

SMART GOVERNMENT ACT HEARING WITH THE JOINT FINANCE COMMITTEE

GREGORY W. SMITH, EXECUTIVE DIRECTOR

DECEMBER 12, 2013



What is Colorado PERA?

As of December 2012

- » Instrumentality of the state, founded on August 1, 1931
- » Hybrid defined benefit retirement plan qualified under IRC 401(a)
- » Substitute for Social Security
- » Administrators:
 - Defined benefit plan, including disability and survivor benefit programs
 - One of the country's largest public 401(k) Plans, 457 Plan, and DC Choice Plan (combined assets of \$2.7 billion)
 - Health care, dental, and vision plans for largest coverage group in the state (145,000 lives)
 - Life insurance plan
- » Largest pension fund in Colorado, 21st largest public plan in United States

PERA is Transparent

- » All Board meetings are public meetings and each agenda has time set aside for public comment
- » PERA reports annually to the Joint Finance Committee, Joint Budget Committee, and Legislative Audit Committee of the Colorado General Assembly and the Governor
- » PERA is audited annually by a firm selected by the State Auditor whose findings are reported to the Legislative Audit Committee
- » PERA's *Comprehensive Annual Financial Report (CAFR)* is used as a model for other public pension plans, winning the GFOA financial reporting excellence award for the last 28 consecutive years
- » 2012 annual financial audit found no material weaknesses in PERA's internal controls, accounting policies, and practices; no recommendations
- » PERA's Web site is an excellent resource for plan and financial information

