49%	48%	47%	46%	45%	43%	42%	40%	38%	36%	34%	31%	28%	25%	22%	19%	15%	11%	7%	2%	0%	0%	0%	0%	0%	0%	0%
Optimistic Return (10.0%)	70%	64%	57%	51%	51%	51%	51%	51%	50%	50%	50%	49%	48%	48%	47%	46%	45%	43%	42%	41%	39%	37%	35%	33%	31%	28%	25%	22%	19%	16%	12%
Last Year Results Expected	77%	78%	79%	79%	79%	79%	80%	80%	80%	81%	81%	81%	82%	82%	82%	83%	83%	84%	84%	85%	86%	86%	87%	88%	89%	91%	92%	94%	96%	98%	100%

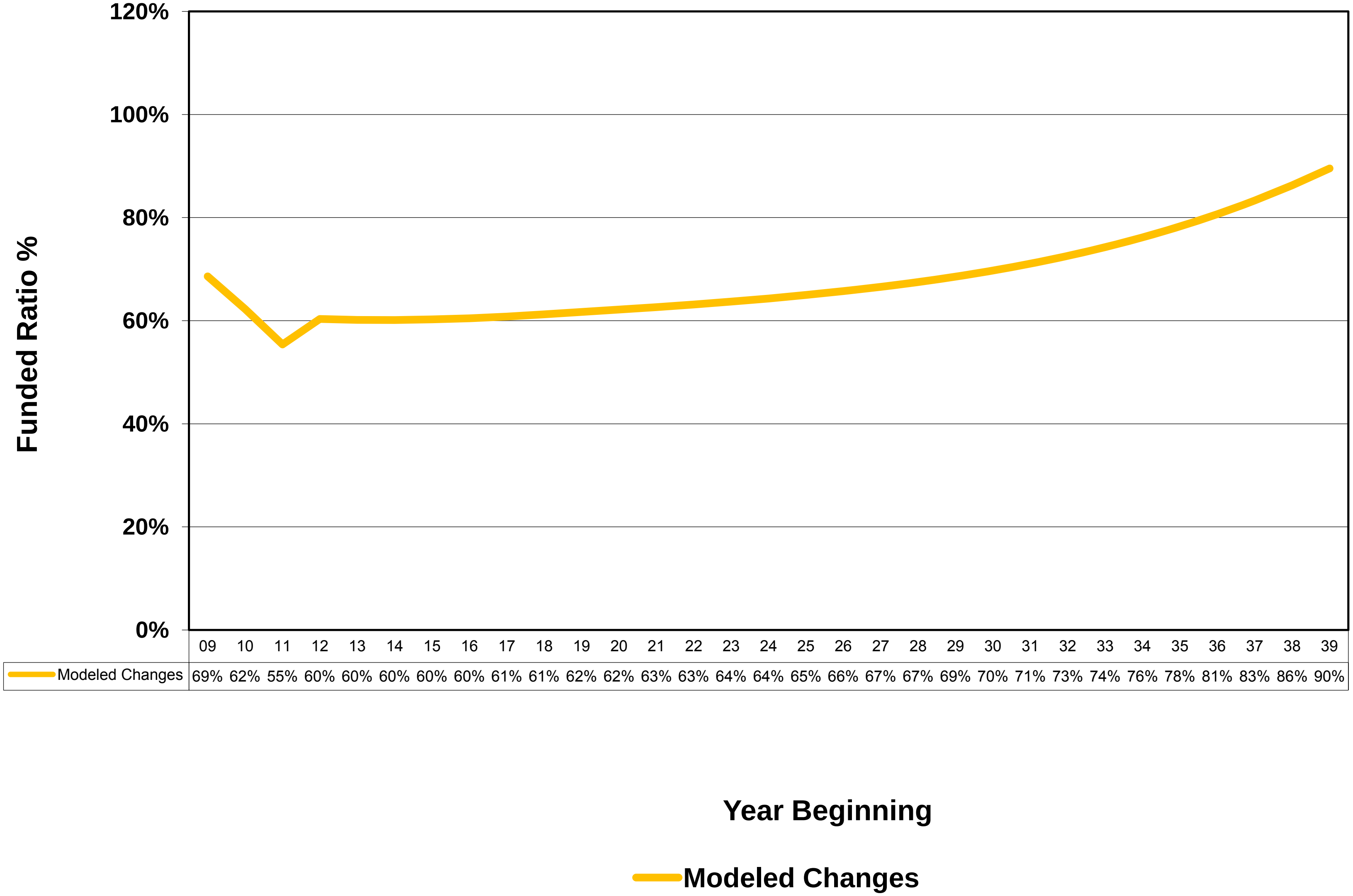
Year Beginning

Pessimistic Return (7.0%) Expected Return (8.5%) Optimistic Return (10.0%) Last Year Results Expected

