Attachment B

Senator Keith King
4715 Bywood Court
Colorado Springs, CO 80906
Home: 719-576-6149
Cell: 719-331-3880
E-Mail keith@keithking.org

Member:
Appropriations Committee
Education Committee
Finance Committee
Judiciary Committee

COLORADO
SENATE
STATE CAPITOL
DENVER
80203

PERA and their Misguided Solution for Solvency:

The time has come for an assessment of the proposal that the Public Employees Retirement Association (PERA) thinks is the answer to their insolvency. While they are providing retirement benefits to over 440,000 people they are doing so at the expense of over 400 employers and all their employees. I do not believe the proposal that they have crafted is a viable solution. Below I list my reasons why I believe their approach is misguided.

1. **The PERA proposal places a disproportionate amount of employee compensation in retirement benefit** – With a fully implemented employer contribution of 20.55% and an employee contribution of 8%, PERA will receive 28.55% of salary as a retirement contribution. This amount is too high and places a disproportionate emphasis on retirement benefit instead of salary or health benefits for current employees who will make it harder to attract and retain highly qualified staff.
2. **The burden on the PERA employers is too high** – With 20.55% being paid by the employer and only 8% being paid by the employee, employers are put in the awkward position of redirecting valuable resources to pension contribution instead of towards salary, health benefits or instructional program. Then the employer is forced to explain the situation to the employee instead of PERA assuming that responsibility.
3. **The 2/2/2+ plan is not the best plan** – The first two components of the 2/2/2+ plan are a misrepresentation of the truth. In reality the plan puts a full 4% increase in contribution level on the employer's back. Why not increase the cost to employees by at least I%. The final 2% limitation on COLA should be 1 or 0 until the plan is at least 90 percent solvent.
4. **Retirees once again benefit from the plan** – Retirees, who have already dramatically benefited from increased pension benefit over the last 20 years, will feel little impact of this proposal. The purchase of service years of credit must be eliminated. It would be very interesting to know how many billions this has cost the fund alone. I doubt if the PERA board even knows that answer. Once again, current taxpayers are funding an increased contribution for the same people, leaving a debt to future employees and taxpayers. I predict that local government and school districts will be going to the voters next year with this tax increase given as the reason why they need more money.
5. **The proposal will probably over-adjust PERA over the next 30 years with no option to re-adjust** – There needs to be a mechanism to decrease the contribution levels should the plan return to sustainability. The 110% funding benchmark is too high and places an unfair burden on this generation of taxpayers. This is poor fiscal policy. What will they ask for with the next economic downturn?
6. **There is no long-term plan for the future of PERA** – PERA needs to consider a Defined Contribution Plan for new hires to replace the obsolete Defined Benefit pension plan. After all, what kind of salaries will new employees receive with the burden of supporting the retirees? The benefits received in the defined benefit plan are biased toward older employees, especially when younger employees leave their jobs. If young employees leave their jobs before they are vested they lose all of the employer contribution

toward their retirement. If they leave before reaching retirement age they stand to lose half or more of the benefits they have accumulated in their pension plan, the value of which is in effect transferred to older employees. This makes it very difficult to recruit and retain new employees. Colorado needs to follow Alaska and Michigan and change to a defined contribution plan.

7. **The PERA proposal will cost employees pay raises –** Due to the increasing employer contribution level for nearly the next decade, employers will find it difficult to give employees pay raises due to the pension contribution mandate. This will mean older employees will stagnate at existing salary levels and new employees will flee to the private sector or other states.
8. **The PERA proposal will cost employees jobs –** With an employer contribution differential of 13% between Social Security and PERA, employers will be forced to examine the privatization of certain functions which will result in the termination of thousands of employees, mostly support staff, in favor of cheaper labor. This proposal will give the private sector a 13% cost advantage in costs. Many of these support staff are dependent on their employer for insurance and an affordable wage.
9. **PERA has the distinction of having one of the highest levels of unfunded liabilities per capita in the country** – PERA cannot meet GASB standards, or Colorado statutes, requiring that unfunded liabilities be paid off over a thirty year amortization period.
10. **PERA is unrealistic in its rate of return –** It is time for everyone to realize that the 8 percent rate of return for retirement funds assumed by PERA has no measure in reality; anything above a 6 percent assumed rate of return is unrealistic.

It is time for the Legislature and the Governor of the state of Colorado to become realistic before assuming that this PERA proposal is the right solution. It will not solve the crisis and will only make matters worse by postponing real reform that will create solvency long term for the retirees, employees and employers who are in the system.