



Shareholders Meeting Presentation

Fall 2005

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Welcome Shareholders! Whether you are an active or inactive member, retiree or benefit recipient, you are one of over 365,000 PERA "shareholders," which means you have a stake in the future of Colorado PERA.

Since PERA was established in state law over 73 years ago on August 1, 1931, the PERA Board of Trustees and staff have worked with the Legislature, the Governor, and PERA members and retirees to provide cost-effective benefits and programs that are of value to you.

The Board of Trustees and PERA staff act as fiduciaries of your retirement plan, and we are required by law to work in your interest. Our goals are to ensure that your trust funds are well managed and that the dollars you and your employer contribute on your behalf will be there when you need them. We recognize that your retirement is one of your largest and most important financial investments.

In late September through early November, we held 27 Shareholder Meetings around the state. These meetings were designed to give you the latest unfiltered news about Colorado PERA. We've posted this presentation on our Web site for those of you who were unable to attend the Shareholder Meeting in your area, or just wanted to review the information again. The Shareholder Meeting is a supplement to our annual financial report, as well as to our member and retiree publications we send to you and that are available on our Web site.

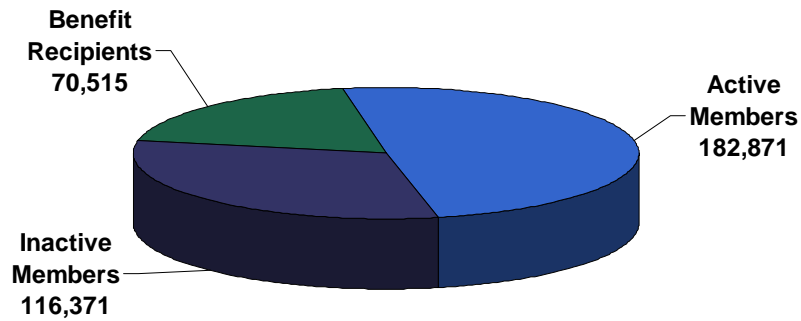
In this presentation, we will review PERA's financial condition, legislation enacted in 2004 and 2005, and what PERA faces in the future.

As always, we welcome your input—the last slide contains contact information should you have questions or comments.

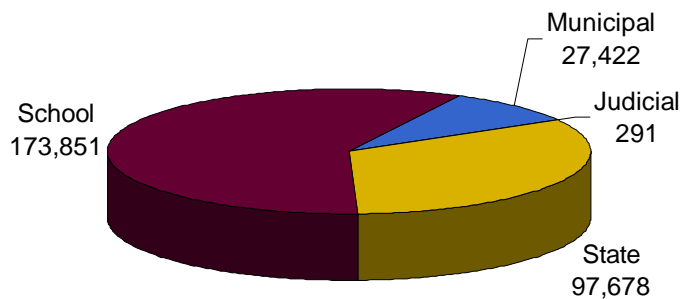
Members and Benefit Recipients

As of July 31, 2005

Total Members and Benefit Recipients = 369,757



Total Active and Inactive Members By Division = 299,242



At the end of July 2005, Colorado PERA had nearly 370,000 members and benefit recipients. There are 29 benefit recipients over the age of 100. PERA's oldest benefit recipient is 105 years old. The value of PERA's defined benefit plan is demonstrated in these statistics:

- Longest Benefit Being Paid – 48 years
- Largest Total Benefit Paid – \$1,632,698
- Most Service Credit of a Living Retiree – 50 years, there are nine retirees/benefit recipients with more than 40 years of service
- Longest benefit paid:
 - 46 years to a retiree/cobeneficiary combo
 - 43 years to a retiree
 - 93 benefits paid for 35 or more years

Colorado PERA is a well-oiled economic engine for the State of Colorado, paying \$1.8 billion in benefits to 90% of PERA retirees who call Colorado home.

2004 Summary

- Earned 14.1% return on assets
- Processed record number of 5,171 new retirements
- Paid \$1.8 billion in retirement/survivor benefits
- Converted to new 401(k) service provider
- Enacted legislation to assist with funding issue



PERA's trust funds earned a 14.1% investment return in 2004 after earning 24.1% in 2003. 2004 was the second consecutive year of returns well in excess of what the Board has established as the long-term average return (or assumed actuarial rate) of 8.5%. So, if PERA's investments are doing so well, why did the funded ratio (the comparison of assets on hand to liabilities, or what PERA owes in the future), go down? There are several reasons that we'll go into later, but because PERA averages or "smoothes" investment returns over four years, we are still feeling the impact of poor investment returns in 2001 and 2002. Early retirements also continue to increase liabilities.

