

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

**Drafting Number:** LLS 06-1119  
**Prime Sponsor(s):** Sen. Sandoval  
 Rep. Marshall

**Date:** April 26, 2006  
**Bill Status:** Senate SVMA  
**Fiscal Analyst:** Chris Ward (303-866-5834)

**TITLE:** CONCERNING PUBLIC EMPLOYEES' RETIREMENT BENEFIT PLANS.

| Fiscal Impact Summary   | FY 2006/07 | FY 2007/08 |
|---|------------|------------|
| <b>State Revenues</b>   |            |            |
| <b>State Expenditures</b>   |            |            |
| <b>FTE Position Change</b>  | 0.0 FTE    | 0.0 FTE    |
| <b>Effective Date:</b> Upon signature of the Governor, except Section 2 which is effective January 1, 2007. |            |            |
| <b>Appropriation Summary for FY 2006/07:</b> None required  |            |            |
| <b>Local Government Impact:</b> See Local Government Impact section   |            |            |

**Summary of Legislation**

The bill modifies the Public Employees' Retirement Association (PERA). Among other things, the bill:

- provides a supplemental amortization equalization disbursement (AED) of 0.5% beginning in FY 2007-08, and increasing 0.5% per year for a total of 3% by FY 2012-13, to be funded from money otherwise available for use as salary increases but prior to being awarded as salary;
- requires employees hired on or after January 1, 2007, who have less than 35 years of service at retirement to be eligible for full retirement benefits only if they are at least 55 years old and meet the "rule of 85" (age plus years of service);
- limits annual increases in retirement benefits for new hires and requires that a portion of employer contributions be allocated to a reserve to pay for such increases;
- expands the PERA board to include 5 additional trustees who are not members of PERA and who are appointed by the Governor with the consent of the Senate.

The bill reduces the maximum amortization period that is considered actuarially sound for each of the PERA trust funds from 40 to 30 years. It also further limits the salary increases used in calculating the highest average salary for members who retire after January 1, 2009. A member who purchases service credit shall be subject to the provisions regarding benefits, contribution rates, and related provisions in PERA that are in effect at the time the member initiates payment of the

purchase. The cost to purchase forfeited service credit for members hired on or after January 1, 2007, would be the refunded amount plus interest plus 1% of the member's highest average salary for each month or partial month of service credit. The 1% would be allocated to the annual increase reserve.

The bill codifies the board's determination that the cost to purchase noncovered service be sufficient to pay the actuarial liability associated with the purchase. Employers who fail to provide membership in PERA must pay the AED amount that was in effect at the time membership should have been provided. Of the amount paid by a member to purchase service credit for noncovered employment, the bill decreases the amount that is transferred to the health care trust fund on the effective date of the member's retirement to 1.02% of the member's highest average salary at the time of the purchase of service credit.

Members hired on or after January 1, 2007, who are inactive members may receive a retirement benefit effective upon written application and approval by the board and upon reaching the requisite age and service credit. The bill incorporates federal requirements on minimum required distributions pursuant to the federal internal revenue code. It also defines the nature of the employment relationship between a retiree of PERA and an employer for purposes of determining:

- employer contributions and AED payments by an employer for employing retirees; and
- any reduction in service retirement benefits for employment after service retirement pursuant to IRS guidelines regarding independent contractors.

An eligible employee who commences employment on or after January 1, 2007, who has an existing member account with PERA, and who initially elects to participate in the defined benefit plan or transfers into the defined benefit plan from the defined contribution plan shall continue membership in the defined benefit plan at the benefit level in which such membership account exists. An eligible employee who commences employment on or after January 1, 2006, who does not have an existing member account, and who elects to transfer into the defined benefit plan from the defined contribution plan, shall participate in the defined benefit plan at the benefit level existing when the employee begins participation in the defined benefit plan. Finally, the bill provides a time limitation for employees to bring actions based on their election or failure to elect between the defined contribution plans and the defined benefit plan.

## **State Revenues**

The bill requires a supplemental AED payment to be funded from money that would otherwise be available for salary increases. If this money would have been allocated as salary increases, shifting the payment to PERA will reduce taxable income for PERA employees, and reduce state and federal income tax collections. A shift of \$11.8 million will reduce state income tax collections by \$546,340.

### **State Expenditures**

Overall, the bill will not affect state expenditures. However, it changes the allocation of moneys that would otherwise be available for salary increases.

The bill provides a supplemental amortization equalization disbursement of 0.5% beginning July 1, 2007, and increasing each year at 0.5% until 2012 for a total of 3% by FY 2012-13. Including existing AED payments, a total of 6% would be allocated after the payments are fully phased in. The amounts that would be allocated as a supplemental AED for the state division are shown in Table 1.

| <b>Table 1. Supplemental AED Payments Under SB 06-235</b> |              |
|---|--------------|
| FY 2005-06  | \$0          |
| FY 2006-07  | \$0          |
| FY 2007-08  | \$11,759,614 |
| FY 2008-09  | \$24,428,345 |
| FY 2009-10  | \$38,076,305 |
| FY 2010-11  | \$52,782,155 |
| FY 2011-12  | \$68,641,747 |
| FY 2012-13  | \$85,767,112 |

The bill requires that the supplemental AED be funded, to the extent permitted by law, by an allocation of funds otherwise available for use as employee compensation increases prior to award as salary or other compensation to employees. As such, it is assumed that the bill will not increase state expenditures above what would otherwise be required.

The bill also allows for the reduction in the supplemental AED amounts if the funded ration PERA reaches 100%. In such an instance, the reduction would be allocated to salary increases.

### **Public Employees' Retirement Association**

The bill modifies retirement benefits for employees hired on or after January 1, 2007, which will reduce future expected PERA liabilities. Under the bill, these employees must meet the "rule of 85" (age plus years of service) and be at least 55 years old to retire with full benefits if they have less than 35 years of service at retirement. This provision will increase the number of years that employees will pay into PERA before retirement and reduce future PERA obligations.

For new hires, cost-of-living adjustments to retirement benefits would be limited to 10% of the amount in the newly-created annual increase reserve. Increases would be further limited to the lesser of 3% or the change in the consumer price index. The annual increase reserve would consist of a portion of the employer contribution equal to one percent of salaries otherwise, plus any revenue received for purchased service credit and a proportion of interest earnings.

The bill establishes supplemental AED payments for PERA beginning in FY 2007-08, which will increase revenue to PERA and improve the actuarial status of PERA trust funds. The bill reduces the maximum amortization period for considering PERA trust funds actuarially sound from 40 to 30 years. It also and limits the salary increases used in calculating a member's highest average salary at retirement. Beginning January 1, 2007, the bill expands the PERA board to include 5 additional trustees who are not members of PERA and who are appointed by the Governor with the consent of the Senate. This will increase administrative costs of PERA.

### **Local Government Impact**

Local governments that participate in PERA, including most school districts, would experience impacts similar to those described above for the state.

### **State Appropriations**

No new state appropriations are required to implement the bill in FY 2006-07.

### **Departments Contacted**

Personnel and Administration          PERA