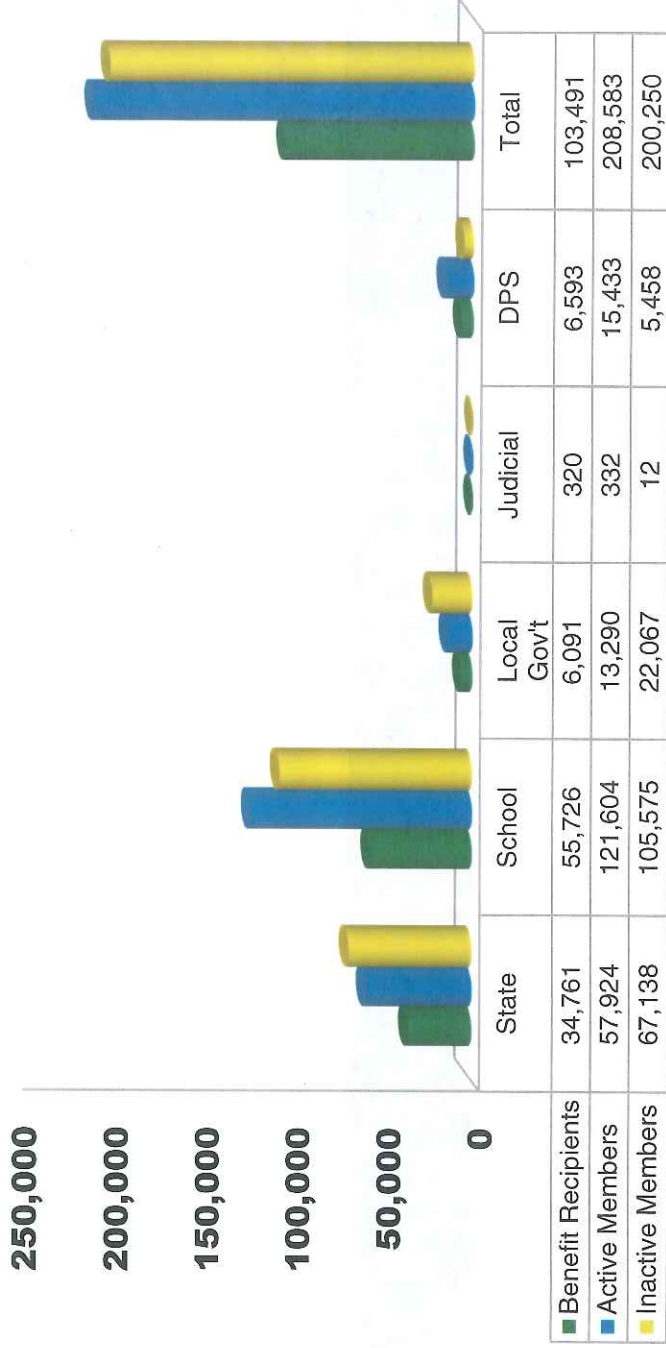
PERA Rulemaking

- » PERA rulemaking authority
 - C.R.S. § 24-51-204(5) states that the PERA Board shall adopt rules for the administration of the association
- » PERA Board adopts rules each year with effective date of January 1
- » PERA Board adopted rule changes November 15, 2013, with an effective date of January 1, 2014
- » PERA anticipates going through the rulemaking process in 2014 with an effective date of January 1, 2015
- » PERA rulemaking process begins after the end of the legislative session

PERA Membership

October 31, 2013

Total: 512,324



PERA Financial Recap

\$40,201,578 net assets as of December 31, 2012

(in thousands of dollars; does not include defined contribution plans)

October 2013

Contributions
\$1,660,452

Investments
\$4,684,396

Benefits Paid
(\$3,468,984)

Employer – Pension – Regular	\$557,563	Net Change in Fair Value	\$3,988,121	Pension Benefits	(\$3,072,537)
Employer – Pension – AED	\$198,024	Interest	\$236,001	Health Care Benefits	(\$191,225)
Employer – Pension – SAED	\$172,607	Dividends	\$445,611	Disability/Life Insurance	(\$5,645)
Employer – Health Care	\$64,635	Real Estate/Opportunity Fund/		Refunds	(\$155,078)
Member	\$506,883	Alternative Investments	\$96,328	Other	(\$6,438)
Purchased Service	\$40,895	Securities Lending	\$8,957	Administrative Expense	(\$38,061)
Retiree Health Care Premiums	\$99,124	Investment Expense	(\$90,622)		
Federal Health Care Subsidies	\$12,522				
Other Additions	\$8,199				

\$43,077,442 net assets as of October 31, 2013

(unaudited, for internal use only)