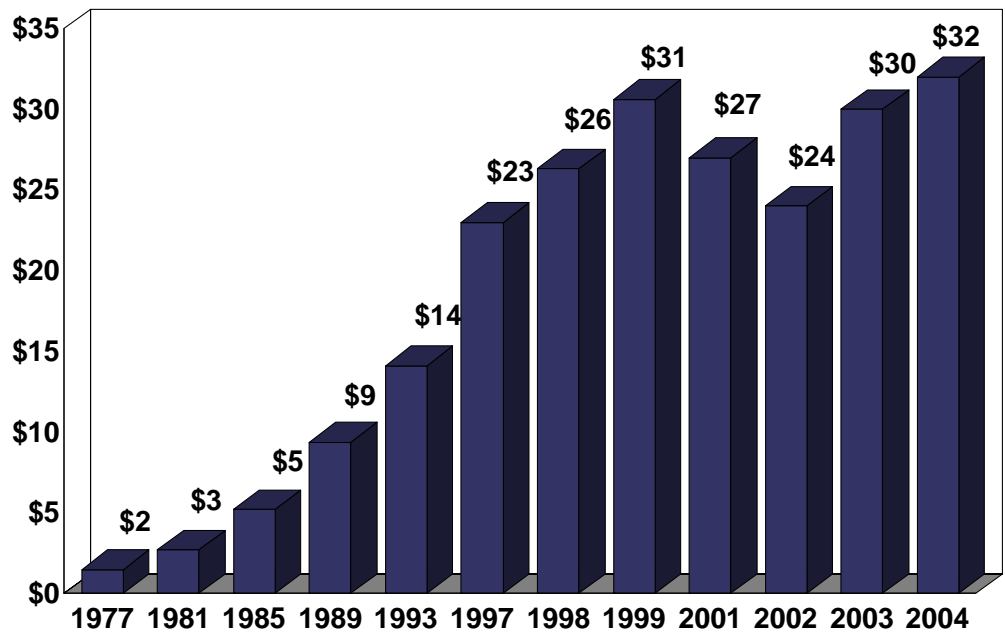
Legislation that has recently been passed, as well as legislation that will go into effect in 2006 will help ensure the continued soundness of PERA.

PERA Investment Fund

On December 31 each year

As of July 31, 2005 – \$33.1 billion

In Billions



This chart shows the growth (and decline in 2001 and 2002) of the market value of the PERA trust funds.

PERA Financial Recap

(in thousands of dollars; does not include 401 (k) Plan)

\$32,481,423 net assets as of December 31, 2004

July 2005

Contributions \$824,667



Employer	\$347,671
Member	\$273,954
Purchased Service	\$158,520
Retiree Health Care Premiums	\$40,140
Other Additions	\$4,382

Investments \$1,127,739



Net Change in Fair Value	\$664,050
Interest	\$195,085
Dividends	\$187,867
Real Estate/Timber/ Alternative Investments	\$142,563
Securities Lending	\$7,064
Investment Expense	(\$48,890)

Benefits Paid (\$1,295,739)



Benefit Recipients	(\$1,203,093)
Disability/ Life Insurance	(\$3,505)
Refunds	(\$68,536)
Other	(\$3,762)
Admin Exp	(\$16,843)

\$33,138,090 net assets as of July 31, 2005

(unaudited, for internal use only)



This graphic shows the importance of investment return on PERA's cash flow. Notice that although more has been paid in benefits through July of this year than has been collected in contributions, PERA's cash flow is positive since we invest your contributions in assets that provide return such as real estate (rent), stocks (dividends), and bonds (interest).

PERA, because we enjoy positive cash flow, is not selling assets to pay benefits.

