Attachment F

Presented to

House of Representative Finance Committee
RE: SB 10-001

In opposition to the elimination of the
"3.5% Annual Benefit Increase"
granted to PERA retirees
by the General Assembly in 2000
RE: HB 00-1458

Presented by
Thomas J. Thielemier
PERA Retiree

WHAT IS THE EFFECT OF THE 3.5% "ANNUAL BENEFIT INCREASE" IN YOUR LEGISLATIVE AREA?

SEE FOLLOWING LISTINGS OF
PERA BENEFIT RECIPIENTS
BY COUNTY

Colorado PERA Members and Benefit Recipients by County

As of January 2010

Adams County
Active Members: 12,607
Inactive Members: 6,062
Benefit Recipients: 4,058
Annual PERA Benefits Paid: $128,283,749

Alamosa County
Active Members: 1,110
Inactive Members: 718
Benefit Recipients: 431
Annual PERA Benefits Paid: $13,261,769

Arapahoe County
Active Members: 17,701
Inactive Members: 9,669
Benefit Recipients: 6,319
Annual PERA Benefits Paid: $234,352,172

Archuleta County
Active Members: 372
Inactive Members: 318
Benefit Recipients: 136
Annual PERA Benefits Paid: $3,954,379

Baca County
Active Members: 274
Inactive Members: 215
Benefit Recipients: 96
Annual PERA Benefits Paid: $2,168,276

Bent County
Active Members: 359
Inactive Members: 186
Benefit Recipients: 97
Annual PERA Benefits Paid: $2,524,317

Boulder County
Active Members: 14,218
Inactive Members: 9,621
Benefit Recipients: 4,800
Annual PERA Benefits Paid: $177,570,890

Broomfield County
Active Members: 2,178
Inactive Members: 1,030
Benefit Recipients: 739
Annual PERA Benefits Paid: $28,344,026

Chaffee County
Active Members: 995
Inactive Members: 621
Benefit Recipients: 577
Annual PERA Benefits Paid: $19,411,189

Cheyenne County
Active Members: 106
Inactive Members: 77
Benefit Recipients: 39
Annual PERA Benefits Paid: $943,611

Clear Creek County
Active Members: 360
Inactive Members: 245
Benefit Recipients: 175
Annual PERA Benefits Paid: $6,269,206

Conejos County
Active Members: 449
Inactive Members: 367
Benefit Recipients: 225
Annual PERA Benefits Paid: $6,048,474

Costilla County
Active Members: 147
Inactive Members: 101
Benefit Recipients: 91
Annual PERA Benefits Paid: $2,355,660

Crowley County
Active Members: 216
Inactive Members: 100
Benefit Recipients: 85
Annual PERA Benefits Paid: $2,225,186

Custer County
Active Members: 175
Inactive Members: 137
Benefit Recipients: 111
Annual PERA Benefits Paid: $4,031,843

Delta County
Active Members: 1,253
Inactive Members: 843
Benefit Recipients: 702
Annual PERA Benefits Paid: $20,091,281

Denver County
Active Members: 11,626
Inactive Members: 8,029
Benefit Recipients: 5,209
Annual PERA Benefits Paid: $200,949,489

Dolores County
Active Members: 112
Inactive Members: 96
Benefit Recipients: 33
Annual PERA Benefits Paid: $807,226

Douglas County
Active Members: 10,501
Inactive Members: 5,103
Benefit Recipients: 2,360
Annual PERA Benefits Paid: $93,661,024

Eagle County
Active Members: 1,591
Inactive Members: 1,248
Benefit Recipients: 202
Annual PERA Benefits Paid: $8,183,071

El Paso County
Active Members: 29,240
Inactive Members: 14,020
Benefit Recipients: 8,884
Annual PERA Benefits Paid: $308,553,362

Elbert County
Active Members: 1,097
Inactive Members: 592
Benefit Recipients: 276
Annual PERA Benefits Paid: $9,829,122

Fremont County
Active Members: 2,655
Inactive Members: 837
Benefit Recipients: 1,574
Annual PERA Benefits Paid: $50,298,685

Garfield County
Active Members: 2,664
Inactive Members: 1,968
Benefit Recipients: 552
Annual PERA Benefits Paid: $18,726,868

Gilpin County
Active Members: 220
Inactive Members: 153
Benefit Recipients: 64
Annual PERA Benefits Paid: $2,162,433

Grand County
Active Members: 472
Inactive Members: 347
Benefit Recipients: 223
Annual PERA Benefits Paid: $7,718,553

Gunnison County
Active Members: 623
Inactive Members: 537
Benefit Recipients: 280
Annual PERA Benefits Paid: $9,942,481

Hinsdale County
Active Members: 47
Inactive Members: 50
Benefit Recipients: 10
Annual PERA Benefits Paid: $302,427

Huerfano County
Active Members: 321
Inactive Members: 246
Benefit Recipients: 210
Annual PERA Benefits Paid: $5,517,877

Jackson County
Active Members: 76
Inactive Members: 63
Benefit Recipients: 31
Annual PERA Benefits Paid: $815,949

Jefferson County
Active Members: 19,993
Inactive Members: 10,880
Benefit Recipients: 8,961
Annual PERA Benefits Paid: $354,236,302

Kiowa County
Active Members: 114
Inactive Members: 66
Benefit Recipients: 39
Annual PERA Benefits Paid: $1,010,972

Kit Carson County
Active Members: 447
Inactive Members: 322
Benefit Recipients: 157
Annual PERA Benefits Paid: $3,709,402

La Plata County
Active Members: 1,996
Inactive Members: 1,936
Benefit Recipients: 916
Annual PERA Benefits Paid: $30,875,508

Lake County
Active Members: 402
Inactive Members: 330
Benefit Recipients: 111
Annual PERA Benefits Paid: $3,143,553

Larimer County
Active Members: 13,148
Inactive Members: 10,805
Benefit Recipients: 5,638
Annual PERA Benefits Paid: $204,251,162

Las Animas County
Active Members: 854
Inactive Members: 610
Benefit Recipients: 457
Annual PERA Benefits Paid: $13,022,297

Lincoln County
Active Members: 442
Inactive Members: 153
Benefit Recipients: 126
Annual PERA Benefits Paid: $3,474,386

Logan County
Active Members: 1,699
Inactive Members: 786
Benefit Recipients: 540
Annual PERA Benefits Paid: $15,550,667

Mesa County
Active Members: 5,259
Inactive Members: 2,913
Benefit Recipients: 2,926
Annual PERA Benefits Paid: $91,791,626

Mineral County
Active Members: 51
Inactive Members: 40
Benefit Recipients: 16
Annual PERA Benefits Paid: $535,228

Moffat County
Active Members: 676
Inactive Members: 514
Benefit Recipients: 194
Annual PERA Benefits Paid: $6,125,891

Montezuma County
Active Members: 973
Inactive Members: 915
Benefit Recipients: 457
Annual PERA Benefits Paid: $12,591,711

Montrose County
Active Members: 1,602
Inactive Members: 1,266
Benefit Recipients: 794
Annual PERA Benefits Paid: $22,656,999

Morgan County
Active Members: 1,608
Inactive Members: 974
Benefit Recipients: 590
Annual PERA Benefits Paid: $14,824,808

Otero County
Active Members: 1,266
Inactive Members: 601
Benefit Recipients: 514
Annual PERA Benefits Paid: $13,866,136

Ouray County
Active Members: 231
Inactive Members: 218
Benefit Recipients: 70
Annual PERA Benefits Paid: $2,151,874

Park County
Active Members: 681
Inactive Members: 408
Benefit Recipients: 192
Annual PERA Benefits Paid: $6,476,309

Phillips County
Active Members: 243
Inactive Members: 144
Benefit Recipients: 77
Annual PERA Benefits Paid: $2,112,104

Pitkin County
Active Members: 412
Inactive Members: 567
Benefit Recipients: 86
Annual PERA Benefits Paid: $3,460,673

Prowers County
Active Members: 777
Inactive Members: 465
Benefit Recipients: 317
Annual PERA Benefits Paid: $8,242,460

Pueblo County
Active Members: 9,770
Inactive Members: 5,670
Benefit Recipients: 5,286
Annual PERA Benefits Paid: $177,913,119

Rio Blanco County
Active Members: 537
Inactive Members: 513
Benefit Recipients: 154
Annual PERA Benefits Paid: $4,686,481

Rio Grande County
Active Members: 835
Inactive Members: 601
Benefit Recipients: 294
Annual PERA Benefits Paid: $7,759,808

Routt County
Active Members: 921
Inactive Members: 1,044
Benefit Recipients: 244
Annual PERA Benefits Paid: $8,981,985

Saguache County
Active Members: 228
Inactive Members: 217
Benefit Recipients: 72
Annual PERA Benefits Paid: $1,912,302

San Juan County
Active Members: 40
Inactive Members: 41
Benefit Recipients: 8
Annual PERA Benefits Paid: $253,223

San Miguel County
Active Members: 385
Inactive Members: 452
Benefit Recipients: 46
Annual PERA Benefits Paid: $1,651,284

Sedgwick County
Active Members: 145
Inactive Members: 92
Benefit Recipients: 69
Annual PERA Benefits Paid: $1,632,689

Summit County
Active Members: 891
Inactive Members: 894
Benefit Recipients: 170
Annual PERA Benefits Paid: $7,440,886

Teller County
Active Members: 1,214
Inactive Members: 613
Benefit Recipients: 367
Annual PERA Benefits Paid: $12,345,383

Washington County
Active Members: 340
Inactive Members: 209
Benefit Recipients: 105
Annual PERA Benefits Paid: $2,555,597

Weld County
Active Members: 10,448
Inactive Members: 6,037
Benefit Recipients: 3,887
Annual PERA Benefits Paid: $126,475,472

Yuma County
Active Members: 663
Inactive Members: 509
Benefit Recipients: 220
Annual PERA Benefits Paid: $5,201,970

COLORADO PERA®

Personal.
Innovative.
Secure.