December 31, 2008, Valuation Results

School Division 30-Year Funded Ratio Projection of Board's Recommendation

Based on 2008 Valuation Results and 8.0 Percent Expected Return



	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39
Modeled Changes	69%	62%	55%	60%	60%	60%	60%	60%	61%	61%	62%	62%	63%	63%	64%	64%	65%	66%	67%	67%	69%	70%	71%	73%	74%	76%	78%	81%	83%	86%	90%

PERA BOARD'S RECOMMENDED PLAN CHANGE	EFFECTIVE DATE OF CHANGE	SENATE BILL 10-001, AS INTRODUCED	EFFECTIVE DATE OF CHANGE	DIFFERENCE	SENATE AMENDMENTS TO SENATE BILL 10-001	EFFECTIVE DATE OF CHANGE	DIFFERENCE
Continue to increase AED by 0.4% per year to a total rate of 5% by 2017 *(Currently AED caps at 3% in 2012)*	Phased implementation starting in 2013	SAME AS PERA BOARD except delete the 0.4% statutory employer contribution rate increase in 2013 for the School and DPS Divisions	SAME AS PERA BOARD	PERA Board's proposal and current law would require application of two increases of 0.4% each for the School and DPS Divisions in 2013. One increase of 0.4% is scheduled in the AED and the other increase in 2013 is to the statutory employer contribution rate. SB 10-001, as introduced, deletes the 0.4% increase in the employer statutory rate.	Same as SB 10-001 except, for the School and DPS Divisions, the total rate would be reduced to 4.5%, to be reached in 2016	SAME AS SB 10-001, AS INTRODUCED	As introduced, SB 10-001 would begin the phased implementation of additional AED in 2013 for the State, School and DPS Divisions. Under the amendment, AED will increase in the School and DPS Divisions by 0.4% in 2013, 2014, 2015, and 0.3% in 2016, for a total of 4.5%. The State Division AED will escalate as set forth in SB 10-001
Continue to increase SAED by 0.5% per year to a total rate of 5% by 2017 *(Currently SAED caps at 3% in 2013)*	Phased implementation starting in 2014	SAME AS PERA BOARD	SAME AS PERA BOARD	NONE	Same as SB 10-001 except, for the School and DPS Divisions, the total rate would be increased to 5.5%, to be reached by 2018	SAME AS SB 10-001, AS INTRODUCED	As introduced, SB 10-001 would begin the phased implementation of additional SAED in 2014 for the State, School and DPS Divisions. Under the amendment, SAED will increase by 0.5% each year from 2014 through 2017 for the State, School, and DPS Divisions, and will increase 0.5% in 2018 for the School and DPS Divisions.
Reduce the Cost of Living Adjustment (COLA) to an amount equal to the CPI-W with a cap of 2%	Immediately upon effective date of the bill	SAME AS PERA BOARD except the COLA applied in years beginning in 2012 shall be the applicable COLA cap unless PERA experiences a negative investment return year which will trigger a three year period of determining the COLA amount by reference to the CPI-W subject to the applicable cap	SAME AS PERA BOARD	Under SB 10-001, as introduced, the COLA applied in years beginning in 2012 shall be the applicable COLA cap unless PERA experiences a negative investment return year which will trigger a three year period of determining the COLA amount by reference to the CPI-W subject to the applicable cap. The amount of the 2010 and 2011 COLAs shall be determined based upon the CPI-W for specified periods during 2008 and 2009, respectively, resulting in zero or near zero COLAs in 2010 and 2011.	Same as SB 10-001, except the 2010 COLA will be determined based upon the CPI-W for a specified period in 2009, resulting in a zero COLA in 2010, and the payment of the applicable COLA cap will begin in 2011 under the methodology specified in SB 10-001, as introduced.	SAME AS SB 10-001, AS INTRODUCED	The amount of the 2010 COLA will be based upon the CPI-W for specified periods in 2009, resulting in a zero COLA. The COLA applied in years beginning in 2011 will be based on the applicable COLA cap under the methodology specified in SB 10-001, as introduced.
Establish a 5-year HAS with a base year and an 8% salary increase cap	January 1, 2011	Establish a 3-year HAS with a base year and 8% increase cap	SAME AS PERA BOARD	SB 10-001, as introduced, keeps the current 3-year HAS with a base year but reduces the annual increase cap from 15% to 8%	SAME AS SB 10-001, AS INTRODUCED	SAME AS SB 10-001, AS INTRODUCED	NONE
Establish a 5-year earned service credit vesting requirement for the 50% refund match for future contributions	January 1, 2011	SAME AS PERA BOARD	SAME AS PERA BOARD	NONE	SAME AS SB 10-001, AS INTRODUCED	SAME AS SB 10-001, AS INTRODUCED	NONE

