HB14-1201

Colorado Legislative Council Staff Fiscal Note

STATE and STATUTORY PUBLIC ENTITY FISCAL IMPACT

Drafting Number:	LLS 14-0397	**Date:**	February 12, 2014
Prime Sponsor(s):	Rep. Priola Sen. Lambert	**Bill Status:**	House Finance
		Fiscal Analyst:	Lauren Schreier (303-866-3523)

SHORT TITLE: ALIGN PERA HIGHEST AVG SALARY WITH OTHER STATES

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
State Revenue	Reduction.	
State Expenditures		
FTE Position Change		
Appropriation Required: None.		

* *This summary shows changes from current law under the bill for each fiscal year.*

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 are not a member, inactive member, or retiree, as of December 31, 2014, benefits will be calculated using five periods of the members' highest average salary (HAS) rather than three. The bill applies to all members, except those in the Judicial division and those 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. Periods are not required to be consecutive and do not have to be 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 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 eight percent.

State Revenue

This bill will reduce the retirement benefit amount payable to members that are hired on or after January 1, 2015, 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, 2015, through 2045. As shown in Table 1, based on the 2012 actuarial valuation, an investment performance of 7.5 percent per year, and estimates provided in the analysis of HB14-1201, the reduction in future liabilities through 2045 totals approximately $277.9 million.

Table 1. Present Value of Reduction in Future Liabilities in 2044 under HB14-1201

PERA Division	Net Change in Accrued Liability
State Division	($89,400,000)
School Division	($155,000,000)
Local Government Division	($14,700,000)
DPS Division	($18,800,000)
TOTAL	**($277,900,000)**

Assumptions. This fiscal note assumes that the highest average salary requirements set forth in the bill will not create a reduction in contributions for an affected PERA employer. Additionally, the bill is not anticipated to have an impact on the Health Care Trust Funds.

Effective Date

The bill takes effect August 6, 2014, if the General Assembly adjourns on May 7, 2014, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

PERA