

Colorado Legislative Council Staff Fiscal Note
**STATE, LOCAL and
 STATUTORY PUBLIC ENTITY
 FISCAL IMPACT**

Drafting Number: LLS 10-0083
Prime Sponsor(s): Rep. Lambert
 Sen. King K.

Date: February 25, 2010
Bill Status: House SVMA
Fiscal Analyst: Kerry White (303-866-3469)

TITLE: CONCERNING MODIFICATIONS TO THE PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION.

Fiscal Impact Summary	FY 2009-2010	FY 2010-2011	FY 2011-2012	FY 2012-2013
State Revenue				
State Expenditures Multiple Sources	(\$30,978,771)	(\$74,316,100)	(\$83,713,521)	(\$95,799,766)
FTE Position Change				
Effective Date: Upon signature of the Governor, or upon becoming law without his signature. Sections 14 to 17, 21, and 22 take effect upon passage; the remainder of the bill takes effect on January 1, 2011.				
Appropriation Summary for FY 2010-2011: See State Appropriations section.				
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 also eliminates new enrollment in the existing defined benefit plan as of January 1, 2011. HB10-1207's provisions are described in greater detail below:

Employer Contributions (All Divisions)

- repeals the amortization equalization disbursement (AED) as of January 1, 2011; and
- modifies contribution rates beginning on January 1, 2011, so that employers contribute 10 percent of each employee's salary, and any increase in this rate is to be matched by a corresponding increase in the employee contribution rate.

Employee Contributions (All Divisions)

- repeals the supplemental AED (SAED) as of January 1, 2011; and
- modifies contribution rates beginning on January 1, 2011, so that each employee contributes 10 percent of their salary, and any increase in the employer's contribution rate be matched with an equal employee rate increase.

Annual Cost of Living Adjustments (COLA) for Retirees

- allows the General Assembly to increase the COLA percentage for members within a specific division if it is funded at or above 90 percent.

Creation of a new Defined Contribution (DC) Plan

- establishes a new DC plan, and requires the transfer of all existing DC plan members and enrollment of new employees into the plan as of January 1, 2011;
- allows the member to opt to reduce the employee and employer contribution levels, make investment decisions, and rollover contributions from another plan; and
- clarifies that members of the new DC plan are not PERA members or retirees, although they may purchase optional life, long-term care, and health care insurances and participate in the voluntary investment program.

State Revenue

This bill eliminates SAED payments, which are funded by monies that would have otherwise been available for salary increases. To the extent that employers would have given a pay increase and reduced this amount by 0.5 percent to fund the SAED payments, this bill would increase the taxable incomes of employees and generate additional state income tax revenue. As it is unknown whether employers would give pay increases in future years, the amount of any additional revenue has not been estimated.

State Expenditures

Beginning on January 1, 2011, the employer matching contribution rate is reduced and AED payments are eliminated. Overall, the bill reduces state expenditures for the state and judicial divisions by \$30,978,771 in FY 2010-11, and \$74,316,100 in FY 2011-12. Total expenditures take into account the provisions of SB10-001, which recently took effect.

In the state division, for most employees the employer matching contribution rate is reduced from 10.15 percent to 10 percent (for state troopers, the employer matching contribution rate is reduced from 12.85 percent to 10 percent). In the judicial division, the employer matching contribution rate is reduced from 13.66 percent to 10 percent. Table 2 shows the changes in employer expenditures under HB10-1207.

Table 2. Employer Expenditures Under HB10-1207					
Fiscal Year	State Division Employer Contributions	State Division AED	Judicial Division Employer Contributions	Judicial Division AED	Total Change in State PERA Expenditures
FY 2010-11	(\$1,758,941)	(\$28,143,051)	(\$650,332)	(\$426,447)	(\$30,978,771)
FY 2011-12	(\$3,657,423)	(\$68,271,905)	(\$1,352,258)	(\$1,034,514)	(\$74,316,100)
FY 2012-13	(\$3,862,610)	(\$77,252,199)	(\$1,428,121)	(\$1,170,591)	(\$83,713,521)
FY 2013-14	(\$4,094,367)	(\$89,637,374)	(\$1,513,808)	(\$554,217)	(\$95,799,766)
FY 2014-15	(\$4,340,029)	(\$110,748,203)	(\$1,604,637)	(\$597,769)	(\$117,290,638)

Employee contributions are also modified by HB10-1207. SAED payments are eliminated and employee contributions are increased. It should be noted that in 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 from the General Fund and other funds. If this trend continues, cost reductions identified as employee savings would shift to employer savings. Table 3 shows the changes to employee costs for informational purposes only.

Table 3. Employee Costs Under HB10-1207					
Fiscal Year	State Division Employee Contributions	State Division Employee SAED	Judicial Division Employee Contributions	Judicial Division Employee SAED	Total Change in Employee PERA Costs
FY 2010-11	\$23,452,543	(\$20,520,975)	\$355,373	(\$222,108)	\$3,064,833
FY 2011-12	\$48,765,647	(\$54,861,353)	\$738,938	(\$554,204)	(\$5,910,972)
FY 2012-13	\$51,501,466	(\$70,814,516)	\$780,394	(\$585,296)	(\$19,117,952)
FY 2013-14	\$54,591,554	(\$88,711,275)	\$827,218	(\$620,413)	(\$33,912,916)
FY 2014-15	\$57,867,047	(\$108,500,714)	\$876,851	(\$657,638)	(\$50,414,454)

Public Employees' Retirement Association Impact

Current employer, AED, and SAED contribution rates are not sufficient to amortize PERA's existing unfunded liability within the next 30 years. By reducing employer contributions and eliminating AED and SAED contributions, this bill is expected to increase the amortization period among each of PERA's divisions. These amounts have not been estimated.

HB10-1207 also requires PERA to establish a new DC plan and offer tangible precious metals as an investment option. Both of these options would impact PERA, but the impact has not been estimated.

The bill will also affect PERA's Health Care Trust Fund (HCTF). Currently, 1.02 percent of the employer contribution is directed to the HCTF. Under HB10-1207, existing DC plan members will be required to transfer to the new DC plan, and their HCTF contributions will be lost. This is expected to increase the amortization period for the HCTF. This amount has not been estimated.

Local Government Impact

Similar to the state and judicial division, school districts and the Denver Public School district will experience a reduction in employer matching contributions and AED payments. Local governments that will not reduce employer matching contributions, but will reduce expenditures by eliminating AED payments.

State Appropriations

The many appropriations required in this bill will be addressed in a revised fiscal note.

Departments Contacted

Governor's Office
Personnel & Administration

Higher Education
PERA

Judicial