

This package of proposed changes (introduced as Senate Bill 06-174 by Senator Paula Sandoval, Denver) is designed to maintain solid retirement benefits for current and future PERA members, while preserving the long-term financial stability of the PERA trust funds. This package proposes no changes affecting current benefit recipients, and maintains all legally protected benefits for current active members. It will help amortize unfunded liabilities and maintain the actuarial soundness of Colorado PERA over the long-term for all current and future members.

Changes Affecting Current Members

- Limit “spiking” of salaries for Highest Average Salary (HAS) calculation
 - Include members’ voluntary pre-tax contributions for IRC Section 125 and 132 plan expenses in salary for PERA purposes
 - Tighten the limit on salary increases included in the calculation of the three-year HAS, applicable to benefits that become effective on or after January 1, 2009
- For current PERA members under age 45, and for new members, limit PERA’s subsidy toward retiree health premiums prior to age 65, with an effective date of January 1, 2007

New PERA Benefits for PERA Members Hired January 1, 2007, or Later

- Called “Tier 2” PERA benefits
 - 2.1 percent of HAS per year of service
 - HAS based on highest 5 years of salary
 - No guaranteed annual increase after retirement. A portion of the employer contribution (0.5 percent of salary) is earmarked for a fund to provide future COLA increases
 - Tier 2 members will contribute 7 percent of salary
 - Safeguards included in the Plan to ensure Tier 2 plan remains actuarially sound into the future
- Employees hired before January 1, 2007, remain in “Tier 1”
 - 2.5 percent of HAS per year of service
 - HAS based on highest 3 years of salary
 - Automatic increase of 3.5 percent per year after retirement (lower of CPI or 3 percent per year for members hired July 1, 2005, through December 31, 2006).
 - Tier 1 members continue contributions of 8 percent of salary



Funding of PERA Benefits

- Accelerate current phase-in of employer Amortization Equalization Disbursement (AED) payments
 - Make scheduled increases 0.5 percent of salary rather than 0.4 percent of salary for each year 2008–2011, and add a 0.5 percent of salary AED increase for 2012
- Change statute on unfunded liability amortization period to reflect that a maximum amortization period of 30 years shall be deemed actuarially sound
- As new PERA members replace retiring and terminating members, the actuarial cost of PERA benefits earned will decrease. This is because Tier 2 benefits are lower than current Tier 1 benefits. Over time, a larger portion of the employers' contributions to PERA will become available to amortize the unfunded liabilities of Tier 1 benefits
- Safeguards are included to ensure actuarial soundness for the Tier 2 plan. Contributions by Tier 2 members and employers increase in tandem if the funded ratio for Tier 2 benefits declines below 90 percent. If member contributions eventually reach a maximum of 10 percent of salary, the PERA Board would propose legislation to reduce future benefits for Tier 2 members
- Eligible state employees hired in 2007 or later who elect a defined contribution plan (either the State DPA's plan or PERA's) contribute 7 percent of salary to their plan. The total State contribution will be the same rate as for Tier 1 PERA members, split with 7 percent of salary going into the DC plan, and the remainder going to fund the unfunded liability of PERA Tier 1 benefits

Proposed Change to Board Structure

(Not part of the legislative package, but will modify the current Charter of the Board)

The Board will add two outside experts to the memberships of the Benefits Committee, Compensation and Budget Committee, and the Investment Committee. Such members will be selected by the Board according to specified qualification criteria, will be voting members of the respective committees, will serve overlapping four-year terms, and will be compensated for their services.