Actuary's Statement

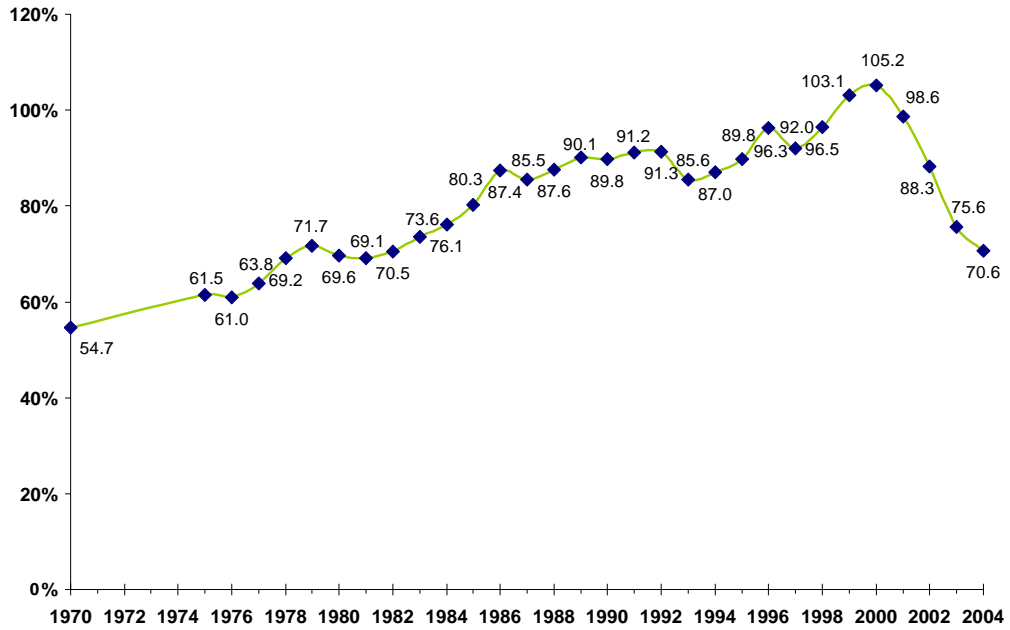
“...PERA has a funded ratio of 71% based on the actuarial value of assets. The funded ratio on market value of assets is higher, at 74%. It is our opinion that the current funding is sufficient to pay benefit payments through the projected actuarial period of 30 years. However, the contribution rates are currently not sufficient to support the pension system's benefit structure long-term. If there is not a sufficient recovery in the investment markets in the near future, the long-term ability of the System to support the benefits will be challenged in the absence of a significant increase in the contribution rates.”



A lot has been made of this statement in the media. The text is from the actuary's letter that appears in our annual financial report. Notice that they only make a projection for 30 years. That's because a lot can change over three decades and there are many variables that are used to predict PERA's funded status. Also notice that this statement DOES NOT say PERA will "collapse" after 30 years. What is important is the last part that says that unless PERA investments earn a higher return than expected, PERA's employers may have to contribute more to ensure PERA's soundness.

Historical Funding Ratio

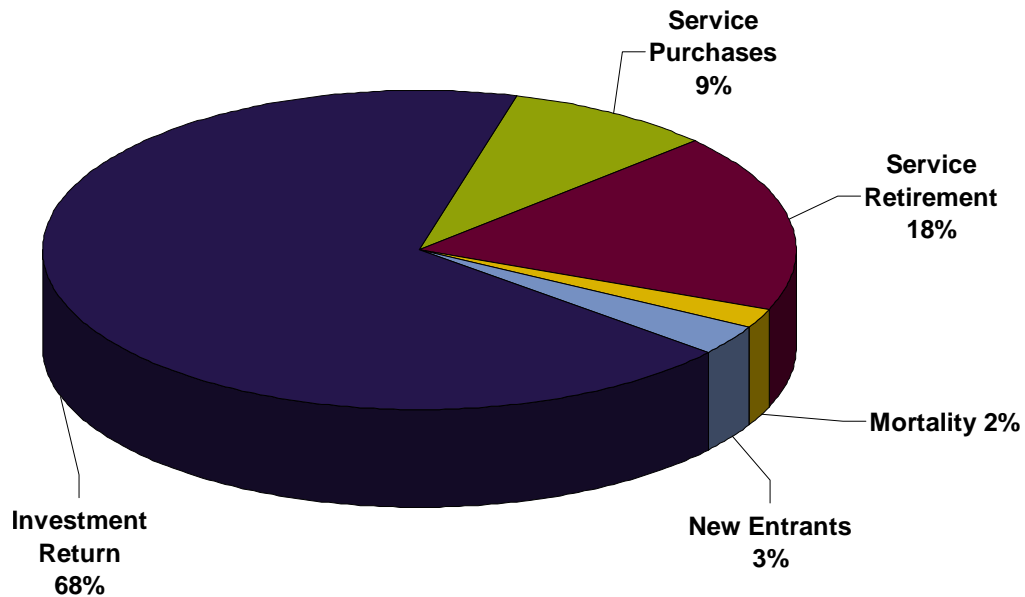
Percentage of Assets Compared to Liabilities