PERA BOARD'S RECOMMENDED PLAN CHANGE	EFFECTIVE DATE OF CHANGE	SENATE BILL 10-001, AS INTRODUCED	EFFECTIVE DATE OF CHANGE	DIFFERENCE	SENATE AMENDMENTS TO SENATE BILL 10-001	EFFECTIVE DATE OF CHANGE	DIFFERENCE
Add employee contribution of 8% of salary for all retirees working after retirement	January 1, 2011	SAME AS PERA BOARD	SAME AS PERA BOARD	NONE	SAME AS SB 10-001, AS INTRODUCED	SAME AS SB 10-001, AS INTRODUCED	NONE
Prevent recalculation of original retirement benefits for retirees who have suspended their benefits and returned to work	January 1, 2011 (For retirees who suspend their benefits on or after this date)	SAME AS PERA BOARD	SAME AS PERA BOARD	NONE	SAME AS SB 10-001, AS INTRODUCED	SAME AS SB 10-001, AS INTRODUCED	NONE
Change the COLA payment month from March to July	Immediately upon effective date of the bill	SAME AS PERA BOARD	SAME AS PERA BOARD	NONE	SAME AS SB 10-001, AS INTRODUCED	SAME AS SB 10-001, AS INTRODUCED	NONE
Implement a one calendar-year delay on the COLA after retirement before the COLA will be paid	January 1, 2011 (For retirements on or after this date)	Shortens the period for the COLA delay from a full calendar year after retirement to a 12 month period following retirement and adds a requirement that members retiring with a reduced service retirement must reach age 60 or meet the applicable age and service requirement for full service retirement in order to be eligible for a COLA.	SAME AS PERA BOARD	SB 10-001, as introduced, provides for a shorter period prior to receipt of a COLA and imposes minimum age and service requirements for eligibility if retired with a reduced benefit.	SAME AS SB 10-001, AS INTRODUCED	SAME AS SB 10-001, AS INTRODUCED	NONE
For everyone hired before January 1, 2007, eliminate retroactive payment of benefits	January 1, 2011	Continue the retroactive payment of benefits for everyone hired prior to January 1, 2007	SAME AS PERA BOARD	SB 10-001, as introduced, keeps the current law in place for members hired before January 1, 2007.	SAME AS SB 10-001, AS INTRODUCED	SAME AS SB 10-001, AS INTRODUCED	NONE
For everyone hired before January 1, 2007, prevent accumulation of COLA unless benefit is presently being paid	January 1, 2011	SAME AS PERA BOARD	SAME AS PERA BOARD	NONE	SAME AS SB 10-001, AS INTRODUCED	SAME AS SB 10-001, AS INTRODUCED	NONE
Revise the existing reduction factors for early reduced retirements to reflect an actuarial reduction	January 1, 2011	SAME AS PERA BOARD	SAME AS PERA BOARD	NONE	SAME AS SB 10-001, AS INTRODUCED	SAME AS SB 10-001, AS INTRODUCED	NONE

