HB13-1040

***C**olorado **L**egislative **C**ouncil **S**taff **F**iscal **N**ote*

STATE and STATUTORY PUBLIC ENTITY FISCAL IMPACT

Drafting Number: LLS 13-0190
Prime Sponsor(s): Rep. Priola

Date: January 17, 2013
Bill Status: House Finance
Fiscal Analyst: Kerry White (303-866-3469)

TITLE: CONCERNING AN INCREASE IN THE NUMBER OF YEARS USED TO CALCULATE THE HIGHEST AVERAGE SALARY OF A MEMBER OF THE PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION FOR THE PURPOSE OF DETERMINING THE AMOUNT OF THE MEMBER'S RETIREMENT BENEFIT.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015
State Revenue General Fund	Reduction - see State Revenue section.	
State Expenditures		
FTE Position Change		
Effective Date: August 7, 2013, if the General Assembly adjourns on May 8, 2013, as scheduled, and no referendum petition is filed.		
Appropriation Summary for FY 2013-2014: None required.		
Statutory Public Entity Impact: See Statutory Public Entity Impact section.		

Note: The Public Employees' Retirement Association has not had sufficient time to perform an analysis of the long-term effects of this bill. Therefore, this fiscal note has been prepared using data from House Bill 12-1150, which was heard in the 2012 legislative session. This fiscal note will be updated if new information becomes available.

Summary of Legislation

This bill changes the manner in which the benefit amount payable to new members in the Public Employees' Retirement Association (PERA) is calculated. For members who were not a member, inactive member, or retiree as of December 31, 2013, benefits will be calculated using seven periods of the member's highest average salary (HAS) rather than three. The bill applies to all members, except those in the Judicial division that did not transfer from the Denver Public Schools (DPS) division.

Background

Under current law, the benefit amount payable to a PERA member depends on his or her date of hire, years of service credit, and age at retirement; and is calculated using a percentage of the member's HAS. HAS is one-twelfth of the average of the highest annual salaries on which PERA contributions were paid for three periods of 12 consecutive months of service credit. These periods are not required to be consecutive or the last three years of employment. In calculating benefits, PERA determines the HAS associated with four periods of 12 consecutive months: a base year, plus three additional years. The base year becomes the starting point for the annual limit on salary increases between HAS periods. The annual increase limit is 15 percent for PERA members enrolled before December 31, 2006, and eligible to retire as of January 1, 2011. For all other members, the annual increase limit between HAS periods is 8 percent.

State Revenue

This bill will reduce the retirement benefit amount payable to members that are hired on or after January 1, 2014, and therefore reduce taxable income for future PERA retirees. The impact of these changes on state revenue cannot be estimated.

Statutory Public Entity Impact

By increasing the number of HAS periods, this bill reduces the amount of retirement benefits payable to members hired on or after January 1, 2014 through 2042. As shown in Table 1, based on the 2010 valuation and estimates provided in the analysis of HB12-1150, the reduction in future liabilities through 2042 totals $322.3 million.

Table 1. Present Value of Reduction in Future Liabilities in 2042 under HB13-1040

PERA Division	Net Change in Accrued Liability
State Division	($97,500,000)
School Division	(174,400,000)
Local Government Division	(23,700,000)
DPS Division	(26,700,000)
TOTAL	**($322,300,000)**

Departments Contacted

PERA