Here's how PERA's assets compared to what we owed current and future benefit recipients. Note that PERA's funded status was lower 30 years ago than it is now. You may recall that there was no perceived "crisis" in PERA's funded status in 1975.

Sources of Increase in Unfunded Liabilities-2004

(As % of Total)



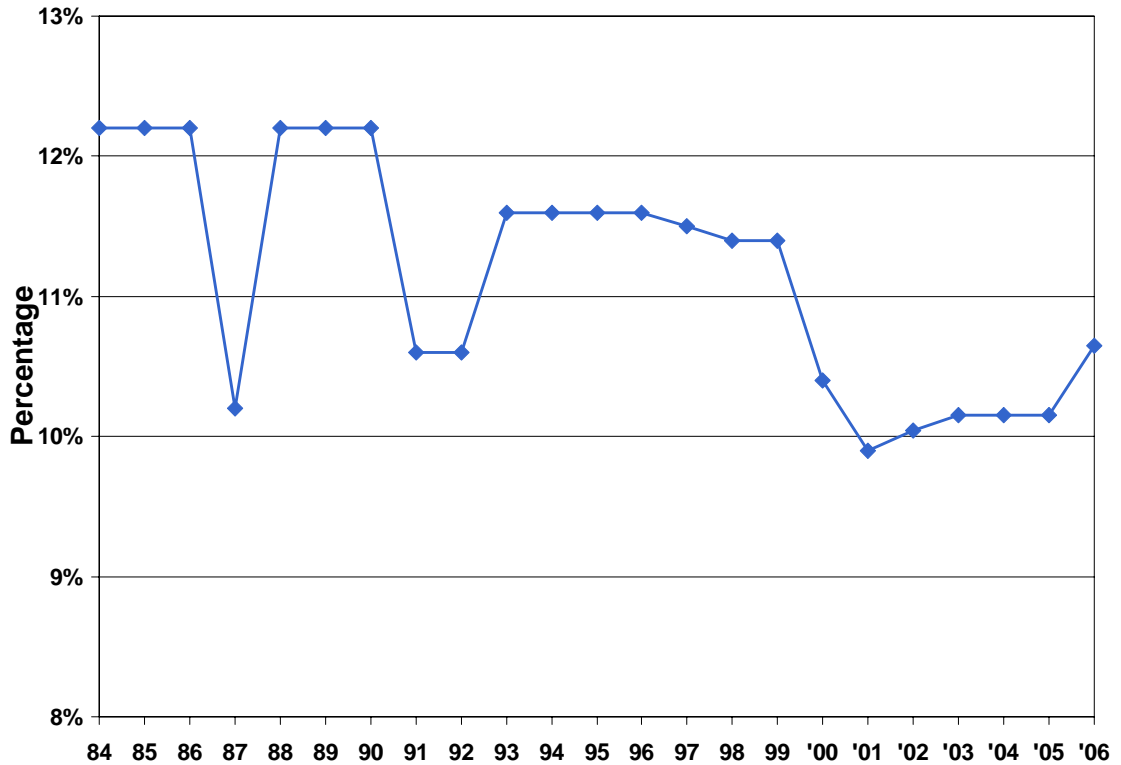
So you may be asking, why did the funded status decline so much in the past few years? This chart shows the importance of a healthy investment return. Over two-thirds of the increase in liabilities in 2004 can be attributed to low investment returns from previous years (2001 and 2002) being figured into the calculation.