PERA BOARD'S RECOMMENDED PLAN CHANGE	EFFECTIVE DATE OF CHANGE	SENATE BILL 10-001, AS INTRODUCED	EFFECTIVE DATE OF CHANGE	DIFFERENCE	SENATE AMENDMENTS TO SENATE BILL 10-001	EFFECTIVE DATE OF CHANGE	DIFFERENCE
Implement a modified Rule of 90 (age and service add to 90) with a minimum age of 60 while not negatively impacting retiree access to PERACare for current and future members	January 1, 2011	For existing members with less than five years of service credit as of January 1, 2011, age and service requirements for full service retirement shall be a modified Rule of 85 with a minimum age of 55. For new hires on and after January 1, 2011, age and service requirements for full service retirement shall be a modified Rule of 88 with a minimum age of 58. For new hires on and after January 1, 2017, age and service requirements for full service retirement shall be a modified Rule of 90 with a minimum age of 60. These changes will not negatively impact retiree access to PERACare for current and future members	SAME AS PERA BOARD	SB 10-001, as introduced, phases in the Rule of 90, minimum age of 60, for new hires in 2017 while increasing the age and service requirement for full service retirement applicable to all unvested existing members.	Same as SB 10-001, as introduced, except the January 1, 2017 change for new hires to the Rule of 90, minimum age of 60, is deleted for the School and DPS Divisions, but will remain for the State, Local Government, and Judicial Divisions. This deletion will result in members hired after January 1, 2017, in the School and DPS Divisions to be eligible for full service retirement at age 58 with 30 years of service credit so long as the most recent 10 years of service credit is earned in the School or DPS Divisions. If the most recent 10 years of service credit is not earned in the School or DPS Divisions, the Rule of 90 with a minimum age of 60 will apply.	SAME AS SB 10-001, AS INTRODUCED	The Rule of 90, as of January 1, 2017, will only apply to the State, Local Government, and Judicial Divisions. Members hired after January 1, 2017, in the School and DPS Divisions will be eligible for full service retirement at age 58 with 30 years of service credit so long as the most recent 10 years of service credit was earned in the School or DPS Divisions. If the most recent 10 years of service credit was not earned in the School or DPS Divisions, the Rule of 90 with a minimum age of 60 will apply.
AED and SAED corridor—AED and SAED will be adjusted based on PERA's year-end funded status for each division's trust fund, with decreases allowed for the division when the division's year-end funded status reaches 110% and increases mandated when the division's funded status subsequently falls below 90%	January 1, 2011	AED and SAED will be adjusted based on PERA's year-end funded status for each division's trust fund, with decreases allowed for the division when the division's year-end funded status reaches 103% and increases mandated when the division's funded status subsequently falls below 90%	SAME AS PERA BOARD	SB 10-001, as introduced, has a corridor between 90% and 103% whereas the PERA Board's corridor is between 90% and 110%	SAME AS SB 10-001, AS INTRODUCED	SAME AS SB 10-001, AS INTRODUCED	NONE
COLA corridor—allow the COLA cap to be adjusted based on PERA's overall year-end funded status, with increases allowed when PERA is over 110% and decreases mandated when PERA's funded status subsequently falls below 90%	January 1, 2011	Allow the COLA cap to be adjusted based on PERA's overall year-end funded status, with increases allowed when PERA is over 103% and decreases mandated when PERA's funded status subsequently falls below 90%	SAME AS PERA BOARD	SB 10-001, as introduced, has a corridor between 90% and 103% whereas the PERA Board's corridor is between 90% and 110%	SAME AS SB 10-001, AS INTRODUCED	SAME AS SB 10-001, AS INTRODUCED	NONE
NONE	NONE	Add 30 days to the 110-day limit for working after retirement in a calendar year without penalty for up to 10 service retirees per employer in the School and DPS Divisions and Higher Education employers in the State Division provided full contributions are paid	January 1, 2011	No such provision was recommended by the PERA Board	Clarifies working retiree contribution remains the responsibility of the employee throughout working after retirement	SAME AS SB 10-001, AS INTRODUCED	SB 10-001 originally modified the contribution responsibilities during the period from 110 to 140 days, and the amendment eliminates this difference

PERA BOARD'S RECOMMENDED PLAN CHANGE	EFFECTIVE DATE OF CHANGE	SENATE BILL 10-001, AS INTRODUCED	EFFECTIVE DATE OF CHANGE	DIFFERENCE	SENATE AMENDMENTS TO SENATE BILL 10-001	EFFECTIVE DATE OF CHANGE	DIFFERENCE
NONE	NONE	NONE	NONE	NONE	Requires PERA to provide written notice to each member, DPS member, and inactive member that the possibility of actuarial necessity could occur in the future, and that the General Assembly may modify by bill the benefits allowed to members of the defined benefit plan	January 1, 2011	No such provision was recommended by the PERA Board or contained in SB 10-001, as introduced

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

January 27, 2010

Mr. Mark Anderson
Board Chairman
Public Employees' Retirement Association of Colorado
1300 Pennsylvania Street
Denver, CO 80203-2386

Dear Mr. Anderson:

This is to certify that the comprehensive plan of benefits and contribution changes contained in SB 10-01 as amended, and up for consideration by the PERA Board of Trustees at its January 28, 2010 meeting is a sound actuarial response to PERA's current financial situation. It is a reasonable approach to ultimately achieving the goal of fully amortizing the unfunded actuarial accrued liability of PERA's divisions and thereby reaching a 100% funded ratio for each division within the next 30 years.

If you have any questions, please do not hesitate to contact me.

Sincerely yours,

Thomas J. Cavanaugh

Thomas J. Cavanaugh, FSA, FCA, EA, MAAA
Chief Executive Officer

TJC:ek

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