PERA BENEFITS PAID @ 3.5%
WILL DOUBLE THE AMOUNT
PAID TO RETIREES
IN EACH COUNTY IN 20 YEARS

YOUR VOTE TO ELIMINATE THE ANNUAL BENEFIT INCREASE FOR RETIRES IN SB10-001 WILL RESULT IN THE LOSS OF INCOME EQUAL TO THE "ANNUAL PERA BENEFITS PAID" TODAY IN THE COUNTIES IDENTIFIED

Analysis of Colorado PERA's 2010 Proposal

A critical analysis of Colorado PERA's 2010 legislative proposal that raises serious questions about its justification.

SUNDAY, DECEMBER 20, 2009

Problems with Colorado PERA's 2010 Legislative Proposal

by Jim Prentice, a PERA retiree

Colorado PERA has proposed legislation that will significantly reduce the benefits that a large percentage of its members and retirees expect to receive in the future. My analysis raises serious doubt about the validity of PERA's assertions that drastic changes are needed in the state-wide retirement program, and it brings to light what I believe is the real agenda behind PERA's proposal -- something that results from the required merger with the Denver Public Schools Retirement System (DPSRS) on January 1, 2010. Justification does not exist for PERA to breach its contracts with tens or hundreds of thousands of members and retirees regarding fully vested, guaranteed benefits and the benefits promised for both earned and purchased service credit.

After attending the PERA informational meeting in Colorado Springs on November 4, 2009, at which the Executive Director and the Chief Operating Officer of PERA presented their legislative proposal, I began a search to fill in some holes in their data. Information did not come in a neat package but was scattered throughout various documents. What I found has led me to the conclusion that the facts do not justify this legislative proposal that would allow PERA to reduce fully vested and supposedly guaranteed benefits to its retirees while hiding, or at least not highlighting, the real problem facing PERA.

Nearly all of the facts that I unearthed came from the web sites of PERA, Denver Public Schools, and the Denver Public Schools Retirement System. I have included the information necessary to locate these documents on the Internet so that everyone can verify the facts for themselves. I have also downloaded, saved, and printed the DPSRS documents in case PERA takes down the DPSRS web site after the merger. My opinions and conclusions are simply the logical result of piecing this puzzle together.

This article is long and very detailed, but it needs to be because of the complexity of the subject matter. Readers owe it to themselves to go the distance because PERA's proposed changes may have a significant negative effect on the income of the more than 440,000 PERA members including more than 80,000 retirees, plus the new folks coming in with the merger.

I began my trail of discovery when I noticed that the information packet provided by PERA at the meeting included actuarial projection graphs for the State, Local Government, and School Divisions but not for the Judicial Division. I located that graph along with the other three on PERA's web site at http://www.copera.org/pdf/Misc/LACGraphs2008.pdf.

I expected the results to be worse than the other divisions because the benefit provisions for the Judicial Division, especially calculation of the Highest Average Salary, absence of a prohibition against salary spiking, and working after retirement, are significantly more generous than for the other divisions. To my surprise, the projections for the Judicial Division are the best of them all. Compare the retirement provisions in PERA's booklets, available at https://www.copera.org/forms/MemberOrder.html. Especially see the Judicial Division booklet at https://www.copera.org/PDF/5/5-26.pdf.

The better actuarial projection for the Judicial Division did not make sense to me, so I dug further and found a fact sheet at http://www.copera.org/pdf/5/5-123.pdf which shows that the employer contributions are roughly one-third higher in the Judicial Division than in the other divisions. That leads to the obvious conclusion that if the employer contribution rates in the other divisions were the same as the rate for the Judicial Division, then PERA's funded status could be increased with only minor tweaking rather than a major overhaul.

Next I accessed PERA's Comprehensive Annual Financial Report For the Fiscal Year Ended December 31, 2008 (CAFR). This is a 143-page document available at http://www.copera.org/pdf/5/5-20-08.pdf.

A table at the bottom of page 28 in the CAFR lists the amount of time until full funding of each division is achieved under the provisions of existing law. It shows that the time for each division is: School, 75 years; Local Government, 19 years; Judicial, 48 years; and an infinite time period for the State Division. (The Health Care Division is not applicable because its funding is different from the others.) But the following statement is made at the top of page 29. "The amortization periods with AED and SAED do not include the full effect of the 2006 legislation. The legislation includes plan changes that will lower the normal cost for future new hires and will allow more of the employer's contribution to be used to amortize past service costs earned." In other words, the table would show even better results than it does if all currently existing legal provisions were taken into account!

The table was created by Cavanaugh Macdonald Consulting, LLC, which is the Pension and Health Care Program Actuary for PERA. Although full funding of all divisions is not achieved within 30 years as PERA would like, the table directly contradicts the information package presented by PERA in support of its proposed legislation. It is also important to recognize that an amortization period longer than 30 years does not constitute insolvency! This establishes that actuarial necessity does not exist, so therefore PERA has no justification to reduce fully vested, guaranteed benefits in my opinion.

The discrepancy between PERA's information package and the table prepared by PERA's own actuary must be reconciled. We need to know what assumptions were used for PERA's graphs. Did PERA prepare its graphs when the market was at its lowest in March of 2009? The tables and graphs must be updated using the latest information available since markets have recovered significantly in 2009. PERA should be willing to allow independent verification of the data or at least have it prepared by the actuary firm rather than in-house, and all effects from existing law should be built into the calculations to get an accurate picture. Does the projection program take into account the fact that the group of employees and retirees with the 3.5% annual increase is a closed group with membership declining as deaths occur? Transparency and verification are needed since the proposed major changes are based on PERA's claims, and data taken from PERA's own financial report appear to contradict those claims.

Apparently PERA is allowing some access to a coalition of organizations in which the Colorado Education Association is taking a lead role. But to what degree is the coalition challenging PERA's assertions? After CEA representatives left the PERA Board meeting on December 18, 2009, a Board member asked if updated charts were available from Cavanaugh Macdonald. The Chief Operating Officer replied that new ones are available and would be distributed to the Board members during Closed Executive Session. Closed sessions are used to discuss pending litigation, among other things. Does this mean the new charts do not support the claim of actuarial necessity? I would have expected PERA to present the charts publicly if they were supportive of the claim.

The average PERA member does not have the resources to create the complex financial projections that are required. Therefore we must rely on the coalition and on the members of the General Assembly to demand access and openness. All claims made by PERA must be challenged. Updated and accurate projections must be prepared. Then the results need to be presented to the public, perhaps by making them available through the web sites of both PERA and the coalition members.

My initial conclusion based on what I discovered about the employer contribution rate for the Judicial Division, that a major overhaul is not necessary, is supported by that table and statement on pages 28 and 29 in PERA's CAFR for 2008. But that being the case, I wondered what was driving PERA's decision to make big changes.

Digging further into the CAFR, I came across Note 12 to the Financial Statements on pages 61-62. This Note discusses the takeover on January 1, 2010, of Denver Public Schools Retirement System by PERA, as required by a law (SB09-282) enacted in May, 2009.

The following statement is at the top of page 62 of the CAFR. "Allows the DPS [Denver Public Schools] to subtract the amount of principal and interest payments in any year on its Pension Certificates of Participation notes from the employer contributions owed in any year except to the extent necessary to pay the contributions to the Health Care Trust Fund and the Annual Reserve Fund until the DPS Division's ratio of unfunded actuarial liabilities to payroll equals the School Division's."

Following this trail I discovered a PERA publication at http://www.copera.org/pdf/Legislation/2009/LegUp6-09.pdf that mentioned that DPS had ongoing payment obligations for Pension Certificates of Participation (PCOPS) issued in 1997 and 2008. PCOPS are a form of debt like bonds.

An Internet search located a letter written November 9, 2007, by Michael Bennet, then Superintendent of DPS, and Tom Boasberg, then Chief Operating Officer of DPS. DPS borrowed $377 million in 1997 with PCOPS that expire in 2019. (Did they mean 2017?) That money was put into DPSRS. The letter may be viewed at http://blogs.rockymountainnews.com/material_disclosures/archives/2007/11/a_pitch_to_save.html.

Then I located the 2008 Comprehensive Annual Financial Report for DPSRS at http://www.dpsrs.org/docs/FinancialAndPlanning/CAFR2008.pdf. On page 6 it states that DPSRS received $397.8 million in April, 2008, from the issuance of more PCOPS by DPS. The Bennet and Boasberg letter referenced earlier indicated that this second round of PCOPS will be for 30 years.

So between 1997 and 2008, DPS took on nearly $775 million of debt to fund its retirement system, and DPS can offset certain payments to PERA since PERA will be receiving the assets of DPSRS but DPS remains liable for the PCOPS.

The Bennett and Boasberg letter refers to debt service of $40 million per year for the 1997 PCOPS. The DPSRS CAFR for 2008 refers on page 30 to an interest rate of 8.5% for the 2008 PCOPS. Applying a simple interest calculation without factoring in repayment of principal results in debt service of roughly $34 million for the second group, bringing the total debt service into the neighborhood of $74 million per year, plus principal repayment on the 2008 group.

The merger legislation enacted in 2009 sets the employer contribution rate that DPS must pay to PERA at 13.75% from January 1, 2010, through 2012 and 14.15% thereafter. This information is also on page 30 of the DPSRS CAFR for 2008. Subtracting the 1.02% contribution to the Health Care Trust Fund, the rates become 12.73% and 13.13% respectively. But because of the offset provision in the merger legislation, most, if not all, of the employer contribution from DPS will not have to be paid to PERA for many years to come. This information also comes from page 30 which concludes with the following statement. "As stated in the Board of Trustees motion in support of the merger legislation, the Board and the management of the system believe this schedule of employer contributions will lead to a substantial decline in the funded status and soundness of the DPS Division."

PERA is taking over DPSRS on January 1, 2010, and will be responsible for the payment of retiree benefits, but PERA will receive very little from DPS employer contributions for years to come. Extrapolating from the data on page 63 of the DPSRS CAFR, the employer contribution for 2010, excluding the Health Care and Annual Reserve Funds, would be in the neighborhood of $50 million, but DPS will not have to give that money to PERA because it will be more than offset by the debt service on the PCOPS. This is a cash flow problem for PERA.