- Investment Return in 2001 -7.7%
- Investment Return in 2002 -11.8%
- Investment Return in 2003 24.1%
- Investment Return in 2004 14.1%

Other causes of increased liabilities in 2004 included members retiring earlier than expected, members purchasing service credit at below actuarial rates, and retirees living longer than predicted.

State Employer Contribution Rate 1984-2006

Currently includes 1.02% Health Care Trust Fund contributions that began in 1985.



2005 contribution rate for pension only is 3.07% of pay less than in 1984, a 25% decrease.



This graph shows how the State employer contribution rate has declined over the past few decades. The drastic decline in the contribution rate from 2001 through 2004 saved Colorado's public employers (and taxpayers) over \$250 million.

Note that the current employer contribution rate is 25% lower than it was in 1984.

Employer Contribution Needed to Amortize Unfunded Liability Over 40-Year Period

- State and School – 16.91%
- Municipal – 11.73%
- Judicial – 14.87%

Does not include contribution for Health Care Trust Fund



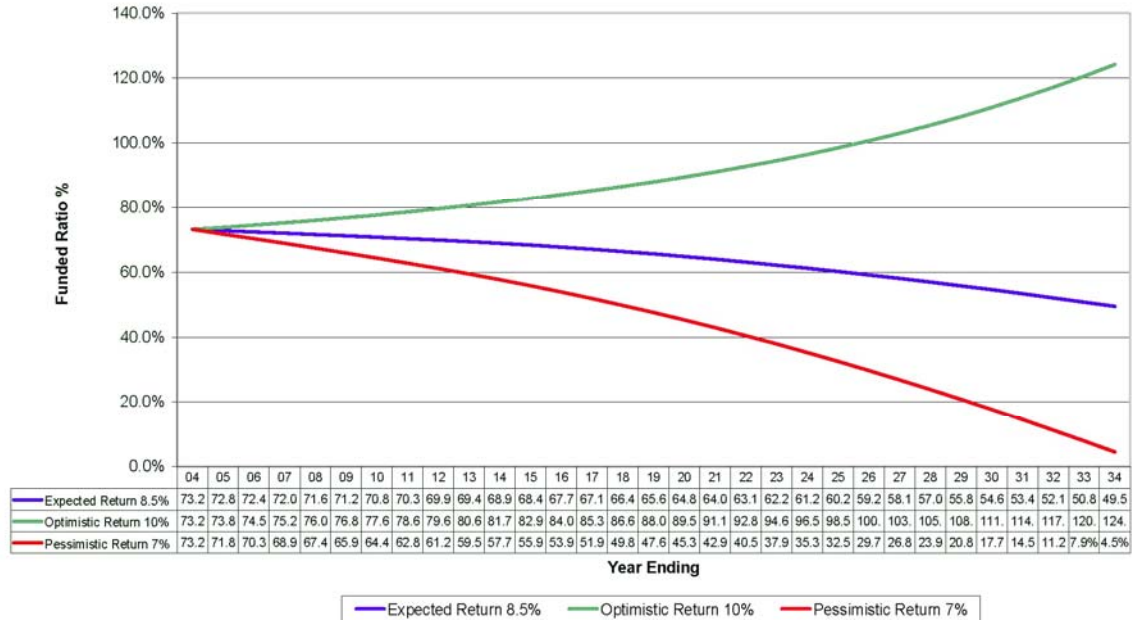
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You may have read or heard that Colorado PERA will need a "taxpayer bailout" to remain "solvent." Some facts for you to consider:

- Over the past 20 years, for every benefit dollar paid, \$0.65 was from investment return, \$0.17 came from member contributions, and \$0.18 was from employer contributions.
- For every \$1 PERA collects, we pay \$3.43 in benefits, proving that PERA is an efficient economic machine in Colorado's economy.
- Colorado taxpayers – through reductions in public employer contributions to PERA on behalf of their employees – saved \$250 million over four years (2001 – 2004).
- These employer contribution rates are what the actuary estimates would be needed to give PERA a funded status of 100% at the end of 40 years. The PERA Board worked with the Legislature and Governor to gradually increase the employer contribution rate, over the next six years starting in 2006, to 13.15% for State and School employers.

