


Colorado Legislative Council Staff Fiscal Note
FINAL
FISCAL NOTE

Drafting Number: LLS 12-0527
Prime Sponsor(s): Rep. DelGrosso

Date: May 17, 2012
Bill Status: Postponed Indefinitely
Fiscal Analyst: Kerry White (303-866-3469)

TITLE: CONCERNING THE CHOICE OF ALL MEMBERS OF THE PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION TO PARTICIPATE IN A DEFINED CONTRIBUTION PLAN ESTABLISHED BY THE ASSOCIATION.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014
State Revenue	Potential increase.	
State Expenditures	Increase of at least \$580 million by 2041. See State Expenditures section.	
FTE Position Change		
Effective Date: The bill was postponed indefinitely by the House Appropriations Committee on March 23, 2012.		
Appropriation Summary for FY 2012-2013: None.		
Local Government Impact: Increase - See Statutory Public Entity, Local Government and School District Impact sections.		

Summary of Legislation

This bill allows any eligible employee hired on or after January 1, 2013, of an employer that belongs to the Public Employees' Retirement Association (PERA) to join the defined contribution (DC) plan or the defined benefit (DB) plan.

Background

A DB plan is a pension plan that provides a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earning history, years of service and age, among other factors. A DC plan is a type of retirement benefit where contributions are specified, but future benefits depend on the combination of contributions and investment returns.

Under current law, membership in the DC plan is limited to eligible employees of a state agency, the General Assembly, the office of a district attorney in a judicial district, or a community college. Employees of a state college or university, a school district, or a local government employer are not eligible to participate. Currently, about 15 percent of eligible employees choose to enroll in the DC plan. All divisions with DB plan members may participate in the PERA Health Care Trust. Employees from the Denver Public School (DPS) division have a separate Health Care Trust.

State Revenue

By allowing more individuals to join the DC plan, state revenue could increase. Because DC plan participants are not subject to the same fixed benefit payments as participants of the DB plan, they have greater flexibility in choosing the timing and amount of benefit payments. Colorado law provides tax exclusions for a certain amount of pension or annuity income, depending on the person's age and other factors. To the extent that a person chooses to withdraw more than his or her tax exclusion amount, more income is subject to state income tax and state revenue will increase. As it is not possible to determine how many persons this situation will apply to, no increase in the amount of state revenue has been estimated.

Statutory Public Entity Impact

Overall, this bill increases unfunded liabilities in the division and health care trusts, and could increase costs to provide disability, survivorship and retiree health care coverage risk for DC plan participants in each of the divisions.

Division trusts. This bill will increase unfunded liabilities in each of the PERA division trusts, except for the judicial division. Based on the funding status for each division as of 2010 and the assumption that 15 percent of all new employees will choose the DC plan, these changes are shown in Table 1. It should be noted that these changes are shown over a 30 year amortization period in 2010 dollars. Because it is possible that a greater number of employees may choose to enroll in the DC plan than assumed in this fiscal note, these numbers are presented as the minimum anticipated change.

PERA Trust Divisions	Change in Unfunded Accrued Actuarial Liability
State	at least \$580 million
Schools	at least 5.7 billion
Denver Public Schools	at least 239 million
Local Government	at least 80 million
TOTAL	at least \$6.6 billion

Health care trusts. This bill will increase unfunded liabilities in the PERA Health Care Trust Fund by \$290 million and by \$22 million in the Denver Public Schools (DPS) Health Care Trust Fund as of 2041. Based on the funding status for each health care trust as of 2010 and the assumption that 15 percent of all new employees will choose the DC plan, these changes are shown in Table 2.

Table 2. Changes to PERA Health Care Trusts Under HB12-1142 as of 2041	
PERA Trust Divisions	Change in Unfunded Accrued Actuarial Liability
Health Care Trust for All Divisions Except DPS	\$290 million
DPS Health Care Trust	22 million
TOTAL	\$322 million

Disability, survivorship, and retiree health care coverage risk. Currently, DB participants receive disability, survivorship and retiree health coverage and subsidies, which DC plan participants do not. The cost to provide these benefits to DC plan participants is shown in Table 3.

Table 3. Costs to Provide Disability, Survivorship, and Retiree Health Care Under HB12-1142 as of 2041	
PERA Trust Divisions	Estimated Cost
State	\$2,296,000
Schools	3,160,000
Denver Public Schools	700,000
Local Government	582,000
Judicial	80,000
TOTAL	\$6,818,000

State Expenditures

As discussed in the Statutory Public Entity Impact section above, this bill changes unfunded liabilities in PERA. As of 2041, in the state division only, unfunded liabilities are increased by at least \$580 million. No changes in liabilities are anticipated for the judicial division. The state would also potentially incur costs to address unfunded liabilities in the PERA Health Care Trust (totaling \$290 million), proportional to its membership. In addition, costs could increase by \$2.4 million if the state wishes to provide disability, survivorship, and retiree health care coverage costs to DC plan participants in the state and judicial divisions.

Based on recent legislative actions, the fiscal note assumes that the state would be required to increase employer or employee contributions in order to address shortfalls in unfunded liabilities in the state division and PERA Health Care Trust (which will affect all employers with DB plan members) between now and 2041.

Local Government Impact

In the local government division, unfunded liabilities are increased by at least \$80 million as of 2041. Local government employers may potentially incur costs to address unfunded liabilities in the PERA Health Care Trust (totaling \$290 million), proportional to their membership. In addition, costs could increase by \$582,000 if local government employers wish to provide disability, survivorship, and retiree health care coverage costs to DC plan participants.

School District Impact

As of 2041, unfunded liabilities are anticipated to be increased by \$5.7 billion in the schools division and by \$239 million in the DPS division. School district employers would also potentially incur costs to address unfunded liabilities in the PERA Health Care Trust (totaling \$290 million), proportional to their membership and the \$22 million unfunded liability in the DPS Health Care Trust. In addition, costs could increase by \$3,860,000 if school district employers wish to provide disability, survivorship, and retiree health care coverage costs to DC plan participants in the school and DPS divisions. Similar to other divisions, the fiscal note assumes these impacts will require additional legislative action.

Pursuant to Section 22-32-143, C.R.S., as specified by House Bill 11-1277, school districts and Boards of Cooperative Educational Services (BOCES) may submit estimates of fiscal impacts within seven days of a bill's introduction. As of the date of this fiscal note, no summaries of fiscal impacts were submitted by districts or BOCES for this bill. If summaries of fiscal impacts are submitted by districts or BOCES in the future, they will be noted in subsequent revisions to the fiscal note and posted at this address: <http://www.colorado.gov/lcs>

Departments Contacted

PERA