On top of that, DPS seems to have pulled a fast one on DPSRS and PERA. DPS paid employer contributions to DPSRS at the rate of 10.21% for 2008 according to the table on page 63 of the DPSRS CAFR. But DPS will put almost no money into DPSRS for the second half of 2009, as described on page 30 of the DPSRS CAFR. "On June 18, 2009, the Board of Education passed Resolution 3164 and established the employer contribution rate at 15.53% for the period beginning July 1, 2009, through December 31, 2009. This employer rate is offset by the District's payments on the outstanding PCOPs, at an assumed interest rate of 8.5%. The resulting net contribution to the plan is 0.49%, using data provided by the staff of DPS. ... The Board of Trustees and the management of the System strongly disagree with the assertion that the net contribution rate of 0.49% is actuarially sound." The merger was already decreed by law, so DPS took advantage of the opportunity to essentially stop funding the retirement system for the last six months before the merger even though benefits still had to be paid monthly. No safeguard had been written into the merger law to prevent this.

Interestingly, the DPS money grab for the second half of 2009 will be helpful to PERA because it has the effect of lowering the funded status of DPSRS. That in turn will hasten the day when the funded status of the new DPS Division and the School Division become equal, at which time DPS will lose its right to subtract debt service from its employer contributions to PERA.

The assets of DPSRS will be reduced by the DPS action affecting the last six months of 2009, and beginning January 1, 2010, PERA will have cash outlays for benefits but little inflow from employer contributions by DPS for several years, if not decades, because of the offset for debt service. The amount that PERA does not receive under the offset provision could possibly be more than one billion (with a "b") dollars, depending upon how long it takes to achieve equalization! One could say that DPS prepaid its contributions by funding the retirement program with debt, but regardless of how it is viewed the fact remains that a high price tag is attached to the assets PERA is receiving from DPSRS.

This, however, still does not completely explain why PERA wants to reduce fully vested benefits to its retirees by negatively changing the annual increase that is currently established by statute.

The provision allowing DPS to offset employer contributions to the extent of debt service continues "until the DPS Division's ratio of unfunded actuarial accrued liabilities to payroll equals the School Division's" as stated at the top of page 62 of the PERA CAFR for 2008. The funded status of the new DPS Division will undoubtedly drop as assets are liquidated to pay benefits, but PERA cannot take steps to inappropriately lower the funded status of the DPS Division because that would violate its fiduciary responsibility. Therefore it is in PERA's interest to raise the funded status of the School Division as quickly as possible to meet the naturally declining funded status of the DPS Division, thereby ending the DPS offset to the employer contributions. The longer it takes to equalize the divisions, the more cash PERA loses to the DPS offset.

One of the quickest ways to raise the funded status is to eliminate or greatly reduce the 3.5% annual increase of the PERA retirees. Using rough numbers extrapolated from the benefit payments information on page 27 of PERA's CAFR, eliminating the annual increase for 2010, which can happen since the Consumer Price Index is expected to be zero, will save the payment of $50-$60 million or thereabouts from the School Division and around $100 million overall for PERA. Saving the payment of tens of millions of dollars per year by reducing the annual adjustments will raise the funded status and hasten the day when the DPS offset must end. This is a major factor behind the PERA legislative proposal in my opinion because it connects all of the dots!

PERA has apparently seized upon the opportunity presented by the economic downturn to use that as a plausible excuse to make big changes, despite Executive Director Meredith Williams' statement in the Retiree Report of November, 2008, "...we don't want to overreact to short-term economic turmoil. Our goal is to keep a steady hand in rough waters so that we can protect our promise to you." See http://www.copera.org/pdf/Newsletters/RetireeReport/RR11-08.pdf. That statement was made, however, before the law was passed requiring PERA to acquire DPSRS.

It is true that the markets declined badly in 2008. But the markets have also recovered substantially in 2009. Jennifer Paquette, PERA's Chief Investment Officer, reported at the Board of Trustees meeting on November 20, 2009, that PERA's investments were up about 20% for the year and investments in emerging markets were up a whopping 75% for the year. Couple this information with the table mentioned earlier showing that PERA's funded status is manageable or nearly so based on provisions currently provided in the law and one can only conclude that a crisis situation does not exist.

During the PERA Board meeting on December 18, 2009, a representative of ColoradoWINS suggested making lesser changes at this time and then seeing what else might be needed later. PERA Board member Marcus Pennell replied, "I'd like to address the discussion you had about stabilizing the patient. One of the problems with that approach is simply that we can't make changes of this nature to the pension plan without actuarial necessity. If you make some percentage of changes that need to be made and it gets you out of actuarial necessity but not healed, you don't have the opportunity to treat the patient any more and they live with the injury as it is." Mr. Pennell was advocating for the need to approve the proposal as a complete package because doing something less may take away the actuarial necessity argument and thereby prevent PERA from getting all of the changes it seeks. Isn't that an admission that all of the proposed changes really are not needed but PERA is trying to make unjustified changes by bundling the package and claiming that it is an inseparable whole?

It is my conclusion that published material from PERA's own actuarial consulting firm shows that actuarial necessity for PERA's legislative proposal does not exist.

PERA seems to be inheriting a significant cash flow problem regarding the acquisition of DPSRS, but that problem should not be solved by reducing the fully vested, guaranteed benefits of retirees and future retirees. Updated, verified information is an absolute necessity before proposed legislation goes forward. PERA's funded status should be improved, but changes that result in breach of contract or violation of the Colorado Constitution are not justified.

Posted by Jim Prentice, a PERA retiree at 11:45 AM ✉✏

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About Me

Jim Prentice, a PERA retiree

View my complete profile

My Third Submittal to Legislators
Jim Prentice

This was my third submittal to all of the legislators, sent on January 24th.
Jim Prentice

Sent to the legislators:

Tough questions for PERA
From Jim Prentice, a PERA retiree:

I am sending this email to all members of the General Assembly in hopes that tough questions will be asked regarding the proposed PERA legislation in SB10-001. My analysis, which I previously furnished to you (also available at http://coloradoperaanalysis.blogspot.com) uses PERA's own documents to cast doubt on PERA's claims and on the justification for certain of the proposed changes. This is a very complex issue, so I hope that the questions enumerated here will help in the creation of appropriate legislation. I have tried to group my questions into relevant categories.

A.) Justification of the basic issue:

1. PERA's initial claim in public meetings during 2009 was that it was forecasting insolvency. Now it appears from the title of SB10-001 that it is trying to achieve fully funded status within 30 years. There is a significant difference between the two situations. PERA has been at or above 100% funded status only two years since its founding in 1931. How can this suddenly be such a critical issue when it has existed for the past 3/4 of a century?

2. If the amortization periods for PERA's divisions are longer than 30 years but mechanisms are in place that are expected to improve the situation and will EVENTUALLY bring the amortization periods to less than 30 years, are measures that reduce vested, guaranteed benefits justified?

3. Why don't the charts furnished by PERA at the informational meetings in 2009 match the table at the bottom of page 28 of PERA's CAFR for 12/31/2008 that was prepared by PERA's actuarial firm? What valuation date was used for those charts? Did PERA use a valuation date close to the market bottom in March of 2009, which would have created the worst possible results?

4. The statement by PERA's actuarial firm at the top of page 29 of the CAFR for 12/31/2008 indicates that not all of the provisions of existing law have been built into the actuarial program and that results should actually be better than shown. Does the program consider the fact that those who qualify for the 3.5% annual increase are a "closed group" that will phase out as beneficiaries die?

What provisions of existing law are not considered in the actuarial program? Why haven't those provisions been built into the program during the past four years? If all provisions of existing law were built into the program, would it show that insolvency is not forecast? Decisions will be made and laws may be passed based on the results of an actuarial program that has been acknowledged to be incomplete. Should this legislation be postponed until the program is updated so that decisions can be based on accurate information? Will a one-year delay for that purpose push PERA over the brink?

5. PERA's actuarial firm furnished new charts in December. These were given to the Trustees in closed session. Why weren't the updated charts provided to the public during the open session of PERA's Board meeting? Do those charts show drastically improved results since PERA's investments were up approximately 20% for the year and investments in emerging markets up 75%, as reported at the November Board meeting?

6. Have charts been prepared based on 12/31/2009 data? If so, do the charts fully reflect all aspects of existing law?

7. Is PERA willing to run the actuarial program with various options that may be suggested by legislators?

8. The three "independent" (appointed) PERA Trustees prepared a letter to Senator Shaffer regarding support for SB10-001. A draft of this letter was furnished at the January Board meeting. Why should employees and retirees bear the brunt of changes when that letter states "During the past six years, EMPLOYER contributions [emphasis added] have fallen $2.6 billion short of the required contributions determined necessary by actuaries"?

B.) Breach of contract:

9. Through the decades PERA has repeatedly represented the retirement benefits as guaranteed. A Formal Opinion by then Attorney General Ken Salazar states that certain benefits cannot be reduced at all and that others may be reduced only under specific circumstances. If a private financial institution in Colorado promised guaranteed benefits and then later reduced those benefits, action for breach of contract would be brought under the laws of Colorado. Shouldn't the State itself and PERA as an arm of the State be subject to the laws the State has enacted regarding the behavior of its citizens? Is the rule of law to be discarded when other viable solutions to a problem can undoubtedly be found?

10. Until just a couple of years ago, PERA actively solicited additional investment by members through a program that allowed the purchase of service credit. This was a specific financial investment over and above the regular investments made as a deduction from payroll. Assuming that legal grounds exist to reduce benefits such

as the annual increase for EARNED service credit, should PURCHASED service credit be treated differently since that was a solicited financial investment?

11. According to an email I received from PERA, "Senators Shaffer and Penry coauthored a guest column in the January 8 Denver Post...." A quotation refers to the proposed legislation and concludes "This is a promise the state will honor." That statement was made in reference to legislation they introduced that will renege on past promises. How can we trust that this promise will be kept if the State does not honor the promises that were made in the past and now exist in law?

C.) Negative CPI:

12. I submitted a question to PERA and received a reply that the annual adjustment could never be negative and result in a reduction of benefits under PERA's proposal. Reading Section 19 beginning on p.33 in SB10-001, what prevents a negative adjustment?

D.) Proposed "spike cap" in HAS calculation:

13. In SB10-001, Section 2 adds subparagraph (25)(b)(V) to CRS 24-51-101. This establishes an annual spike cap of 8% as opposed to 15% in the determination of HAS for certain employees. This seems reasonable and perhaps even generous for salaried employees. After all, how many people get raises greater than 8% now-a-days? But it can have consequences for hourly employees that may not have been considered.