Colorado PERA – State & School Division 30-year Projection of Funded Ratio

December 31, 2004, Actuarial Valuation Results and New Demographic Assumptions



This chart shows just how important investment returns are in the funded status calculation the actuary makes at the end of each year. Notice how just a 3% variance in investment return can change the direction of the funded status curves.

A caution: There are many variables that are used to predict funded status. What the PERA Board and staff would like is for the funded status curve to be flat or stable at around 80%. Why? Because not all benefits are due and payable today, or tomorrow. Colorado PERA has many decades to invest the retirement contribution dollars that a new teacher or a state employee makes today. PERA can "weather" the ups and downs in the markets, as well as unforeseen changes in the many demographic variables used in calculating this complex equation.

Fact: PERA's trust funds are projected to have a market value of over \$60 billion in 2034 – hardly fitting the "bankrupt" description that is so popular with the media in describing PERA after 30 years.

Actions to Stabilize Funding

- Limited number of years that can be purchased
- Increased cost to purchase service credit to actuarial rate
- Suspended MatchMaker
- Lowered interest rate on accounts
- Reallocated 0.08% of pay from employer contributions to HCTF to pension fund
- Add Amortization Equalization Disbursement (AED) payments beginning Jan. 1, 2006, by 3% of pay (spread over 7 years)
- Changed early retirement for new hires (after 7/01/05)
- Reduced post-retirement annual benefit increases for new hires (after 7/1/05)
- Began receiving employer contributions and AED on salary to retirees working for PERA employers



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Some of the stories in the media have portrayed PERA staff and Trustees as sitting idly by while the funded status of the plan deteriorated.

PERA initiated legislative that was enacted in 2003 and 2004 to increase employer contributions and curtail benefits in some areas. Most PERA benefit and contribution levels are contained in state law, so the only entity that can change benefit and contribution levels is the Legislature, with the Governor's approval.

The PERA Board has the authority to set the rate to purchase service credit. In 2000, a rate was negotiated between the current Governor's administration and the PERA Board. You may remember that the rate was reduced to 15.5%, and subsequently increased in November 2003 and November 2005, so that the rate to purchase service now represents the full cost.

Treasurer's Commission

- Recommendations – Board Governance Structure and Legislative Oversight
 - Restructure the Board.
 - Decrease the number of Trustees.
 - Require all Board members to have a qualified educational or prior professional background.
 - The Legislature should engage an independent actuary.
 - Reservation of the right to change PERA benefits.
 - The timeframe for amortization of the unfunded liability should be reduced from 40 years to 30 years.

The PERA Board of Trustees and staff are reviewing these recommendations, along with others, and will finalize their legislative plan later this year.

Many of the Board members who are elected by the members and retirees have a financial or legal background. Besides their real-world experience, the Board's 14 elected Trustees hold a total of 26 degrees with eight earning Master's degrees, two with law degrees, and three with Ph.D.'s. There is no evidence to support the belief that the composition of the Board has resulted in poor decisions.

Treasurer's Commission

(continued)

■ Recommendations – Unfunded Liability

- Increase the Employee contribution rate from 8% to 10.15%.
- Lower the Cost of Living Adjustment (COLA) to the lower of 3% or the rate of inflation, for current employees not eligible for unreduced benefits.
- Increase the retirement age for current workers under 40 years of age to a minimum of age 55 – with the possibility of increasing the age to 65 in the future.
- Create an interim Legislative committee to explore the issues involved in moving to a defined contribution plan.

Information about the Board's legislative recommendations to the General Assembly will be posted on the PERA Web site at www.copera.org under the 2006 Legislation link. Be sure to check this page for the most recent information about your retirement plan's proposal to the Legislature.

There are legal provisions that protect retirement benefits for current members and retirees, including the contract clause restrictions established by court cases in Colorado and other jurisdictions.

- Web address
 - www.copera.org
- Office locations
 - 1300 Logan Street, Denver
 - 1120 West 122nd Avenue, Westminster
- Phone numbers
 - 303-832-9550
 - Toll free: 1-800-759- PERA (7372)



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You may also call us and follow the prompts to listen to prerecorded information on legislation impacting PERA. These announcements will be available in early 2006.

Thank you for viewing the Shareholder Meeting Presentation online. We hope this information answers your questions. Please use this contact information if you should desire additional information about Colorado PERA.