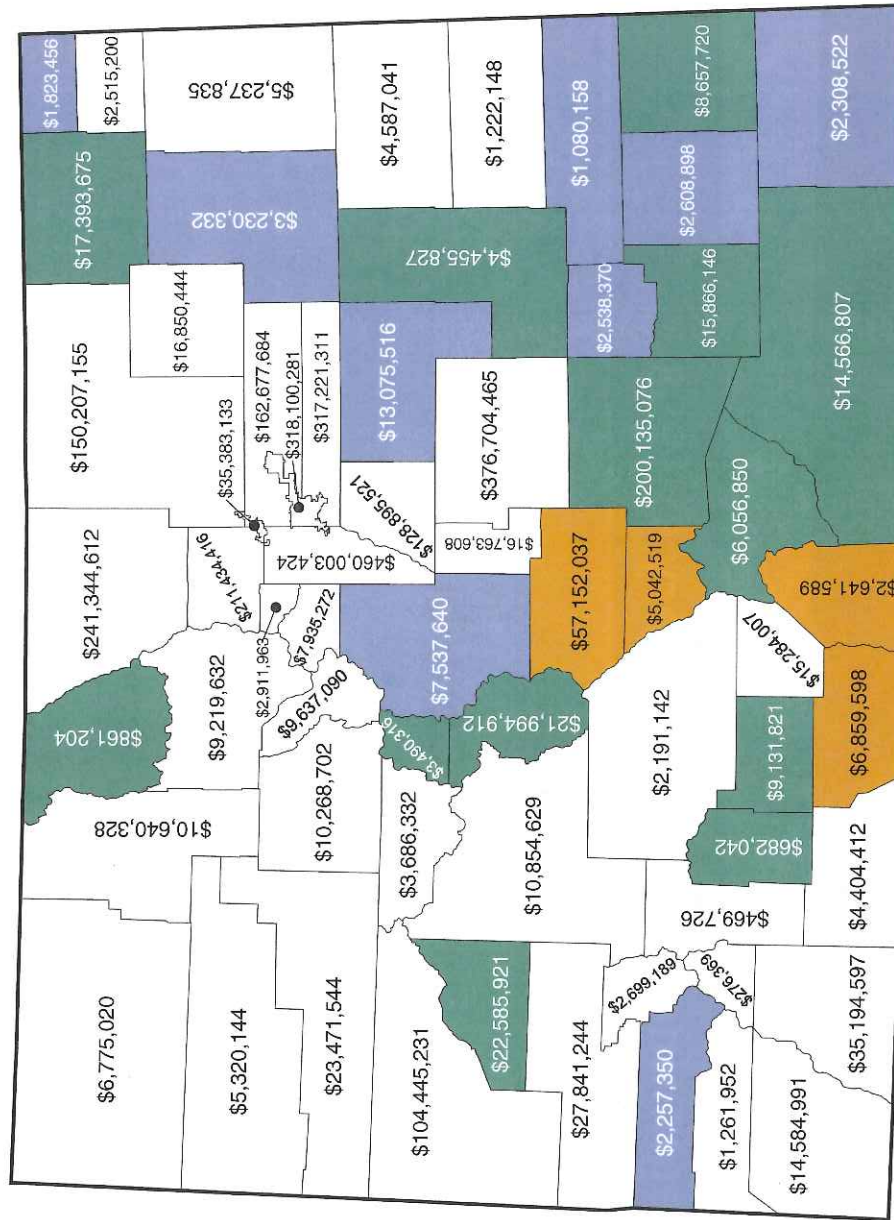


25-Year History of Assets and Distributions

In billions

Beginning Balance January 1, 1988	\$7.0
Employer Contributions	12.8
Member and Other Contributions	12.4
Investment Income	43.9
Denver Public Schools' Plan Transfer	2.8
Benefit and Refund Payments	(38.5)
Administrative Expenses	(0.5)
Ending Balance December 31, 2012	\$39.9