What if a school district consolidates bus routes in order to reduce staff and save money but lengthens some routes in the process? A bus driver's route could increase from 6 hours per day to 7 hours. That is a 16.7% increase in time. PERA sees only the total pay and would therefore allow an increase of only 8% to apply in the calculation of HAS. In reality, the driver has probably had no increase at all in the hourly rate of pay. The increase is attributable to the extra hours that the district expects the driver to work.

The same inequity will occur if a bus driver begins working a couple of hours per day in a school cafeteria to supplement his or her income. PERA sees the increased income but makes no distinction between a pay raise for a salaried individual versus additional hours worked by an hourly employee. Similar scenarios can be imagined for custodians, mechanics, groundskeepers, office workers, and all other hourly employees. A person must work four years under the new arrangement in order to get the full benefit of the longer schedule.

I can see that it could become unduly burdensome for the system to accommodate all possible combinations of wages and hours fairly. Therefore how about imposing a spike cap of one percent (1%) on those earning $100,000 or more per year and leave the cap at 15% for those below that figure? Otherwise this is just another case of the rich getting theirs while the lowest-paid workers are hurt.

E.) DPSRS merger:

14. Now that PERA has acquired DPSRS through a merger effective 1/1/2010, DPS has the right to offset employer contributions to PERA to the extent of the debt service on 3/4 of a billion dollars it borrowed to fund its retirement system, with the offset continuing until the funded status of the School Division and the DPS Division become equal. How much is the offset expected to be in 2010? Does DPS agree with that figure?

15. How long is it expected to take until equalization occurs and what is the total amount of money that is expected to be offset by DPS until this provision ends? Does DPS agree with those figures?

16. How will those numbers be different if the annual benefit increases are left alone rather than changed as in the proposed legislation? Does DPS agree?

F.) Costs associated with legislation and litigation:

17. Assuming all money that PERA has may be considered “members’ money,” how much of the members’ money has PERA spent to date on lobbyists for this legislation?

18. How much in total of the members’ money does PERA expect to spend on lobbyists for this legislation?

19. How much of the members’ money does PERA anticipate spending on legal challenges to this legislation?

20. How much of the taxpayers’ money does PERA anticipate that the State will spend on legal challenges to this legislation?

G.) Judicial Division:

21. The Judicial Division of PERA has substantially better retirement provisions than the other divisions. This includes the Highest Average Salary calculation, spike cap, benefit formula, disability benefits, and benefit increases for working after retirement. What legitimate reason is there for providing better provisions to the

group of people who will preside over legal actions that are brought against PERA or the State as a result of laws regarding PERA?

22. Why are the employer contributions significantly higher for the Judicial Division than for the other original divisions? Is it because of the better benefits? When PERA saw that the funded status was declining in recent years but that the status of the Judicial Division was still relatively good, why weren't steps taken to increase the employer contributions in other divisions to match the Judicial Division?

23. It is not at all uncommon for a higher court to overturn a decision of a lower court, but it does not work the other way around. A member of the Colorado Appeals Court is also a member of the PERA Board of Trustees. If a judge in a lower court is trying a case involving PERA and that judge knows that a member of a higher court, in his or her capacity as a PERA Trustee, voted in favor of the issue, could that possibly influence decisions made by the lower court judge? Should the Judicial Division be prevented from having any voting representation on the PERA Board of Trustees in order to avoid this issue? (It should be noted that the new DPS Division does not have voting representation on the PERA Board.) As an alternative, should it be a requirement that the member representing the Judicial Division must be from the lowest level of court in the chain rather than from any higher level?

H.) State Division

24. The State Division is apparently in worse shape than any other division, yet SB10-001 states in lines 25-27 on page 40 "Salary from employment by a retiree who is serving in a state elected official's position shall not be subject to employer contributions or working retiree contributions." How is this perk justified under the circumstances?

My Second Submittal to Legislators
Jim Prentice

I sent the analysis that is also on http://coloradoperaanalysis.blogspot.com to the governor and all legislators on December 26th. This was my second submittal to all of the legislators, sent on January 3rd. I'm glad I downloaded and saved the source documents for my analysis since some of them have apparently been taken down now. Feel free to use any of my material in any way that is helpful.
Jim Prentice

Sent to the governor and legislators:

I prepared an analysis of several public documents of PERA, DPS, and DPSRS casting considerable doubt on PERA's claims regarding the need for the drastic changes contained in its legislative proposal. My analysis also pointed out the significant cash flow problem for PERA that has been created by the merger with DPSRS. That seems to me like a major motivating factor behind the proposal since it may involve more than a billion dollars diverted away from PERA, yet I am not aware that it has been mentioned by PERA in regard to the legislative package. I recently sent my analysis to you, and it is also available at http://coloradoperaanalysis.blogspot.com. By the way, I do not expect anyone to take my word regarding the analysis I prepared. That is why I included references for all documents. Any doubters may go directly to the source documents and read the material for themselves.

A Formal Opinion, dated November 18, 2004, of then Attorney General Ken Salazar states "Once a PERA member fulfills all the statutory requirements for a pension benefit and retires, the member's fully vested pension right cannot be reduced by the General Assembly." That Opinion also lists the conditions under which benefits may be reduced for those not yet retired. The Formal Opinion may be viewed at http://www.coloradoattorneygeneral.gov/sites/default/files/ag_opinions/2004/.pdf_2

I fully agree that the funded status of PERA should be improved, but if insolvency is not certain, then PERA needs to go back to the drawing board and come up with a plan that is compatible with Colorado law and Attorney General Salazar's Formal Opinion. If legislation is enacted that reduces fully vested, guaranteed benefits, it will result in litigation. Unfortunately PERA is expecting litigation, as admitted by Meredith Williams at a meeting I attended in Colorado Springs. That will mean spending PERA's money and the State's money, both of which are really our money, to fight against our own members and retirees.

I can do very little as an individual. Therefore I hope that any proposed legislation will be carefully scrutinized and that legislators will demand updated studies based on the latest information and market values and be sure all of the provisions of the 2004 and 2006 legislation have been incorporated. Based on a statement at the top of page 29 in PERA's CAFR for 2008, it appears that the actuarial projection program does not fully recognize that there are 3 tiers of annual increases and benefit schedules. How big of a change will that make? More complexity may be required in the computer program, but so be it. And by the way, the Dow Jones Industrial Average went up 18.8% from December 31, 2008, to December 31, 2009.

PERA members and retirees should not have to subsidize the acquisition of DPSRS. I believe that a solution can be found that will restore PERA's funded status without resulting in breach of contract or violation of the Colorado Constitution. My own proposal, titled "Plan B for PERA," follows. It contains automatic adjustment mechanisms that will force the funded status into a range of 90%-100% and keep it there or reasonably close. I would really like to know how this shakes out in the actuarial projection program.

Plan B for PERA

* The contribution rate for all employees shall be increased from 8% to 9%. This will not apply to the new DPS Division until its funded status is equalized with the School Division.

* The SAED, which is paid by the employers but funded by "foregone wage increases," will continue as scheduled under existing law and under PERA's proposal, thereby capping at 5% in 2017; however, this will apply to all divisions equally except this will not apply to the new DPS Division until its funded status is equalized with the School Division.

* The AED, which is paid by employers, will continue as scheduled under existing law and under PERA's proposal, thereby capping at 5% in 2017; however, this will apply to all divisions equally except this will not apply to the new DPS Division until its funded status is equalized with the School Division. The "double bump" of 0.8% in 2013 for the School Division will be eliminated so that the increase will be 0.4% as in the other divisions.

* Employer contribution rates for all divisions except the Judicial and DPS Divisions will increase by 1%. (The rate for the Judicial Division is already higher than any other original division. The rate for the DPS Division was established by the merger legislation.)

* Beginning in 2011, if the funded status of any division is BELOW 90% AND HAS DECLINED FROM THE PREVIOUS YEAR, the employee and employer contributions for that division shall increase 0.5%, in addition to any scheduled changes in the AED or SAED. If the year-end funded status of any division is below 100% but has increased from the previous year, no changes will be made for that division except for the scheduled changes in the AED or SAED. If the year-end funded status of any division exceeds 100%, employee and employer contributions for that division shall be reduced 0.5%. This will not apply to the new DPS Division until its funded status is equalized with the School Division.

* Employees of the Judicial Division hired after the effective date of the legislation shall be subject to the same benefit terms as the other divisions, including but not limited to the HAS, spike caps, and provisions regarding working after retirement, except that retired judges may work longer than 110 days per year without penalty if necessary to complete a case that began within the first 30 calendar days after starting work.

Conclusion

Plan B probably will not result in any significant change in employee behavior, such as a sudden increase in retirements, because it does not alter vested benefits. This alternative creates a corridor from 90% to 100% of funding and it contains built-in mechanisms to push the funded status into the corridor and keep it there. It also avoids the litigation risks inherent in PERA's original proposal. I hope that my alternative plan will be found to be of great merit.

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MATERIAL DISCLOSURES
WITH DAVID MILSTEAD

November 14, 2007 10:37 AM

A pitch to save a pension

We've obtained a letter sent out to all Denver Public Schools employees from the administration about the district's pension woes and the plan to fix it.

For background, I offer the following:

A June 25 story that outlines the problem and how the district got there

A June 27 column about one element of the problem, an $80 million actuarial error

A Sept. 26 article on this proposed solution

We are unable to replicate the charts and graphs the DPS administration included. I've helpfully inserted 'chart omitted' so they don't see looney by referring to dotted orange lines you can't see.

The letter:

November 9, 2007

Dear Colleague:

We wanted to write you today on a widely misunderstood subject but one of significant importance to you and DPS: our pension system. We know that the mention of the word "pension" may cause some of you to immediately press the delete key on this email. Given the enormous impact our pension situation has on everything we do, we ask that you please bear with us and we will try to make this as straightforward as possible. There is no urgent news in this letter, so if you are swamped please put it aside until you have some time to review it.

Recently, the DPS School Board met with representatives of the DPS Retirement System (DPSRS), and we wanted to update you on that meeting. In the meeting, we discussed a set of proposals that would fully fund our pension this year (i.e., fund the pension at 100%) and allow DPS to put an additional $12-18 million per year into the classroom over the next decade. Successful execution of these proposals would be very good news for our employees, our retirees and our students.

