

Concerning the Consolidation of Public Employee Retirement Plans under PERA - SB09-066

What Would This Bill Do?

This Bill would transfer the three defined contribution plans administered by the Department of Personnel & Administration (DPA) to PERA for cost effective and prudent management to the benefit of participants. Major elements of the Bill are as follows.

- Transfer State DC Plan to PERA DC Plan. Merge the State of Colorado Public Officials' and Employees' Defined Contribution Plan (State DC Plan) into the Public Employees' Retirement Association (PERA) Defined Contribution Plan. Effective July 1, 2009, participants in the State DC Plan would become members of PERA and their State DC Plan accounts would be transferred to the PERA Defined Contribution Plan.
- New Employee Choice as of July 1, 2009. Eliminate the State DC Plan as a retirement plan option and effective July 1, 2009, require new eligible state employees to participate in either the PERA Defined Benefit or Defined Contribution Plan. If the employee does not make an election within 60 days of commencing employment, the employee will automatically be enrolled in the PERA Defined Benefit Plan. All new employees participating in the PERA Defined Contribution and Defined Benefit Plans will follow the vesting schedule established for these Plans.
- Previous State DC Participants continue to have no option to enroll in PERA DB. Provide that an employee hired on or after July 1, 2009, who has been an active participant in the State DC Plan during the 12 months prior to the date the employee commences employment shall be required to participate in the PERA Defined Contribution Plan and shall not have the option of participating in the PERA Defined Benefit Plan.
- Continuing 100% vesting for State DC Participants. Provide that participants with an account balance in the State DC Plan who have their account transferred to the PERA Defined Contribution Plan effective July 1, 2009, will be fully vested in 100% of the State's past and future contributions to their account. If a participant in the State DC Plan does not have an account balance or has a 12 month break in service, he or she will follow the vesting schedule established for PERA Defined Benefit and Defined Contribution Plan participants.
- State DC Participants prohibited from opportunity to transfer to PERA DB. Exclude participants in the State DC Plan who have their account transferred to the PERA Defined Contribution Plan effective July 1, 2009 from being able to switch to the PERA Defined Benefit Plan during the second to fifth year of membership in the Plan.
- Continue open enrollment opportunity for elected officials hired prior to 1/1/06. Allow elected and public officials who were eligible for and participated in the State DC Plan prior to January 1, 2006 to become a member of the PERA Defined Benefit Plan and allow those elected and public officials who had previously participated in the PERA Defined Benefit Plan the option of participating in the PERA Defined Contribution Plan.
- Transfer 457 Plan to PERA. Transfer the 457 supplemental deferred compensation plan in its entirety to PERA. All participant account will transfer intact and investments choices remain the same.
- Abolish 457 Committee, transfer fiduciary duty to PERA Board. Abolish the State Deferred Compensation Committee and transfer the administrative and fiduciary responsibility for the

State of Colorado 457 Deferred Compensation Plan (State 457 Plan) to the PERA Board and create the Deferred Compensation Plan Trust Fund to hold the Plan's assets.

- Merge State 401a Match to PERA 401(k). Merge the State DC Match Plan and all of its assets with the PERA 401(k) Plan. If a State DC Match Plan participant has an existing PERA 401(k) account, the two accounts will be merged; if the participant does not have a PERA 401(k) account, a new account will be created.

Why Is This Bill Necessary?

The October 2008 performance review of the State of Colorado Defined Contribution and 457 Deferred Compensation Plans identified two options for restructuring the State's primary and supplemental retirement plans that could result in lower participant fees and improve the efficiency of plan management. The first option was to evaluate whether to offer only one defined contribution plan to state employees. Buck Consultants found that participants in the State DC Plan would likely pay lower fees if the Plan were combined with the PERA Defined Contribution Plan. PERA is able to offer participants investment options with lower fees because the PERA Defined Contribution Plan has more assets under its management than the State DC Plan (\$1.7 billion in assets for the PERA plans compared with \$392 million for the State plans). The second option was to evaluate whether it is more efficient and less costly to the State overall to combine the management of all of the State's primary and supplemental retirement plans under one entity. Buck Consultants found that PERA may be in a better position than the DPA to manage all of the retirement plans because the sole business purpose of PERA is to manage retirement plans, and thus PERA is able to dedicate all of its resources to this function. By contrast, managing the State DC Plan and the State 457 Plan are a very small portion of DPA's responsibilities and it is only able to allocate limited resources to oversight of the Plans. Additionally, PERA may be in a better position to oversee the State 457 Plan that has local government participants who are outside of the state system. PERA, which currently has more than 400 participating employers across Colorado government, is structured to work with local governments and has access to salary information for the employees of all participating employers. DPA, on the other hand, does not have access to the salary information needed to monitor Internal Revenue Code contribution and compensation limits for participants employed outside of state government.

The review recommended that the State Deferred Compensation Committee, DPA, and PERA evaluate options for streamlining the structure of the primary and supplemental retirement plans offered by the State and, after completing this evaluation, seek statutory changes as necessary. In response to the recommendation, the Committee, DPA, and PERA completed their evaluation and concluded that the best option is to merge the State DC Plan into the PERA Defined Contribution Plan and to place the management of all of the State's retirement plans under PERA.

The evaluation was performed under the direction of the DPA and the Committee, and PERA and was not included in the review conducted by the Office of the State Auditor.

Comments

The State Deferred Compensation Committee, Department of Personnel & Administration, and Public Employees' Retirement Association support this Bill.

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