PERA Benefit Distributions and Distributions Relative to Payroll by County



Over 25 percent of Payroll

15-25 percent of Payroll

10-15 percent of Payroll

Less than 10 percent of Payroll

Percentage of payroll data from Pacey & McNulty, July 2011

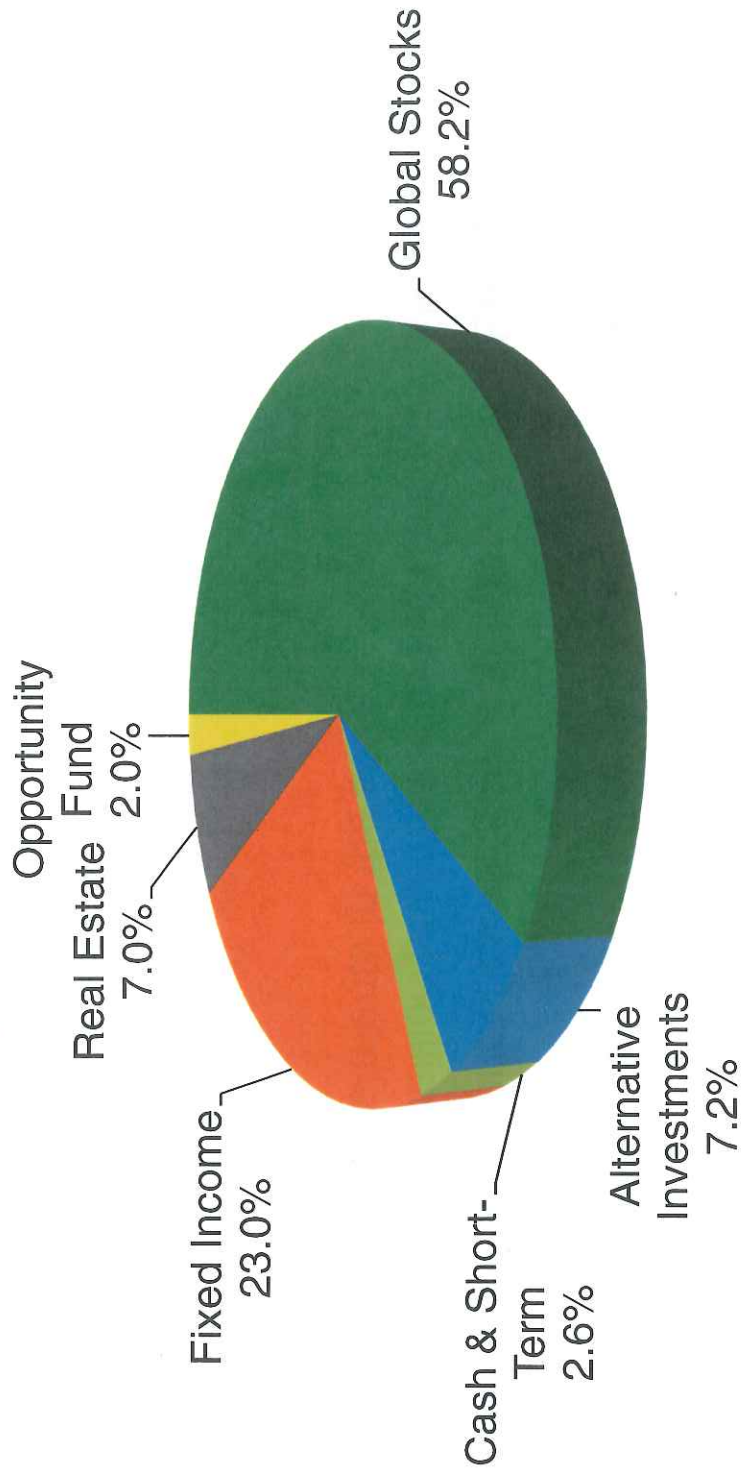
Annual benefit payments as of December 31, 2012 (unaudited)



Investment Asset Allocation

October 31, 2013

\$43 Billion Market Value



PERA's Colorado Investments

- » Over \$485 million invested in companies and properties domiciled in the state
- » More than 55 percent of assets managed directly by PERA staff
- » An additional \$50 million is allocated to the Colorado Mile High Fund for private equity investments in the state



PERA Board Authority

- » Limited to implementing statutes adopted by the General Assembly
- » Oversight
 - Investment of assets
 - Administration of benefits
 - Collection of contributions
- » Monitors actuarial assumptions and performance



Senate Bill 10-001 Puts PERA Back on Track

- » PERA Board designed the reforms that became SB 10-001
- » Shared sacrifice – 90 percent of changes come from current and future members and retirees
- » All Divisions are expected to be fully funded
 - Pre-SB 10-001, most Divisions projected to be out of money as early as 2029
- » Litigation status