Where do things stand today?

As many of you know, our pension related costs have grown considerably over the past several years. The first chart below details the increases over the last five years in our pension and retiree-related costs (which include retiree health care). The $90 million that we are paying this year represents almost 20%, $1 out of every $5, of the $490 million in general fund money available to DPS this year.

(chart omitted)

This $90 million is far greater on a proportional basis than the money paid by any other school district in the state, all of which belong to PERA, the state retirement system. As the second chart demonstrates, we are paying over $1,300 per student towards our pension and retiree obligations. This is nearly two and a half times that of other school districts, which pay roughly $500 per student into PERA.

(chart omitted)

As a result of these vastly higher pension-related expenses, DPS pays roughly 27 cents on every dollar of salaries towards pension and retiree-related expenses. All other districts, by contrast, pay approximately 12 cents on every dollar of salaries. On an annual basis, this difference adds up to roughly $50 million a year in added expenses for DPS. In other words, if we paid the same for retiree-related costs as other school districts in the state, we would have $50 million more a year to spend on

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lowering class sizes, increasing salaries, developing new programs, improving benefits, renovating facilities, etc.

Why is our situation so much worse than other districts?

There are three main reasons for why our pension expenses are so much higher than other districts' pension expenses. First, we are currently funding our pension at a much higher level than PERA. As the chart below demonstrates, our pension is funded at 88% currently, compared to 74% for PERA. Since our pension has roughly $3 billion in assets, this additional 14% represents $432 million more than the equivalent for PERA.

(chart omitted)

Second, PERA, unlike DPS, has seen a significant increase in employees in recent decades. As a result of this growth in employees, PERA today has a ratio of approximately 2.5 active employees for every retiree, which is more than twice what DPS has. In a situation where the pension is underfunded, a much lower ratio of active employees to retirees means a much higher payment burden or "tax" falls on DPS as the employer for each active employee, in order to keep current with ongoing pension liabilities and make up for past underfunding. This burden can be seen in the fact, noted above, that DPS pays 27 cents on every dollar of salary towards pension and retiree-related expenses, compared to roughly 12 cents on every dollar paid by other school districts in the state. (Please note that the employee contribution of 8% is the same for employees in DPS and PERA systems; it is the employer who makes up the difference.)

Third, DPS, like PERA and many other pension systems, underfunded the pension in the past (as recently as 10 years ago, our pension was funded at only 77%) but continued to promise generous benefits, including a significant benefit increase in 2001 right as the stock market began a sharp decline.

Please know that the performance of the DPS Retirement System (DPSRS) is not in any way the cause of these problems. To the contrary, DPSRS has performed excellently, earning returns on the funds in the pension at a level in excess of many comparable pension systems. We would be in worse shape were it not for the superior performance of DPSRS.

What can we do about this situation?

Although we are a long way from fixing this structural problem altogether, we do believe we have found a way to substantially mitigate some of its effects. The transaction we are considering is very similar to one that the district executed in the late nineties.

As some of you will remember, in 1997, after many years of pension underfunding, DPS faced a $377 million shortfall in the pension. At that time, DPS executed a transaction known as a Pension Certificate of Participation or "PCOPS," which is similar to a loan. In the transaction, DPS essentially borrowed $377 million, put that money directly into the pension, and committed to pay off the loan over twenty years.

In an independent study last month, the outside actuaries for DPSRS concluded that the decision to take out the PCOPS financing and contribute the $377 million to the pension fund has thus far been a very successful one for the pension and for DPS. During those ten years, the pension fund earned an annual return of 10.2% on its investments, while DPS paid out 7.2% interest on the PCOPS. According to the DPSRS actuaries' study, had we not done the PCOPS transaction in 1997, the $90 million DPS is paying this year for pension and retiree obligations would have been $99 million; and, the pension would have $150 million less in assets than it is now projected to have in 2019 when the PCOPS expires. The actuaries, however, also cautioned that were DPSRS to experience significantly lower annual returns going forward than their projected rate of 8.5%, these gains would be lowered or, in a very bad case, wiped out.

Despite the success of the 1997 PCOPS transaction, we again face underfunding in our pension. Primarily because of decisions made in 2000 to increase retirement benefits significantly (by more than 10% for the average employee) without a sufficient increase in contributions, our pension funding has declined from 100% in 1997 to 88% today. So today, absent significant changes in the pension system, we face the following choices:

* Do not make annual "catch-up" contributions to reduce the underfunding but instead allow our pension funding to decline over time to a lower level, such as that of PERA's. Note that this decision would save us tens of millions of dollars a year in pension expenses over at least the next decade.
* Make up the underfunding in annual payments.
* Take out a new PCOPS "loan," fully fund the pension, and pay back that financing in annual payments.

It is our strong belief that the first option, however tempting to some on the surface, would be the wrong one for us to choose. We have strong economic and moral obligations to our employees and retirees to fully fund our pension obligations. We are not going to leave an insoluble mess for future generations at DPS.

Between the second and third options, we believe the third option - taking out a new PCOPS financing - is superior. Given the current low interest rates in the market, a new PCOPS financing would be significantly less expensive to DPS and much better for our employees and retirees than the second option of annual catch-up payments.

Under this third option, we would contribute to the pension the approximately $380 million necessary to fully fund the pension. Fully funding the pension today would be terrific news for our employees and retirees, and we appreciate the support we have received thus far for the idea.

If we are able to secure favorable interest rates, moreover, a financing transaction could save the district $12-18 million dollars a year over the next decade. We would put that money directly into the classroom.

As noted above, such a transaction has risk. Should the pension fund experience lower rates of return over time than DPS' borrowing costs, DPS will be worse off for having executed the financing transaction. Note that such risk is entirely for DPS, not the pension system, to bear. As the entity responsible for funding the pension (regardless of what the pension system's returns are) and as the entity taking out the financing, DPS - not DPSRS - bears all the risk of market contractions and lower than projected rates of return. It is important to keep in mind that the success or failure of the transaction will need to be measured over the 30-year life of the financing and that years of strong returns in the pension system should balance out years of poor returns over this time frame.

Equally important to remember is that, despite the many significant benefits of such a transaction (i.e., fully funding the pension while enabling the District to put millions of additional dollars a year into the classroom), even a very successful transaction will still leave us with pension costs that are nearly twice the costs on a per student and per employee basis as all the other school districts in the state. We will still be paying pension expenses of over $30 million a year more than a comparable district in PERA. Absent a change to our pension structure or significant assistance from the state, this remains the inescapable consequence of fully funding our pension benefit and having a low ratio of active employees to retirees.

The transaction we are envisioning would have our pension costs remain basically flat in real, inflation-adjusted dollars over the next 30 years. Our pension costs, therefore, should remain a relatively constant percentage of our operating budget over this time. We would not experience the dramatic $40 million decline in annual payments that we are now projected to receive in 2019 when the PCOPS expires, but would have a flatter curve over time. The chart below illustrates our real, inflation adjusted costs as they exist today (solid blue line) and what they might look like under a pension financing transaction (dotted orange line).

(chart omitted)

We look forward to continuing our discussions with you as we continue to explore our options in the coming months.

Finally, as we discuss our pension in the months to come, I would also ask that we all keep in mind that the ultimate health of our pensions and retirement system lies not with confusing numbers or charts or financing schemes but with the health of the District itself. There is nothing we can do to better guarantee our future pensions than to work together, increase our enrollment, increase our revenue, and increase our number of active employees.

If you have gotten this far in the letter, thank you very much! We will stay in touch on these important matters.

Sincerely,

Michael F. Bennet Tom Boasberg
Superintendent Chief Operating Officer

Posted by David Milstead at 10:37 AM | Comments (0)

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SB09-282

Colorado Legislative Council Staff Fiscal Note

LOCAL and STATUTORY PUBLIC ENTITY FISCAL IMPACT

Drafting Number:	LLS 09-0825	**Date:**	April 13, 2009
Prime Sponsor(s):	Sen. Sandoval; Spence Rep. Kerr A.	**Bill Status:**	Senate Finance
		Fiscal Analyst:	Chris Ward (303-866-5834)

AM029

TITLE: CONCERNING THE MERGER OF THE DENVER PUBLIC SCHOOLS RETIREMENT SYSTEM WITH THE PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION.

Fiscal Impact Summary	FY 2009-2010	FY 2010-2011
State Revenue		
State Expenditures		
FTE Position Change		
Effective Date: Certain sections take effect upon signature of the Governor; the remainder takes effect January 1, 2010.		
Appropriation Summary for FY 2009-2010: None required.		
Local Government Impact: See Denver Public Schools Impact section		

Summary of Legislation

This bill merges the assets, liabilities, and obligations of the Denver Public Schools (DPS) retirement system into the Public Employees' Retirement Association (PERA) as of January 1, 2010.

Background

Under current law, all school districts in Colorado are affiliated with PERA except DPS. Three bills have been enacted in the past — HB 08-1403, SB 05-171, and SB 03-250 — to facilitate a merger between the DPS retirement system and PERA, but the deadlines under those bills have expired. This bill merges the entities, but keeps the funding for each separate . Table 1 shows the contribution rates for each division under SB 09-282.

Table 1. PERA Contribution Rates Under SB 09-282

Division	Employer Rate	Employee Rate
State	State Troopers: 12.85%	10.00%
	All Others: 10.15%	8.00%
School	Until December 31, 2012: 10.15%	8.00%
	On and After January 1, 2013: 10.55%	8.00%
Local Government	10.00%	8.00%
Judicial	13.66%	8.00%
Denver Public Schools	Until December 31, 2012: 13.75%	8.00%
	On and After January 1, 2013: 14.15%	8.00%

In addition to the employer contribution rates described above, DPS must pay to PERA amortization equalization disbursements (AED) and supplemental amortization equalization disbursements (SAED) for DPS members, just like other PERA employers. AED and SAED contributions are phased in over time and will total 6 percent of payroll by 2013.

Members in the DPS retirement system prior January 1, 2010, would continue to accrue and receive the benefits dictated by that system; new DPS hires after that date would accrue benefits under PERA. Within PERA, members may move between divisions, including the existing school division and the new DPS division, without affecting their retirement benefits. No DPS member would have their entitlement to retirement benefits involuntarily reduced.

