SB15-080

Colorado Legislative Council Staff Fiscal Note

STATE, LOCAL, and STATUTORY PUBLIC ENTITY FISCAL IMPACT

Drafting Number:	LLS 15-0513	**Date:**	February 9, 2015
Prime Sponsor(s):	Sen. Hill	**Bill Status:**	Senate Finance
		Fiscal Analyst:	Lauren Schreier (303-866-3523)

BILL TOPIC: PARTICIPATION IN PERA'S DEFINED CONTRIBUTION PLAN

Fiscal Impact Summary*	FY 2015-2016	FY 2016-2017
State Revenue	Potential change.	
State Expenditures	Potential change.	
FTE Position Change		
Appropriation Required: None.		

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

Summary of Legislation

Under current law, the Public Employees' Retirement Association (PERA) administers a defined benefit (DB) retirement plan and a defined contribution (DC) retirement plan. Only some employees from the state division may elect to join the DC plan. The bill removes this restriction, allowing all eligible individuals employed by any PERA affiliate to join the DC plan, effective January 1, 2016. These individuals will have the ability to join during the initial retirement benefit election period and thereafter are subject to the existing laws concerning participation and the termination of membership.

On January 1, 2016, the bill also permits all existing PERA members currently in the DB plan to opt into the DC plan. These existing PERA members must make an irrevocable written election during the annual open enrollment period and DC plans will be effective the first day of the annual state employees' group benefit plan year. Employees who switch to the DC plan from the DB plan must specify whether they want to:

- terminate future DB contributions while maintaining their rights relative to any contributions or benefits accrued prior to such election; or
- terminate membership in the DB plan and require PERA to pay all member contributions, accrued interest, and matching employer contributions to the DC plan.

Background

A DB pension plan provides a specified monthly benefit to retirees 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. PERA's DB plans are evaluated for their actuarial liability on a 30-year basis; DC plans have no ongoing liability.

Under current law, the PERA DC plan is available to employees of a state agency, the General Assembly, the office of a district attorney in a judicial district, or a community college, but not for employees of a state college or university, a school district, or a local government. Between 2006 and 2013, about 15 percent of eligible employees chose to enroll in the DC plan. Under current law, members of the state division may change their plan election once prior to 5 years of employment.

State Revenue

The bill may impact state revenue by potentially changing when state income taxes are paid by PERA retirees. DB plan benefits are paid and taxed on a monthly basis, while DC plan benefits are paid when the member chooses to receive them, typically on a periodic or lump-sum basis.

State Expenditures

The bill could affect state expenditures over the long term, depending on how the state chooses to respond to changes in certain unfunded liabilities of PERA. The state currently makes employer contributions to the state and judicial divisions in PERA based on rates set in statute. If the liabilities for these divisions are underfunded, the state may increase its contribution, although any change in state employer contribution rates requires legislation. The state may also potentially incur costs to address unfunded liabilities in the PERA Health Care Trust, proportional to membership. As of the writing of this fiscal note, these amounts have not been estimated.

Statutory Public Entity Impact

Expanding the number of employees than can elect the PERA DC plan and allowing existing employees to switch from the DB plan to the DC plan will reduce revenue to the DB division trusts as well as reducing the future liabilities of those trusts. Since some employees in the DB plan do not stay with a PERA employer long enough to become vested (i.e., entitled to receive employer contributions), the change is expected to increase the unfunded liabilities of PERA's DB plan as well as PERA's Health Care Trust Fund.

The actual impact on PERA's unfunded liabilities will depend on the number of employees that switch from the DB plan to the DC plan. This fiscal note illustrates the impact on unfunded liabilities based on the following assumptions:

- 15 percent of employees hired on or after January 1, 2016, will elect to join the DC plan;
- 15 percent of current DB plan members will elect to join the DC plan but only 5 percent of current DB plan members in the state division with less than 15 years of service will elect to join the DC plan, and;
- 5 percent of the Judicial division members will join the DC plan.

Division trusts. Table 1 shows the change in unfunded liabilities for each of the PERA divisions, based on the assumptions noted above.

Table 1. Changes to PERA Trusts Under SB 15-080 as of 2044	
PERA Trust Division	**Estimated Change in Unfunded Actuarial Accrued Liability**
State	$1.376 billion
School	$2.448 billion
Denver Public Schools (DPS)	$0.125 billion
Local Government	$0.241 billion
Judicial	$0.008 billion
TOTAL	**$4.2 billion**

Health Care Trust Fund (HCTF). Under current law, 1.02 percent of the employer contribution is directed to the HCTF for PERA members. If PERA members opt to join the DC plan at the rates noted above, the HCTF will be exhausted by 2029. To prevent insolvency, PERA employer contributions may need to increase. However, any employer contribution increase would require legislation. Please note that this does not impact the DPS HCTF, contained in a separate fund. Currently, DB participants receive disability, survivorship and retiree health care coverage and subsidies, which DC plan participants do not. As DB plan participation declines, the cost to provide these benefits will also decline.

Staffing. PERA will need additional staff to support an increase in the number of members participating in the DC plan. These staff are funded through fees paid by DC plan participants and using forfeited dollars from non-vested DC plan participants' employer contributions.

Local Government Impact

The bill may impact local governments, including school districts, by changing the unfunded liability of the local government division trust, the school division trust, and the PERA Health Care Trust. However, any change in employer contributions would require legislation.

Effective Date

The bill takes effect August 5, 2015, if the General Assembly adjourns on May 6, 2015, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

PERA Personnel