



**STATE and  
STATUTORY PUBLIC ENTITY  
FISCAL IMPACT**

**Drafting Number:** LLS 06-0481  
**Prime Sponsor(s):** Rep. Stengel

**Date:** February 6, 2006  
**Bill Status:** House Business Affairs & Labor  
**Fiscal Analyst:** Chris Ward (303-866-5834)

**TITLE:** CONCERNING THE PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION, AND, IN CONNECTION THEREWITH, CREATING A NEW BOARD TO ADMINISTER THE ASSOCIATION AND CREATING A DEFINED CONTRIBUTION PLAN FOR PUBLIC EMPLOYEES.

Fiscal Impact Summary	FY 2006/07	FY 2007/08
<b>State Revenues</b>		
<b>State Expenditures</b>		
General Fund		\$198,994
<b>FTE Position Change</b>	0.0 FTE	2.0 FTE
<b>Effective Date:</b> Sections 2, 5, 6, and 8 take effect January 1, 2008; all other sections take effect August 9, 2006, unless a referendum petition is filed, and assuming the General Assembly adjourns May 10, 2006, as scheduled.		
<b>Appropriation Summary for FY 2006/07:</b> None required		
<b>Local Government Impact:</b> None		

**Summary of Legislation**

The bill changes the Public Employees' Retirement Association (PERA) on January 1, 2008. As of that date, new employees would no longer be eligible to join either PERA's defined benefit plan or PERA's existing defined contribution plan and employees would instead be enrolled in a newly-created defined contribution plan. The bill sets a maximum amortization period of 30 years for considering PERA's existing defined benefit plan actuarially sound and declares an "actuarial necessity" if this standard is not met. Under an actuarial necessity, the General Assembly is permitted to modify the retirement benefits of PERA members, but only for those who are not yet receiving such benefits. The bill sets out the contribution rates for the new defined contribution plan and requires that the employee contribution rate increase by 0.5 percent per year until it matches the employer rate. Members in the defined benefit plan may elect to leave the plan and join the new defined contribution plan.

Also on January 1, 2008, the bill abolishes PERA's existing 16-member board of trustees and establishes a new 9-member board in the State Treasurer's office. PERA would be subject to administrative direction by the Treasurer, but would remain an instrumentality of the state. The new board would consist of the Treasurer, the State Auditor, and 7 trustees appointed by the Governor. The new board is required to submit an initial report to the General Assembly within 120 days of convening. The report must include a preliminary assessment of the PERA's financial status and preliminary recommendations for improving the financial stability of PERA.

**Background.** PERA consists of four divisions - state, school, local government, and judicial - each of which is identified by a separate trust fund, amortization period, and membership. The current contribution rates for each division are shown in Table 1.

<b>Division</b>	<b>Employer Rate</b>	<b>Employee Rate</b>
State	State Troopers 12.85%	10.00%
	All Others 10.15%	8.00%
School	10.15%	8.00%
Local Government	10.00%	8.00%
Judicial	13.66%	8.00%

### **State Expenditures**

In total, the bill is expected to increase state expenditures by **\$198,994 and 2.0 FTE in FY 2007-08**, as described below.

**Administrative Expenses.** The bill will directly affect state expenditures for administrative functions - staff at the Treasury Department and expenses for the board of trustees - which are estimated to require \$198,994 and 2.0 FTE in FY 2007-08. These costs would be paid from the General Fund. Although the bill places PERA under the administrative direction of the State Treasurer, it is assumed that PERA's existing operating and administrative functions would remain outside of the state budget and would continue to be funded from a proportional allocation of PERA's trust funds, as under current law. The new costs include staff resources with expertise to provide oversight, and per diem and expenses for the new 9-member PERA board established in the Department of the Treasury. Board members are entitled to \$100 per day plus necessary expenses.

The bill further requires that an audit of PERA be conducted every two years and that the board provide a preliminary report within 120 days of convening. These costs would be paid from PERA funds.

**Allocation of Employer Contributions.** Although the bill does not change the statutorily-required employer contribution levels, it does change where these contributions are allocated beginning January 1, 2008. Current law sets the employer contribution rates shown in Table 1. Under the bill, the employer contribution rate for the new defined contribution plan is set

at 8 percent, or any other amount set by the PERA board. This fiscal note assumes any difference between the current statutory rates and the rate set by the board would continue to be allocated to the existing defined benefit plan.

### **Public Employees Retirement Association Impact**

The bill modifies or ends PERA's current retirement systems - both the defined benefit plan and the defined contribution plan - and establishes a new defined contribution plan for state, school district, local government, and judicial employees. The bill also eliminates the existing PERA board on January 1, 2008, eliminating any costs for this function.

***Existing PERA Retirement Plans.*** Starting January 1, 2008, the bill closes PERA's defined benefit plan to new employees and ends PERA's existing defined contribution plan. It also reduces the amortization period for ensuring that PERA is actuarially sound from 40 years to 30 years and allows the General Assembly to reduce retirement benefits for any employees not already eligible for benefits if the amortization period for any division exceeds 30 years. Currently, the amortization period is infinite.

Closing the defined benefit plan will limit the number of people paying into the trust fund, but will not affect the number of people receiving benefits. This change would increase the amortization period, causing it to exceed the 30-year limit specified in the bill and would require that the General Assembly reduce retirement benefits or increase employer contribution rates. These impacts have not been estimated. Funding for the defined benefit plan would still include the following components:

- employer contributions above 8 percent of salary;
- employee contributions from employees hired before January 1, 2008; and
- Amortization Equalization Disbursement payments.

As of December 31, 2004, PERA's assets equaled 70.6 percent of its accrued liabilities. Under the bill, the ratio of assets to accrued liabilities is expected to decline to 50 percent by 2025 and the defined benefit plan would be expected to run out of funds by 2034.

***New PERA Retirement Plans.*** The bill establishes a new defined contribution plan for all new employees hired on or after Jan 1, 2008. The employer contribution rate is set at 8 percent, or any other amount set by the board. Employees would be required to contribute 8 percent of salary to the plan, but beginning in 2009, the rate is increased 0.5 percent per year until the employee contribution rate matches employer contribution rate. Employees would be vested in the value of employer contribution as follows:

- 25 percent after 2 years in the association;
- 50 percent after 3 years;
- 75 percent after 4 years; and
- 100 percent after 5 years.

Members would be able to exercise control of the investment of their individual accounts by choosing among alternatives offered by PERA. The bill requires the board to provide at least 5 investment alternatives. PERA would not be liable for any financial losses experienced by members.

Employees in the existing defined benefit plan can elect to join the new defined contribution plan, taking their defined benefit account balance plus a 50 percent match from employer contributions. Once exercised, this option cannot be revoked.

**State Appropriations**

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

**Departments Contacted**

Personnel and Administration          PERA          Treasury