Public Employees' Retirement Association and Denver Public Schools Impact

The bill establishes 2 separate DPS divisions within PERA — one for retirement benefits and one for health care benefits. It also sets a contribution rate to be paid by DPS and DPS-affiliated charter schools of 13.75 percent of payroll through December 31, 2012, and 14.15 percent of payroll thereafter. Currently, DPS pays an employer contribution rate of 7.58% of payroll for its retirement system, plus a variable rate on $400 million of pension certificates of participation (PCOPS) issued in April 2008. Under the bill, DPS may offset its required contributions by the amount it pays for the PCOPS, which could actually reduce its contributions from current projected levels.

It is assumed that the proposed contribution rates were calculated to equalize the funding ratio of the DPS retirement system and PERA's school division over a 30-year period, but the actual data and assumptions actually used in developing the rates was unavailable at the time this fiscal note was completed. To address potential changes over time, the bill requires a review of the funding status of the DPS and school divisions in 2015 and each 5 years thereafter. Based on that review, the PERA board must recommend to the General Assembly a true-up adjustment to the DPS employer contribution rate to equalize funded ratios of both the DPS and school divisions. With it's $400 million in PCOPS, the DPS retirement system currently has a higher funded ratio than PERA's school division. But, the bill sets DPS contribution rates 3.60 percent higher than the rates for employers in PERA's school division, largely to compensate for the DPS offset attributable to PCOPS payments.

As noted above, the employer contribution rates set forth in SB 09-282 were presumably developed based on assumptions and estimates that may change over time. The following factors, when compared to the estimates used in developing the employer contribution rates set forth in SB 09-282, will affect the true-up calculation in 2015:

- actual payroll for DPS members;
- actual experience in terms of retirements and life expectancy of DPS members;
- actual DPS payments for PCOPS; and
- contributions to the DPS Health Care Trust Fund.

In addition, the bill will increase PERA's administrative costs, but any such increase will be paid through administrative charges to the DPS division.

Departments Contacted

Education	Public Employees Retirement Association

UP AND DOWN 17TH: No gold star for DPS in $80 million error

Published June 27, 2007 at midnight

Remember when your math teacher told you to go back and double- check your work? There are a lot of math teachers relying on a Denver Public Schools pension who wish they'd had a chance to say that to the people in charge of their retirement.

We told you in Monday's paper how the DPS pension has gone from being fully funded to nearly $400 million in the hole through a combination of poor investment returns, higher benefits and underfunding.

Part of the woeful tale is an $80 million mistake made in 2000, estimating the cost of a benefit boost. The error wiped out the remaining investment gains of the boom years and depleted a key reserve - right before the magic "two-fer" of market declines and funding shortfalls.

This is where I'd normally tell you exactly what happened. But an attempt to sort through the mess seven years later leaves us a little short of a full explanation.

When the DPS retirement system first began crafting its benefit increases in 1999, it asked Towers Perrin, then its actuarial firm, to estimate the price of an improvement in the cost-of-living adjustment for retirees' pensions.

The pension plan then made a routine switch to Watson Wyatt to do its actuarial work. It asked Watson Wyatt to price the other parts of the benefits package but declined to pay for a second opinion on the COLA change.

The overall estimate of $200 million, drawn from the two firms' work, was presented to the pension plan and DPS boards, approved and put into place as of Jan. 1, 2001.

When Watson Wyatt used the formal benefit plan document and ran the numbers that spring, a pricing problem turned up: The COLA change would cost $164 million, $80 million more than Towers Perrin had estimated.

Reaction ranged from "very, very upset," says current pension board chairwoman Kay Speer, to "livid," says Les Woodward, DPS board president at the time.

Watson Wyatt was told by Towers Perrin that the difference was a result of miscommunication between the DPS pension system and Towers Perrin regarding the original pricing, said Gene Wickes, the global director of Watson Wyatt's benefits consulting group and the consultant who worked with the pension system at the time.

Judy Shimono, the assistant executive director of the pension plan, says it's her understanding that Towers Perrin told them it had correctly priced the COLA change based on its understanding of it, but that differed from the COLA changes that were proposed and made it into the plan.

Towers Perrin spokesman Joe Conway declined to comment, citing firm policy against discussing client matters.

The boards of the pension plan and school district discussed possible legal action (although no one can specifically recall who would've been sued). But they decided to fix the problem, rather than assign blame.

Four options were considered, with two involving slightly higher annual costs to DPS and another calling for partially rolling back the cost-of-living adjustment.

The choice, however, was to empty a reserve account that had been set aside for future benefit increases and also to allocate all of the plan's investment surplus. Velma Rose, DPS' chief financial officer, recalls briefing DPS board members individually and never bringing up the error in a public meeting.

By the end of 2001, with the market's poor returns, the pension was underfunded again.

"It's pretty hard to go back and undo something that's been promised and something that would get us closer to the goal we had of making our benefits comparable to PERA," said Rose, recalling the decision.

Indeed, there was great desire to keep up with Colorado Public Employees Retirement Association, the statewide pension system that serves all teachers outside of Denver. DPS teacher recruitment would suffer if the district couldn't offer retirement benefits comparable to what the suburban schools could offer.

PERA had led the way in boosting its benefits as soon as the boomtime market returns reversed years of underfunding. DPS felt it had no choice but to follow suit.

And now both plans are underfunded again, thanks to the 2000-02 crash and the failure of the workers' employers to adequately replenish the plans

Meeting the Challenge for Our Members

COLORADO
PERA®

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2008

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Average Monthly Benefit by Division (In Actual Dollars)[1]

YEAR	STATE DIVISION	SCHOOL DIVISION	LOCAL GOVERNMENT DIVISION	JUDICIAL DIVISION
2004	$2,306	$2,286	$2,097	$3,177
2005	2,486	2,427	2,300	3,544
2006	2,570	2,523	2,395	3,672
2007	2,697	2,636	2,539	3,925
2008	2,820	2,740	2,692	4,134

[1] Colorado PERA is a substitute for Social Security for most of the public employees that earn service and receive a benefit.

Actuarial Summary

The December 31, 2008, actuarial valuation was prepared by Cavanaugh Macdonald Consulting, LLC. Actuarial valuations, based on a set of assumptions, examine a fund's assets as compared to liabilities, compare past and future trends, and determine the annual required contribution rates required of each employer in order to pay current and future benefits and compares it to the statutory contribution rate. Actuarial assumptions are studied at least every five years and are set by the Board. All major actuarial assumptions for 2008 remained unchanged. The Board will initiate an actuarial experience study in 2009 and will review all assumptions as part of that process. For more information on the annual valuations, see Note 10 on funded status and actuarial information on page 59, the Required Supplementary Information and the accompanying notes on pages 63-68, and the Actuarial Section of the *CAFR* on pages 90-108.

Actuarial Statistics—As of December 31, 2008, the Funding Ratio, the Unfunded Actuarial Accrued Liabilities (UAAL), and the amortization periods with current funding for each trust fund are shown in the table below, which is based on GASB parameters and does not fully consider future contribution rate increases nor the impact of reduced benefits for those hired in the future as provided for in Colorado law.

TRUST FUND	FUNDING RATIO	UAAL	ARC	ARC AMORTIZATION PERIOD	AMORTIZATION PERIOD WITH CURRENT FUNDING
State Division	67.9%	$6,584,297	20.16%	30 Years	Infinite
School Division	70.1%	9,266,873	18.75%	30 years	Infinite
Local Government Division	76.4%	904,787	12.31%	30 Years	29 Years
Judicial Division	80.2%	57,091	19.87%	30 Years	Infinite
Total Defined Benefit Plans		16,813,048			
Health Care	18.7%	1,112,657	1.12%	30 Years	39 Years
Total		$17,925,705			

For calculation of the annual required contribution rate, the amortization period used is 30 years as required by GASB. The amortization period is the number of years it will take to pay off the unfunded actuarial accrued liability, given the current funding and benefits, for each division based on a set of assumptions. If the amortization period is infinite, it means that based on the current funding and benefits, the unfunded actuarial accrued liability cannot be paid off if we were to meet all of our assumptions. See the Required Supplementary Information and the accompanying notes on pages 63-68 for additional information.

The table below shows the amortization periods adjusted to include the additional contributions that are a result of the 2004 legislation which established the Amortization Equalization Disbursement (AED), and the 2006 legislation, which established the Supplemental Amortization Equalization Disbursement (SAED). For more information on the future impact of the 2004 and 2006 legislation, refer to Note 12 of the Financial Statements on page 61.

Based on the December 31, 2008, valuation, the amortization periods for each fund are shown below and include all future estimated AED and SAED contributions.

TRUST FUND	AMORTIZATION PERIOD WITH FUTURE AED AND SAED INCREASES
State Division	Infinite
School Division	75 Years
Local Government Division	19 Years
Judicial Division	48 Years
Health Care	39 Years

The amortization periods with AED and SAED do not include the full effect of the 2006 legislation. The legislation includes plan changes that will lower the normal cost for future new hires and will allow more of the employer's contribution to be used to amortize past service costs earned. The future AED and SAED have not been taken into consideration in the calculation of the Annual Required Contribution as defined in GASB Statement 25 or in the amortization period based on the current year funding.

Title 24, Article 51, Section 211 of the Colorado Revised Statutes (C.R.S.) states that the amortization period of 30 years shall be deemed actuarially sound. At the end of 2008, given the current contribution rates, all funds except for the Local Government Division exceeded the 30-year amortization period.

As stated by Cavanaugh Macdonald Consulting, LLC, in the Report of the Independent Actuary on pages 90-92:

> "Colorado PERA has a funded ratio of 69% based on the Actuarial Value of Assets. The funded ratio on the Market Value of Assets is lower, at 52%. Current contribution levels are sufficient to finance the promised benefits for the Local Government Division under GASB Nos. 25 and 27. Recent contribution changes under SB 06-235 are expected to stabilize the funding levels of the Judicial Division by attaining a 30-year amortization period within the projected actuarial period of 30 years. In addition, the recent contribution changes combined with the benefit changes of SB 06-235 are expected to improve the funded status of the State and School Divisions. However, if additional gains do not materialize in the future, increases in contributions and/or benefit reductions may be necessary to fund the State and School Divisions."

