

March 3, 2015

Dear Colorado House Finance Committee Members,

I am writing to you today as the Chair of the Denver Classroom Teachers Association-Retired (DCTA-R) and the Denver Alliance for Public Education (DA4PE) Joint Pension Task Force (JPTF).

The JPTF was formed about a year ago in reaction to statements about the 2008 DPS PCOPs transaction which have appeared in various news articles. The article which tipped the scale to forming the JPTF appeared in the Denver Business Journal on February 24, 2014 titled **“How do we pay for \$1 trillion in unfunded public pension liabilities?”**

The story was about pension funding recommendations from the Society of Actuaries, but in the second paragraph of the story, reporter Heather Draper stated, **“And you have to look no further than Denver Public Schools to see what happens when a plan chronically underfunds its pension. Denver taxpayers are on the hook for nearly \$2 billion (estimated) over the next 25 years for bonds issued to pay off the district's past unfunded pension liabilities.”**

Following a few weeks of discussions and knowing the research Draper had conducted on this subject over the past 3 years, in early March, 2014, the governing bodies of the DCTA-R and the DA4PE decided to form a joint pension task force to monitor the sustainability and affordability of the DPS pension plan.

On Wednesday, March 4, 2015, your committee will consider a recommendation on HB15-1251 which will continue the chronic underfunding of the DPS division of Colorado PERA. While the JPTF understands that HB15-1251 simply authorizes the 2015 Colorado Legislature to act as directed by SB09-282, the JPTF believes that you should consider some of the effects SB09-282.

We offer for your consideration:

1. SB09-282 made legal the defunding of the DPS division by allowing DPS to offset significant portions of its employer contribution rate. The offset on the DPS employer contribution has resulted in the DPS pension-related debt growing significantly. In 2008, when DPS declared a crisis over the level of pension funding, the unfunded liability of the DPS Retirement System was \$400M. Additionally, a debt of \$300M was owed on the 1997 PCOPs transaction, for a total pension-related debt of \$700M. At the end of 2013, the unfunded liability of the DPS division was \$709M, with the outstanding debt on the 2008 PCOPs transaction at \$962M, for a total pension-related debt of \$1.7B. These debts will be paid by future DPS employees and Denver taxpayers.

“Indeed, the more I learned about that 2008 bond issue, the more I thought Denver taxpayers should be concerned.” – Heather Draper, Reporter, DBJ October 19, 2012

2. In each of the first 5 years of the merger of DPSRS into Colorado PERA (2010-2014), DPS has failed to pay their full share of employer Normal Cost each year, again a move made legal by SB09-282. (Normal Cost is an annual payment, determined through actuarial analysis and expressed as a percent of payroll, necessary to pre-fund the retirement benefits earned by active members in the previous year.) Employees pay a fixed amount (8%) and the employer picks up the rest (usually around 5%). Normal Cost contributions not paid by the employer add to the Unfunded Liability of the plan. 2010 through 2014, the DPS employer contribution, reduced by the offset, resulted in DPS failing to contribute enough to cover the full employer Normal Cost. No other school district in Colorado failed to cover their full share of employer Normal Cost during this time period. During these 5 years, DPS employees contributed over \$206M in deferred compensation. The total DPS contribution for pension funding, during these same 5 years was \$65M - \$52M short of the deferred compensation owed to DPS employees.

The costs of future retirement benefits should be pre-funded, and funded in a way that targets 100 percent funding of plan obligations. – Society of Actuaries, February 17, 2014

3. Making a bad situation worse is the fact that the DPS division currently has more than 16,000 active members. Over 10,000 (65%) have become members since 2010 - meaning these employees had nothing to do with the Unfunded Liability paid off as part of the 2008 PCOPs transaction - which serves as the basis for the DPS employer contribution offset. Still, these 10,000 employees are being deprived of full payment of their deferred compensation. We know that DPS considers the pension contribution to be part of an employee's compensation since DPS specifically referenced it in the 2011 and 2012 Total Rewards Statements sent to DPS employees.

Retirement benefits are essentially deferred compensation that the employer promises to workers. - Josh Gotbaum, Brookings Institution, December 4, 2014

In closing, let me state emphatically, that I believe the merger of the DPS Retirement System into Colorado PERA has proven to be a good move for the membership of the DPS division as well as the general membership of PERA. I would be happy to address any questions or concerns you might have regarding These comments on HB-1251.

Sincerely,

John MacPherson, Chair
DCTA-R/DA4PE Joint Pension Task Force
1500 Grant Street
Denver, CO 80203
johnmacpherson42@yahoo.com
303.905.9057