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Blueprint for Opportunity

No. 27

Implementation Memo

TO: Governor-elect Ritter
Members of the 66th Colorado General Assembly
Treasurer-elect Kennedy

FROM: The Bell Policy Center – Rich Jones, Director of Policy and Research

DATE: December 4, 2006

**RE: Implementing Bell's Blueprint recommendation No. 27
to ensure PERA is financially sound.**

In the 2006 Blueprint for Opportunity, the Bell Policy Center recommends:

Ensure PERA is financially sound.

The state should continue to closely monitor the financial soundness of the PERA system and take necessary action to ensure that it is able to make good on the benefits promised to public employees. (See *Blueprint*, page 35)

This memorandum briefly discusses the issues surrounding this proposal, describes steps for implementing it, outlines some of the factors to consider and lists sources for additional information and resources.

If you are interested in pursuing this issue further, we are prepared to work with you. Please contact Rich Jones, director of policy and research, at (303) 297-0456 or jones@thebell.org.

Overview of the issue

The Public Employees' Retirement Association (PERA) is the pension plan for 380,000 teachers and state and local government employees in Colorado. Most are not covered by Social Security, so PERA serves as both the employer-sponsored retirement plan and Social Security retirement benefits for these employees.

Each year, PERA and its actuaries calculate its funding ratio, which compares PERA assets to what PERA owes in benefits now and into the future. At the end of 2005, PERA's funding ratio was 73.3 percent, meaning it had 73 cents in assets for every \$1 it owes in current and future benefits.

Concerns were raised over PERA's funding before and during the 2006 legislative session.

State Treasurer Mike Coffman formed a commission, Strengthen and Secure PERA, chaired by former Colorado Gov. Dick Lamm, which issued its final report in September 2005. The commission recommended changes in the PERA board and steps to improve legislative oversight of PERA.

During the 2006 session, the legislature passed and Gov. Owens signed [SB06-235](#), which increased contributions from employees to the fund and changed how benefits will be calculated for workers hired beginning Jan. 1, 2007. It also changed the composition of the PERA board.



According to the PERA [2006 Shareholder Presentation](#) (pg. 13), projections show pension plans for the four types of covered employees will have enough assets to cover all of the liabilities as follows: the state and school divisions by 2048, local government division by about 2026 and judicial division by 2028.

Implementation steps

To implement this recommendation, the governor, legislature and state treasurer need to exercise their considerable power to oversee PERA's operations and either recommend or support changes to ensure the plan is financially secure.

At a minimum, this oversight includes reviewing two documents: the annual financial report produced by PERA and the annual actuarial report produced by an outside actuarial firm. In addition, the review should track ongoing data supplied by PERA showing its financial condition.

The Legislative Audit and Finance committees should routinely hold hearings with the PERA executive director and senior managers to monitor the financial soundness of the system.

Under SB06-235, the governor is to appoint three trustees to the PERA board when current trustees' terms end on June 30, 2007. The law requires these appointees have relevant professional experience and are subject to state senate confirmation. By appointing trustees with substantial professional experience and knowledge in pension management, investments and financial accounting, the governor can help ensure that PERA's operations receive effective oversight.

The state treasurer, as a standing member of the PERA board, can also exercise direct oversight on the agency's functions and finances. The state treasurer should maintain an active role in monitoring PERA, providing financial expertise, asking direct questions, reviewing results of changes made to date, and recommending further action to ensure PERA's stability.

Factors to consider

Several other bills considered during the 2006 session in addition to SB06-235 would have taken steps to change PERA, its board and how benefits are calculated. Some of these may be reintroduced in the 2007 legislative session.

There was also an effort to place an initiative on the ballot that would have changed the PERA retirement plan from a defined benefit to a defined contribution plan similar to a 401(k). This effort was undertaken in part because proponents argued the state could not afford the current plan and should offer the same type of retirement benefits that most private employers are offering. It is possible that legislation to make a similar change could be introduced in the 2007 legislative session or that an initiative will be placed on the 2008 ballot.

Performance data shows that investments in defined benefit plans outperform 401(k) plans. As a result, on average, employees have fewer retirement assets under defined contribution rather than defined benefit plans.¹

Information and resources

[Public Employees Retirement Association \(PERA\)](#)

[SB06-235](#)

[State Treasurer's Special Task Force report, Strengthen and Secure PERA.](#)

[Proposed PERA initiative](#) (dropped)

End note

¹ "Investment Returns: Defined Benefits vs. 401(k) Plans," Center for Retirement Research at Boston College, Issue Brief No. 52, September 2006.