At the end of 2008, the Board requested an actuarial analysis of the impact of different possible benefit and contribution changes, which will be considered during the 2010 legislative session so as to achieve long-term sustainability for the trust funds. During 2009, the Board has initiated an actuarial experience study, an actuarial audit, and an asset/liability study to assist in determining the best course of action for the various funds. Colorado PERA believes it is in the best interest of both its members and the State's taxpayers to work toward proposing legislation in the 2010 legislative session to address the dramatic decline in the financial markets and economy and the resulting decline in the Colorado PERA investment portfolio. In the long run, since contributions and investment income must equal benefits and expenses, changes in all four of these categories will be carefully considered. The comprehensive proposal for legislative action in 2010 will be based on thorough calculations and a complete picture of how the various possible changes will impact Colorado PERA's funded status and its members.

Sensitivity of Actuarial Valuation to Changes in Assumed Investment Rate of Return and Discount Rate

The most important long-run driver of a pension plan is investment income, which can contribute as much as 80 percent or more of the total inflows into a pension plan over its life. Over the last 25 years, investment income at Colorado PERA represented 58 percent of the inflows into the plans. Currently the investment rate of return and discount rate assumption is 8.5 percent. The investment return assumption (discount rate), as required by GASB, should be based on an estimated long-term investment yield for the plan, with consideration given to the nature and mix of current and expected plan investments and the basis used to determine the actuarial value of assets. To understand the importance of the investment rate of return, which is used to discount the actuarial liabilities of Colorado PERA, a one-half percent fluctuation in the investment rate of return and discount rate would change the funding ratio, UAAL, and ARC (for contributions for fiscal year ended December 31, 2010) as follows:

Investment return assumption (discount rate) equal to 8.0 percent.

TRUST FUND	FUNDING RATIO	UAAL	ARC
State Division	64.0%	$7,817,969	23.35%
School Division	66.0%	11,193,061	22.14%
Local Government Division	71.6%	1,164,438	15.16%
Judicial Division	75.9%	73,205	23.35%
Total Defined Benefit Plans		20,248,673	
Health Care	17.9%	1,173,464	1.15%
Total		$21,422,137	

Current investment return assumption (discount rate) equal to 8.5 percent.

TRUST FUND	FUNDING RATIO	UAAL	ARC
State Division	67.9%	$6,584,297	20.16%
School Division	70.1%	9,266,873	18.75%
Local Government Division	76.4%	904,787	12.31%
Judicial Division	80.2%	57,091	19.87%
Total Defined Benefit Plans		16,813,048	
Health Care	18.7%	1,112,657	1.12%
Total		$17,925,705	

- Allows the DPS to subtract the amount of principal and interest payments in any year on its Pension Certificates of Participation notes from the employer contributions owed in any year except to the extent necessary to pay the contributions to the Health Care Trust Fund and the Annual Reserve Fund until the DPS Division's ratio of unfunded actuarial accrued liabilities to payroll equals the School Division's.
- Determines how purchasing service credit, interest credit, distributions, refunds, cost-of-living increases, benefits and other administrative measures shall be calculated and determined.
- Creates portability of member benefits between the DPS Division and the other Colorado PERA Divisions.

Additional information on this bill may be found online at http://www.leg.state.co.us.

The DPSRS' Board of Trustees has the exclusive authority to invest and manage the assets of DPSRS, pay benefits, and otherwise administer DPSRS until January 1, 2010. To view the *Comprehensive Annual Financial Report* for DPSRS, go to their Web site at http://www.dpsrs.org.

Senate Bill 09-66: Consolidation of State Defined Contribution Plans Under PERA
Signed by Governor Ritter on March 31, 2009, this bill transfers the administration of the State of Colorado's Public Officials' and Employees' Defined Contribution plan and State of Colorado's 457 plan to Colorado PERA on July 1, 2009. The major provisions of this bill include the following:

- Certain employees of the State Division who are new hires would have a choice between the Colorado PERA Defined Benefit Plan and the Colorado PERA Defined Contribution Plan.
- Members of the current State Defined Contribution Plan would retain their current vesting schedule on employer contributions. Going forward, all new Colorado PERA Defined Contribution participants would be subject to the Colorado PERA vesting schedule and provisions.
- Allows certain elected officials and their employees who were eligible to participate in the State's Defined Contribution Plan prior to January 1, 2006, to elect to change between Colorado PERA's Defined Contribution Plan and Colorado PERA's Defined Benefit Plan during the annual open enrollment period.
- Colorado PERA becomes the administrator of the State's 457 Plan.

Additional information on this bill may be found online at http://www.leg.state.co.us.

Senate Bill 09-157: University of Colorado Retirement Plan Eligibility PERA
Signed by Governor Ritter on April 20, 2009, this bill clarifies the retirement plan choices for certain employees of the University of Colorado. It would allow new employees who are members of Colorado PERA to choose to continue their Colorado PERA membership or join the University's Defined Contribution Plan. This choice would be irrevocable. New employees who do not actively make a choice and have a Colorado PERA account would be placed into the Colorado PERA plan.

Senate Bill 09-56: Trinidad State Nursing Home
Signed by Governor Ritter on April 22, 2009, this bill would permit the Executive Director of the Colorado Department of Human Services to transfer the Trinidad State Nursing Home to a nonprofit corporation after a feasibility study and if certain conditions are met. If transferred, it allows current Colorado PERA members who are employees of the nursing home to continue earning Colorado PERA service credit given the Colorado PERA Board's approval. Employees hired after the transfer would not be covered by Colorado PERA. In addition, the bill applies the same provisions to any similar transfer, sale or lease of any other state nursing home.

During the 2006 legislative session, a bill that impacted Colorado PERA was passed by the Legislature and signed into law by Governor Owens on May 25, 2006. The features of the bill that will be implemented in future years that could potentially impact the financial statements to the greatest extent are listed below:

Senate Bill 06-235: Concerning Public Employees' Retirement Benefit Plans
The addition of a Supplemental Amortization Equalization Disbursement (SAED) that began January 1, 2008, at 0.5 percent of covered salary and will increase by 0.5 percent per year until an additional 3 percent is implemented. The SAED will be discontinued when each Division Trust Fund reaches 100 percent funding. The SAED is noted in the statute as foregone compensation increases from employees. The General Assembly must contract for an independent actuarial study before any future benefit enhancements can occur.

During the 2004 legislative session, a bill that impacted Colorado PERA was passed by the Legislature and signed into law by Governor Owens on June 4, 2004. The features of the bill that will be implemented in future years that could potentially impact the financial statements to the greatest extent are listed below:

Senate Bill 04-257: Public Employee Retirement Plans
This bill will provide additional employer funding for Colorado PERA and will expand the defined contribution plan option beyond elected officials to new hire State government employees. Major provisions of this bill that will be implemented after the year ended December 31, 2005, include the following:

- An "Amortization Equalization Disbursement" (AED) will be established and will require each Colorado PERA employer to pay 0.5 percent of salary to Colorado PERA, beginning January 1, 2006, increasing by 0.5 percent of salary in 2007 and by 0.4 percent of salary each subsequent year, reaching a maximum of 3 percent of salary in 2012 and thereafter. This payment will be used to help amortize Colorado PERA's unfunded liability. If Colorado PERA reaches 100 percent funded status, the AED will be repealed.
- The School employer contribution rate to Colorado PERA will increase by 0.4 percent of salary, beginning January 1, 2013.

Note 11—Sensitivity of Actuarial Valuation to Changes in Assumed Investment Rate of Return and Discount Rate

The most important long-run driver of a pension plan is investment income, which can contribute as much as 80 percent or more of the total inflows into a pension plan over its life. The investment return assumption (discount rate), as required by GASB, should be based on an estimated long-term investment yield for the plan, with consideration given to the nature and mix of current and expected plan investments and the basis used to determine the actuarial value of assets. To illustrate the importance of the investment rate of return, which is used to discount the actuarial liabilities of Colorado PERA, the funding ratio, UAAL, and ARC (for contributions for fiscal year ended December 31, 2010) are shown below at 8.0 percent (a one-half percent decrease), at 8.5 percent (the current assumption), and at 9.0 percent (a one-half percent increase):

FUNDING RATIO	ONE-HALF PERCENT DECREASE 8.0 PERCENT	CURRENT ASSUMPTION 8.5 PERCENT	ONE-HALF PERCENT INCREASE 9.0 PERCENT
State Division Trust Fund	64.0%	67.9%	71.5%
School Division Trust Fund	66.0%	70.1%	73.9%
Local Government Division Trust Fund	71.6%	76.4%	80.7%
Judicial Division Trust Fund	75.9%	80.2%	84.3%
Health Care Trust Fund	17.9%	18.7%	19.5%
UNFUNDED ACCRUED ACTUARIAL LIABILITY			
State Division Trust Fund	$7,817,969	$6,584,297	$5,554,682
School Division Trust Fund	11,193,061	9,266,873	7,675,234
Local Government Division Trust Fund	1,164,438	904,787	700,340
Judicial Division Trust Fund	73,205	57,091	43,077
Health Care Trust Fund	1,173,464	1,112,657	1,056,264
ANNUAL REQUIRED CONTRIBUTION			
State Division Trust Fund	23.35%	20.16%	17.25%
School Division Trust Fund	22.14%	18.75%	15.78%
Local Government Division Trust Fund	15.16%	12.31%	9.87%
Judicial Division Trust Fund	23.35%	19.87%	16.34%
Health Care Trust Fund	1.15%	1.12%	1.11%

Note 12—Subsequent Events

Legislation Impacting Future Years

During the 2009 legislative session, several bills that impacted Colorado PERA were passed by the Legislature and were signed into law. Below are listed a summary of the bills that could potentially impact the financial statements to the greatest extent:

Senate Bill 09-282: The Denver Public Schools Retirement System/PERA Merger

The Colorado PERA Board of Trustees, at their April 13, 2009, Board meeting, approved the following motion after reviewing Senate Bill 09-282: "The Board recognizes the valuable provisions of Senate Bill 09-282 relating to statewide portability for all educators and support personnel, expanded investment diversification, efficiencies in administration, improved opportunities for health care coverage, and the separate division approach that eliminates the risk of subsidy between the divisions. At the same time, the Board recognizes the authority of the General Assembly to establish contribution rates and notes that the funding provisions contained in the legislation for the Denver Public Schools Division are inadequate and will lead to the actuarial deterioration of the funded status of the Division, ultimately requiring substantially increased contributions to provide for the retirement security of the members and beneficiaries of the Denver Public Schools Division. The Board also states that upon the passage of Senate Bill 09-282 that the Colorado PERA Board and staff will implement the bill's provisions in a prudent, productive, and professional fashion. Accordingly, the Board of Trustees endorses all aspects of the bill, with the exception of the funding provisions, which the Board opposes."