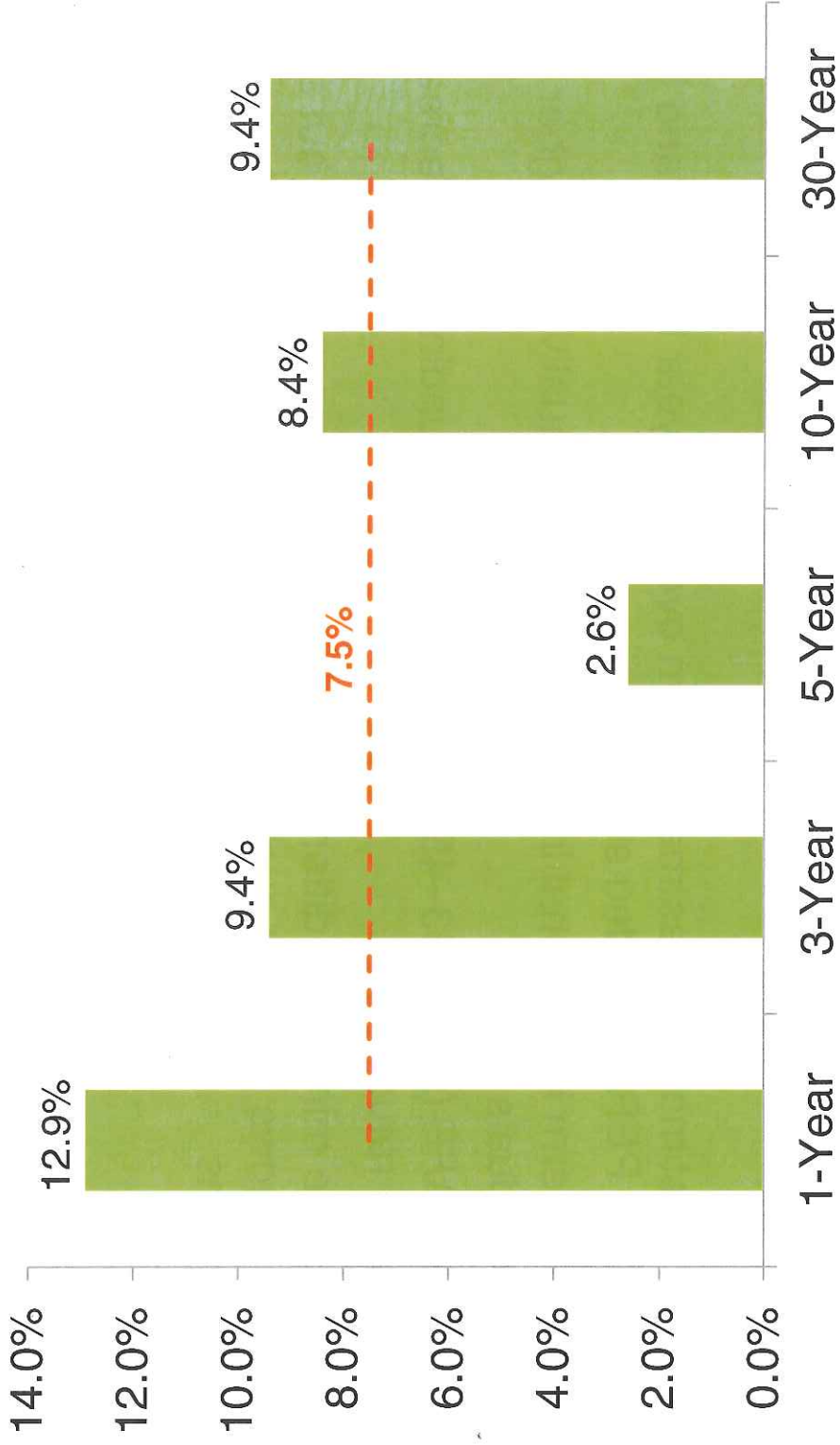
PERA's Investment Return Expectation

- » Used for estimating investment return over a 40-year horizon and for calculating PERA's funded status
- » As a long-term institutional investor, PERA will usually earn higher returns than individuals
- » PERA's *CAFR* (pages 43–45) shows impact on funding of a decrease or increase in return
- » Reasonable minds can differ on what future returns might be, but sensitivity analysis shows PERA is sustainable under a wide range of return assumptions

