SB10-001

Colorado Legislative Council Staff Fiscal Note

FINAL FISCAL NOTE

Drafting Number:	LLS 10-0441	**Date:**	May 13, 2010
Prime Sponsor(s):	Sen. Shaffer B.; Penry Rep. Kerr A.	**Bill Status:**	Signed into Law
		Fiscal Analyst:	Kerry White (303-866-3469)

TITLE: CONCERNING MODIFICATIONS TO THE PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION NECESSARY TO REACH A ONE HUNDRED PERCENT FUNDED RATIO WITHIN THE NEXT THIRTY YEARS.

Fiscal Impact Summary	FY 2009-2010	FY 2010-2011	FY 2011-2012	FY 2012-2013
State Revenue General Fund	($997,658)	($2,146,197)	($1,312,415)	($1,338,663)
State Expenditures Multiple sources		($81,989)	($253,344)	$5,582,625
FTE Position Change				
Effective Date: The bill was signed by the Governor on February 23, 2010, and Sections 1, 18, 19, 20, 21, 22, 25, 31, 34, and 35 became law. All other sections take effect on January 1, 2011.				
Appropriation Summary for FY 2010-2011: None required.				
Local Government Impact: See Local Government Impact section.				

Summary of Legislation

This bill modifies contributions to and benefits paid from the Public Employees' Retirement Association (PERA). Among other things, it changes the amounts to be contributed by both employers and employees, places a cap on cost of living adjustments for retirees, modifies benefit calculations and eligibility, and creates new contributions and guidelines for working retirees. These provisions are described in greater detail below:

Employer Contributions

- extends amortization equalization disbursement (AED) increases for employers in the state division by 0.4 percent per year between 2013 and 2017, for an additional 2 percent of total payroll by 2017;
- extends AED increases for employers in the school and DPS divisions by 0.4 percent per year between 2013 and 2015, and 0.3 percent in 2016, for an additional 1.5 percent of total payroll by 2016;

- freezes AED increases for employers in the local government and judicial divisions at the 2010 rate of 2.2 percent of total payroll;
- sets parameters for adjusting the AED contribution of a division based on its actuarial funded ratio; and
- eliminates scheduled increases in the employer contribution rate for employers in the school and DPS divisions that, under current law, take effect on January 1, 2013.

Employee Contributions
- extends supplemental amortization equalization disbursement (SAED) increases for the state division by 0.5 percent per year between 2014 and 2017, for an additional 2 percent of total payroll by 2017;
- extends SAED increases for the school and DPS divisions by 0.5 percent per year between 2014 and 2018, for an additional 2.5 percent of total payroll by 2018;
- freezes SAED increases for the local government and judicial divisions at the 2010 rate of 1.5 percent of the employer's total payroll; and
- sets parameters for adjusting the SAED contribution of a division based on its actuarial funded ratio.

Annual Cost of Living Adjustments (COLA) for Retirees
- reduces the COLA to the lesser of 2 percent or inflation for 2010, and requires the inflation calculation to be based on periods in 2009, resulting in a 0 percent COLA;
- limits the COLA to 2 percent in 2011 and future years, unless PERA experiences a negative investment return, in which case the COLA will be calculated as the lesser of the inflation from the preceding 3 years or 2 percent;
- provides for COLA adjustments to be made with the July benefit, and requires those that retire after January 1, 2011, to receive benefits for at least 12 months before receiving a COLA adjustment; and
- sets parameters for adjusting the COLA based on PERA's actuarial funded ratio.

Changes in Benefit Eligibility and Calculations
- imposes an 8 percent cap on the amount of salary increase from each year to the next that will be counted towards the highest average salary calculation;
- specifies the conditions for receiving a 50 percent employer matching contribution for members who receive a refund of their PERA account;
- creates new age and years-of-service requirements for members to retire with a full benefit based on their date of hire, including the "rule of 88" and the "rule of 90" (age plus years of service); and
- requires PERA to provide written notice to current and inactive members about the possibility of a future actuarial necessity, and that the General Assembly can modify the benefits allowed to members in the defined benefit plan.

Changes for Working Retirees

- requires a retiree who returns to work for a PERA employer to make a contribution to PERA equal to the member contribution, and specifies that working retiree contributions are not credited to the retiree's member contribution account;
- specifies conditions where increases in work limits are allowed for certain retirees;
- prevents working retirees who suspend their retirement benefit and return to work for a PERA employer from adding to their service credit, and requires that each period of service for a PERA employer following retirement be calculated as a separate benefit segment under the benefit structure in place at the time of retirement; and
- clarifies how new benefit segments are calculated and paid.

The bill also requires PERA to calculate the actuarial funding status of PERA as a whole prior to calculating the funding status of a division separately, and submit a report concerning the plan's funding status to the General Assembly on January 1, 2016, and every 5 years thereafter.

State Revenues

By changing the provisions for cost of living adjustments (COLA), this bill will modify taxable income for PERA retirees. Under SB10-001, the COLA adjustment will reset to 0 percent in March 2010, reducing 2010 taxable income for PERA retirees by approximately $100 million and state income tax collections by approximately $3 million. Under the state's accrual accounting system, impact to the General Fund is a reduction of $997,658 in FY 2009-10 and $2,146,197 in FY 2010-11.

Beginning on January 1, 2014, the bill also modifies SAED payments, which could affect state revenues by reducing taxable income for PERA members. The impact of these changes on state revenue depends on whether any salary increases are awarded, and how they would be funded.