Senate Bill 09-282 was passed by the Legislature and signed by Governor Ritter on May 21, 2009, this bill mandates the merging of the Denver Public Schools Retirement System (DPSRS) and the Denver Public Schools Retiree Health Care Plan into Colorado PERA on January 1, 2010. The major provisions of the bill include the following:

- Creates the Denver Public Schools (DPS) Division as a separate division within Colorado PERA containing all of the assets and liabilities of the DPSRS.
- Creates a separate health care trust fund for DPS and allows DPS retirees to participate in PERACare.
- Appoints a non-voting ex officio Board member from the DPS Division to serve on the Colorado PERA Board as of the effective date of the bill.
- Repeals the Statutory provisions regarding previous merger attempts between Colorado PERA and DPSRS.
- Sets the employer contribution rate for the DPS Division at 13.75 percent from January 1, 2010, to December 31, 2012, and at 14.15 percent from January 1, 2013, and thereafter. Requires DPS Division employers to contribute the AED and SAED.
- Sets the member contribution rate for the DPS Division at 8.00 percent.
- Beginning January 1, 2015, and every fifth year thereafter, a true-up will be calculated to determine whether the DPS employer rate must be adjusted to assure the equalization of the DPS Division's ratio of unfunded actuarial accrued liability over payroll to the Colorado PERA School Division's ratio of unfunded actuarial accrued liability over payroll at the end of the 30-year period.

State Contributions

An article in the March 1 *Denver Post* reported that the State is going to reduce employer contributions to PERA beginning with the March payroll. The article was not entirely accurate.

Representatives of the Joint Budget Committee and the Governor's Office of State Planning and Budget have been working on the State's budget "crisis" for some time. In mid-February, they approached PERA staff and indicated that they were looking at suspending State employer contributions to PERA over the next four months.

The Board discussed this development at a special meeting on February 20 and directed its staff to work with the Committee and Office of State Planning and Budget to minimize the impact of any action that might ultimately be proposed by the Joint Budget Committee. Specifically, the Board directed its staff to work to:

- Limit any reduction in State employer contributions
- Seek early repayment of the deferred amount with interest
- Ensure that the State employer contribution rate return to the required level on July 1, 2002
- Stop further consideration of HB 1184 this legislative session

PERA staff have followed the Board's directives in several subsequent meetings with staff of the Joint Budget Committee and Governor's Office of State Planning and Budget.

If the process moves forward, the Joint Budget Committee will consider legislation to implement its proposed budget cuts or adjustments. As of March 7, no such legislation has been proposed. Before any such cuts or adjustments could take effect, the legislation would have to pass both the House and Senate and be signed by the Governor.

The Board's top priority is to maintain the financial integrity of the PERA fund for the exclusive benefit of PERA members. The Board regrets that the State's budget "crisis" may cause the State to defer a portion of its required contributions. The Board will continue its efforts to minimize the impact of any deferral of contributions.

The PERA retirement fund is actuarially sound, and assets are adequate to pay guaranteed benefits each month for life. Laws for "gainsharing" passed in 1999 and 2000 provide that PERA's good financial results will benefit members, benefit recipients, and employers fairly. That is why it is important for any deferral of employer contributions to be repaid with interest.

3.5% specified by
24-51-1002 CRS

Benefits Increase in March

Most retirees will see a 3.5 percent increase in their March 29 benefit payments. The automatic 3.5 percent increase was enacted as part of legislation passed in 2000, which no longer tied PERA benefit increases to the consumer price index or inflation rate.

PERA's 3.5 percent benefit increase continues to be one of the highest post-retirement adjustments provided by any public retirement system.

Members who retired during 2001 will receive a prorated annual increase, which is a proportional amount of the 3.5 percent increase, as listed below. (January and February 2001 retirees receive one or two additional month's increase in March 2002 to bring them current to the March cycle.)

January:	**4.1%**
February:	**3.8%**
March	**3.5%**
April:	**3.2%**
May:	**2.9%**
June:	**2.6%**
July:	**2.3%**
August:	**2.0%**
September:	**1.8%**
October:	**1.5%**
November:	**1.2%**
December:	**0.9%**

Quick Facts About PERA and Enron

Standard & Poor's reports that public pension funds lost $1.5 billion through investments in Enron, less than seven one-hundredths of 1 percent (0.07%) of $2.3 trillion in total fund assets. Colorado PERA lost $9 million, about three one-hundredths of 1 percent (0.03%) of our $27.5 billion portfolio. Keep in mind that PERA made over $20 million in Enron investments, net of this $9 million loss, during the 1990s. This demonstrates the diversity and strength of Colorado PERA, your pension fund.

Thinking Of Retiring? Consider Your Options.

www.socialsecurity.gov

What You Need To Consider

As you approach the age when you can receive Social Security retirement benefits, you have options to consider and decisions to make. Before making your retirement decision, we hope you will consider all the options.

There are important questions you need to ask yourself. At what age do you want to begin receiving benefits? Do you want to stop working and receive benefits? Do you want to work and receive benefits at the same time? Or do you want to work beyond your full retirement age and delay receiving benefits?

When you continue working beyond full retirement age, your benefit may increase because of your additional earnings. If you delay receiving benefits, your benefit will increase because of the special credits you will receive for delaying your retirement. This increased benefit could be important to you later in your life. It also could increase the future benefit amounts your family and survivors could receive.

Each person's retirement situation is different. It depends on circumstances such as health, financial needs and obligations, family responsibilities, amount of income from work and other sources. It also may depend on the amount of your Social Security benefit.

We hope the following information will help you make your retirement decision.

About The Options

Retiring At Full Retirement Age—To retire, you must have earned 40 credits. See the table below to determine your full retirement age.

Year of birth*	Full retirement age
1937 (or earlier)	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960	67

*Refer to the previous year if you were born on January 1.

Retiring Early—If you've earned 40 credits, you can start receiving Social Security benefits at 62 or at any month between 62 and full retirement age. However, your benefits will be permanently reduced based on the number of months you receive benefits before you reach full retirement age. If you retire before your full retirement age of 65, your benefits will be reduced:

20 percent at age 62;
13⅓ percent at age 63; or
6⅔ percent at age 64.

If your full retirement age is 66, they will be reduced:

25 percent at age 62;
20 percent at age 63;
13⅓ percent at age 64; or
6⅔ percent at age 65.

Receiving Retirement Benefits While You Work—You can work while receiving monthly benefits. And it could mean a higher benefit that can be important to you later in your life and increase the future benefits your family and survivors could receive.

We'll review your record each year to see whether the additional earnings will increase your monthly benefit. If there's an increase, we'll send you a notice of your new benefit amount. Earnings in or after the month you reach full retirement age won't reduce your Social Security benefits. However, if you receive benefits before reaching your full retirement age, your benefit amount will be reduced.

- In the year you reach full retirement age, but before your birth month, $1 in benefits will be deducted for each $3 you earn above the annual limit ($30,720 in 2003). For example, if you reach full retirement age in June 2003 and continue to work, your benefits for January through May will be reduced $1 for each $3 you earn above $30,720. After that, **your benefits will not be reduced, no matter how much you earn.**
- In the years before you reach full retirement age, $1 in benefits will be deducted for each $2 you earn above the limit ($11,520 in 2003 and rises each year).

If you lose benefits because of work, your benefit will be increased later to account for the months you didn't receive a benefit before reaching full retirement age.

Delaying Retirement—You may decide to continue working beyond your full retirement age without choosing to receive benefits. If so, your benefit will be increased by a certain percentage for each month you don't receive benefits between your full retirement age and age 70. This table shows the rate your benefits increase if you delay retiring.

Year of birth	Yearly Increase Rate
1929 - 1930	4.5%
1931 - 1932	5%
1933 - 1934	5.5%
1935 - 1936	6%
1937 - 1938	6.5%
1939 - 1940	7%
1941 - 1942	7.5%
1943-or later	8%

Applying For Social Security Retirement Benefits And Medicare—It's best to contact Social Security three months before the month in which you want to file for retirement benefits to discuss the options that are available to you. In some cases, your choice of retirement month could mean additional benefits for you and your family.

Even if you don't plan to receive benefits because you'll continue working, you should sign up for Medicare three months before reaching age 65 regardless of when you reach full retirement age. Otherwise, your Medicare medical insurance (Part B) could be delayed and you could be charged a higher premium.

How To Apply For Retirement Benefits—You can file your retirement claim on the Internet at *www.socialsecurity.gov/planners* or by calling **1-800-772-1213** between 7 a.m. and 7 p.m. Monday through Friday.

Be sure to have these items handy: your Social Security number, birth certificate, W-2 forms or self-employment tax return for last year, and your bank name and account number so your benefits can be deposited directly into your account. You also can file your claim at any Social Security office.

If you're deaf or hard of hearing, call **1-800-325-0778** between 7 a.m. and 7 p.m. Monday through Friday to file your claim.

In addition to the information listed above, you will need—

- Your military discharge papers if you had military service;
- Your spouse's birth certificate and Social Security number and your marriage certificate if he or she is applying for benefits; and
- Proof of U.S. citizenship or lawful alien status if you were not born in the U.S.

You will need to mail or deliver original documents or copies that have been certified by the issuing office to a Social Security office.

Need More Information—You also have options for getting information about Social Security and retirement. When you visit our website, *www.socialsecurity.gov,* click on the Benefits Planners to estimate your Social Security benefits, find answers to frequently asked questions about Social Security, learn about factors that could affect your benefits and much more. And you can get information about Social Security by visiting a local Social Security office or by calling **1-800-772-1213.**

You can print these publications from our website.

- *Retirement* (Publication No. 05-10035);
- *How Your Retirement Benefit is Figured* (Publication No. 05-10070); and
- *How Work Affects Your Benefits* (Publication No. 05-10069).