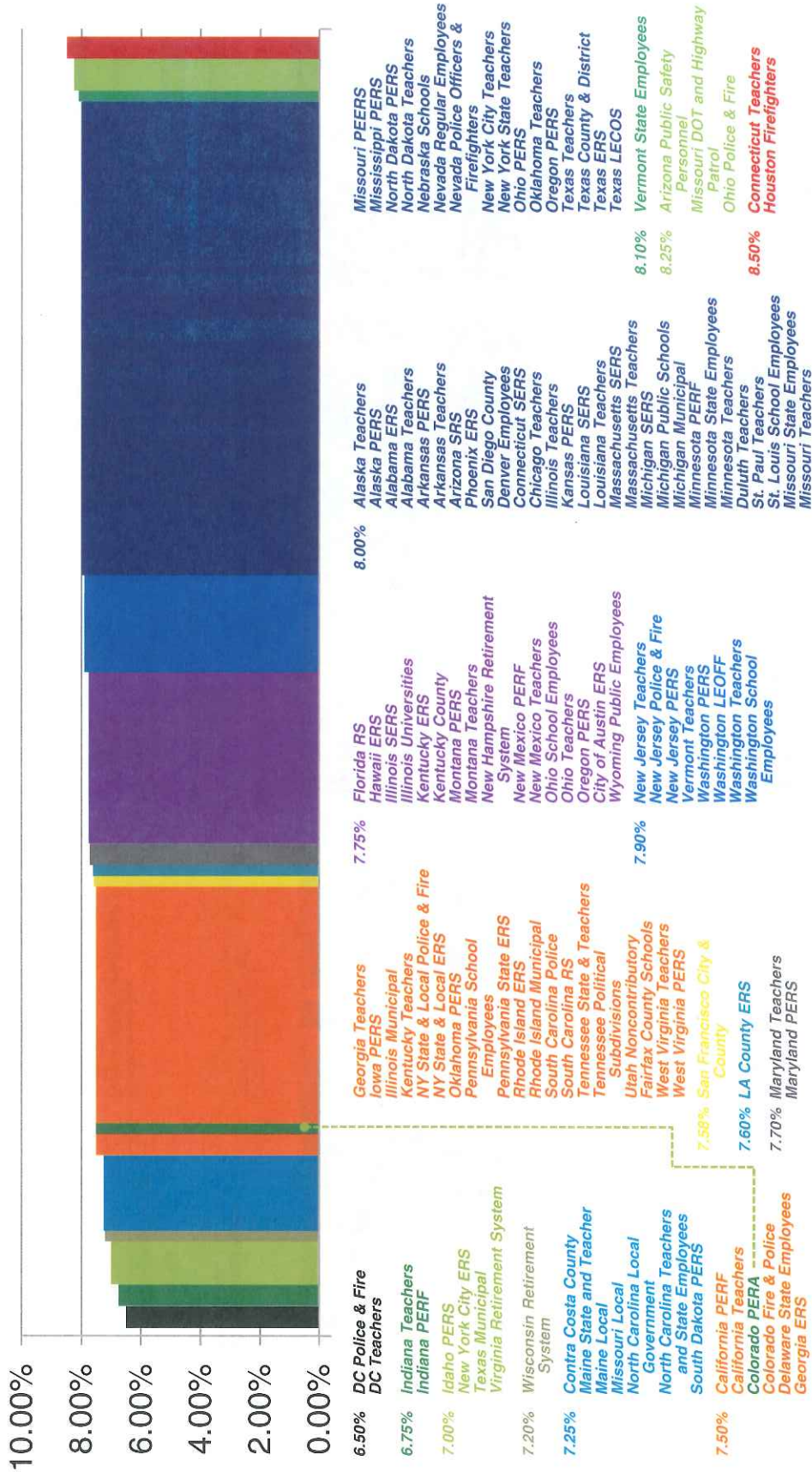
Investing for Long Term

Annualized investment returns for periods ending

December 31, 2012



Comparative Rates of Return – Public



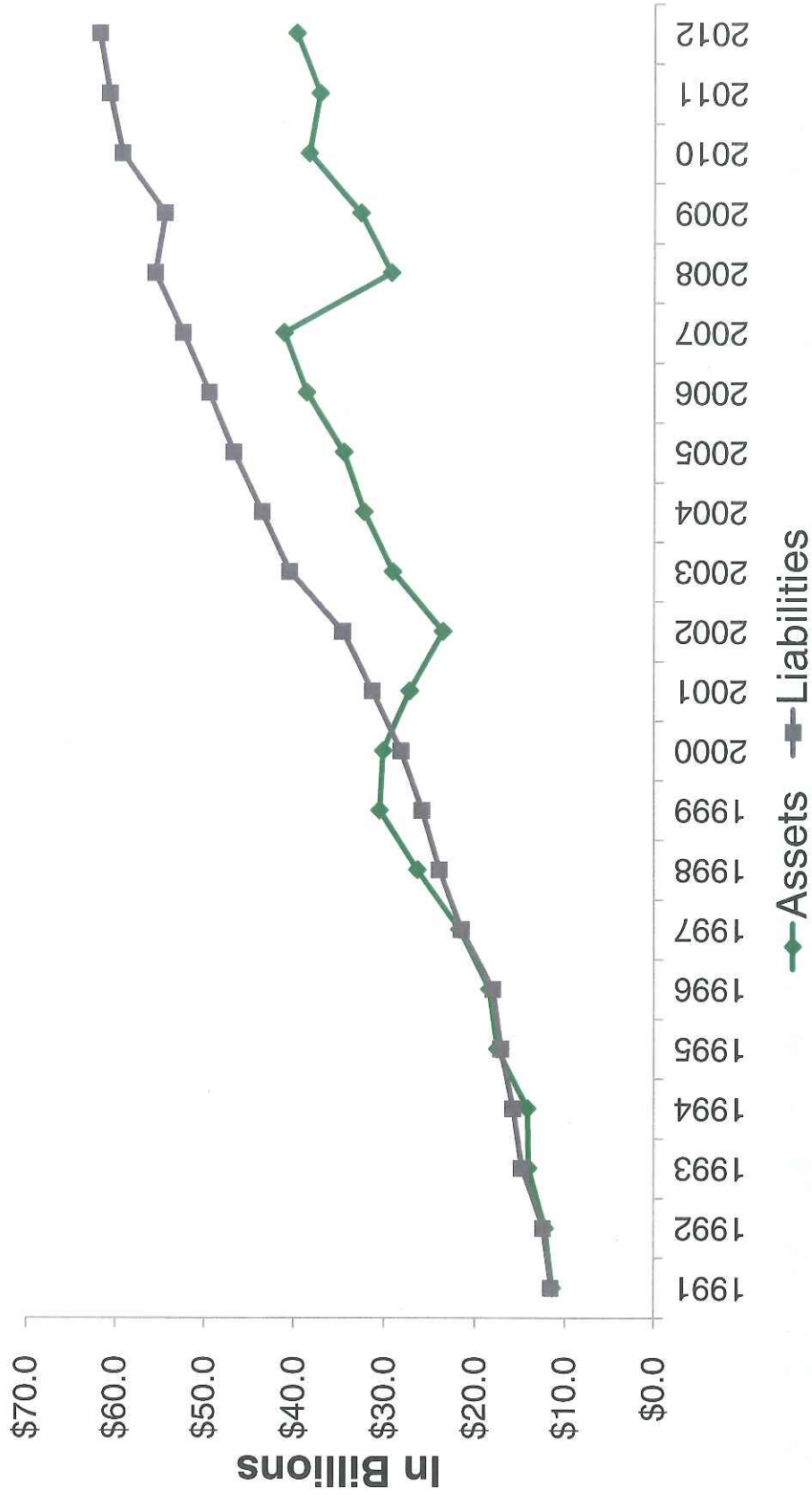
Comparative Rates of Return – Private



PERA Defined Benefit Assets vs. Liabilities

Market Value as of December 31 for each year

2012 Funded Ratio at Market Value = 64.4 Percent



America's Retirement Crisis

- » Americans are not prepared for retirement
- » 85 percent are concerned that economic conditions will affect their ability to have a secure retirement
- » Average value of 401(k) plans is \$58,351
- » Median value of 401(k) plans is \$17,794
- » Median value of 401(k) plans for workers aged 55-64 is \$61,850
- » More than half report the total value of household savings and investments is less than \$25,000 (excluding their home)

Sources: *National Institute on Retirement Security, Employee Benefits Research Institute, and Vanguard Group*



Supplemental Savings Opportunities with PERAPlus

- » Allows participants opportunity to seek investment advice at no additional cost
- » Received GFOA's Award for Excellence in Government Finance
- » Promotes the crucial concept of asset allocation in retirement investing
- » Makes allocation decisions easier for participants
- » Provides participants access to custom, easy-to-understand, and diversified PERAdvantage investment options
- » Low fees maximize participant contributions



Contact Us

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