SB13-055

Colorado Legislative Council Staff Fiscal Note

STATE, LOCAL, and STATUTORY PUBLIC ENTITY FISCAL IMPACT

Drafting Number:	LLS 13-0438	**Date:**	January 30, 2013
Prime Sponsor(s):	Sen. Lambert Rep. Saine	**Bill Status:**	Senate SVMA
		Fiscal Analyst:	Kerry White (303-866-3469)

TITLE: CONCERNING METHODS TO INCREASE THE ACTUARIAL SOUNDNESS OF THE PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015
State Revenue		
State Expenditures	See State Expenditures section.	
FTE Position Change		
Effective Date: August 7, 2013, if the General Assembly adjourns on May 8, 2013, as scheduled, and no referendum petition is filed.		
Appropriation Summary for FY 2013-2014: None required.		
Statutory Public Entity Impact: See Local Government and Statutory Public Entity Impact sections.		

Summary of Legislation

This bill addresses the actuarial soundness of Public Employees' Retirement Association (PERA) division trusts. Under current law, PERA trusts are considered actuarially sound if the maximum amortization period is 30 years or less. This bill clarifies that a determination of actuarial soundness also requires an assumption that the discount rate is equal to the state's long-term debt interest rate. In addition, the bill grants the General Assembly authority to adjust employer or member contribution rates as necessary to maintain actuarial soundness in each of the division trusts. Beginning November 1, 2013, and each November 1 thereafter, PERA is required to submit specific, comprehensive recommendations to the General Assembly about its financial condition. PERA is also required to publish its comprehensive annual financial report (CAFR) by May 31 of each year.

State Expenditures

This bill has no impact on state expenditures because in order to change contribution rates, additional legislation is required. However, to the extent that the General Assembly wishes to adjust employer or member contribution rates with future legislation, state expenditures could increase or decrease. Member contributions are distributed by the employer to PERA, but paid by members (employees). Because those decisions will be based on maintaining the actuarial soundness of a PERA division trust in the future, it is not currently possible to determine the effect on state expenditures.

Local Government Impact

Similar to the state, local governments and school district costs could increase or decrease if the General Assembly determines a change in employer or member contributions is necessary to maintain the actuarial soundness of a PERA division trust. Because any such decision is based on future fiscal conditions and additional legislation, it is not possible to determine the impact to local governments or school districts.

Statutory Public Entity Impact

This bill will increase administrative costs for PERA. First, the bill requires PERA to prepare and submit fiscal recommendations to the General Assembly each November 1. Second, the bill requires PERA to prepare and release the CAFR by May 31 of each year. Currently, PERA releases the CAFR in late June or early July. Reducing the amount of time available to complete the annual audit may result in increased costs for PERA's external auditor.

In addition, by requiring the use of an assumption that the discount rate is equal to the state's long-term debt interest rate, the bill could result in reducing PERA's reported funding ratio. PERA currently assumes an investment rate of return of 8 percent. By reducing the assumed rate of return to whatever the state's long-term debt interest rate is in a given year, it will increase the assumed number of years required to pay future liabilities.

Departments Contacted

Joint Budget Committee Staff Public Employees' Retirement Association