State Expenditures

This bill reduces state expenditures in FY 2010-11 and FY 2011-12, but increases them in future years, as shown in Table 1. Initial reductions are the result of freezing the AED rate for the judicial division at the 2010 level. Beginning on January 1, 2013, reduced AED payments in the judicial division are more than offset by increases in AED payments in the state division.

Table 1. Changes in Employer AED Payments Under SB10-001

Calendar Year	State Division	State Rate*	Judicial Division	Judicial Rate	Totals
FY 2010-11			($81,989)	2.2%	($81,989)
FY 2011-12			(253,344)	2.2%	(253,344)
FY 2012-13	$5,933,048	3.4%	(350,423)	2.2%	5,582,625
FY 2013-14	18,503,019	3.6%	(366,192)	2.2%	18,136,827
FY 2014-15	32,362,176	4%	(382,671)	2.2%	31,979,506
FY 2015-16	47,431,189	4.4%	(399,891)	2.2%	47,031,298
FY 2016- 17	63,790,879	4.8%	(417,886)	2.2%	63,372,994
FY 2017 - 18**	36,151,895	5%	(213,541)	2.2%	35,938,355
TOTAL	**$204,172,205**		**($2,465,934)**		**$201,706,271**

* *AED rates are escalated by calendar year, so each fiscal year shows the blended rate.*
** *Through December 31, 2017*

Beginning on January 1, 2014, the bill also modifies SAED payments, which could affect state expenditures above and beyond the amounts shown in Table 1. SAED payments in the state division are extended and increased to account for an additional 2 percent of salary by 2017. SAED payments in the judicial division would remain unchanged from their current level, a decrease from current law requirements. The impact of these changes on state expenditures depends on whether or not salary increases would have been provided. Under current law, SAED payments come from money otherwise available for use but not yet awarded as salary increases. As such, extending the payments should not require an increase in state expenditures. However, it should be noted that for FY 2009-10 and FY 2010-11 no salary increases were provided to employees in the personnel system, so SAED payments were made from state expenditures that would not have occurred anyway. If this trend continues, the extended SAED payments in the state division will require a further increase in state expenditures from the General Fund and other funds. The amounts that would be allocated as SAED for the state and judicial division are shown below in Table 2.

Table 2. Changes in Employee SAED Payments Under SB10-001					
Fiscal Year	**State Division**	**State Rate***	**Judicial Division**	**Judicial Rate**	**Totals**
FY 2010-11			($102,486)	1.5%	($102,486)
FY 2011-12			(316,681)	1.5%	(316,681)
FY 2012-13			(549,946)	1.5%	(549,946)
FY 2013-14	$7,750,043	3.5%	(686,610)	1.5%	7,063,433
FY 2014-15	23,947,632	3.75%	(717,507)	1.5%	23,230,125
FY 2015-16	41,587,311	4.25%	(749,795)	1.5%	40,837,516
FY 2016- 17	60,766,066	4.75%	(783,536)	1.5%	59,982,530
FY 2017 - 18**	35,376,345	5%	(400,389)	1.5%	34,975,956
TOTAL	**$169,427,395**		**($4,306,947)**		**$165,120,448**

* *SAED rates are escalated by calendar year, so each fiscal year shows the blended rate.*
** *Through December 31, 2017*

The bill allows for the reduction in the AED and SAED amounts if the funded ratio of any PERA division reaches 103 percent. It is unknown whether this will occur, although any reduction in AED would be allocated to the respective fund from which it came, and a reduction in SAED would be allocated to salary increases.

Public Employees' Retirement Association Impact

As of December 31, 2008, the PERA trust fund's unfunded actuarial liability was approximately $22 billion. Current employer, AED, and SAED contribution rates are not sufficient to amortize the unfunded liability within the next 30 years. SB10-001 modifies employer and employee contributions, places a cap on cost of living adjustments for retirees, creates new contributions for working retirees, and increases the age and service requirements among specific groups of employees before they are eligible to receive retirement benefits. Taken together, these actions are projected to reduce the amortization period to 30 years and improve PERA's funding ratio to 100 percent. In the event that the funding ratios in any division fall outside of certain guidelines, the AED and SAED payments will be increased or reduced accordingly.

SB10-001 requires a working retiree to provide a new contribution to PERA that is equivalent to the contribution that they would have provided as a member, but is funded solely by the working retiree's salary. These funds are not credited to the retiree's member contribution account or any specific fund. Table 3 shows the estimated contributions by working retirees for all divisions except DPS, for which no data is available.

Table 3. Working Retiree Contributions paid to PERA* under SB10-001

Calendar Year	All divisions, except DPS
2011	$13,512,517
2012	14,120,581
2013	14,756,007
2014	15,420,027
2015	16,113,928
2016	16,839,055
2017	17,596,813
TOTALS	**$108,358,929**

** Assumes an amount equivalent to an 8 percent member contribution rate.*

Local Government Impact

Local governments that participate in PERA, similar to the judicial division, will experience a reduction in their scheduled AED payments for the 2011 and 2012 calendar years, and in their supplemental AED payments for the 2011, 2012, and 2013 calendar years.

School districts will experience fiscal impacts for AED and SAED payments similar to the state division, as described above. School districts will also experience a reduction in their scheduled employer contribution rates as of January 1, 2013.

State Appropriations

For FY 2010-11, the general fund appropriation to the Judicial Department should be reduced by $81,989.

Departments Contacted

Governor	Higher Education	Judicial
Personnel and Administration	PERA	