

CHANGES AHEAD FOR PERA and What They Mean For You



Ron Baker
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Interim Executive Director

Dear PERA Members and Benefit Recipients:

On June 4, 2018, Governor Hickenlooper signed Senate Bill 18-200 (SB 200), legislation that will restore PERA to full funding in 30 years.

The modifications in SB 200 are the result of significant compromises that touch all PERA stakeholders, with financial costs that impact current members, retirees, public employers, and public employees yet to be hired. Given the importance of PERA and the risk posed by its current funded status, taking meaningful legislative action was the best option so that PERA becomes stronger and continues to offer a sustainable retirement plan that supports public employees who support all Coloradans.

This mailing explains the changes, who they impact, and when they go into effect. Changes for current members include:

- » Increasing member contributions by 2 percent, phased-in beginning July 1, 2019.
- » Setting the annual increase to 1.5 percent for current and future retirees. (In some cases, the 2020 annual increase will be the lesser of 1.5 percent or the CPI-W.)
- » Increasing the waiting period to three years before the first annual increase is paid.
- » Increasing the number of years used to calculate the Highest Average Salary to five years for employees who have less than five years of service as of January 1, 2020 (as well as new employees hired on or after the same date).

These changes, along with others included in the final legislation, were the culmination of more than a year of work by the PERA Board and staff

that produced a comprehensive package of changes to address PERA's funded status. PERA was at risk due to several changes in external conditions, such as longer life expectancies and lower projected investment returns. SB 200 reflects many of the PERA Board's recommendations and will strengthen PERA over the long term.

The changes reflect the Board's commitment to:

- » Preserving the Defined Benefit Plan.
- » Sharing responsibility across all stakeholders.
- » Ensuring that PERA remains a powerful tool for employers to attract and retain a high-quality workforce.

While SB 200 required compromises from all sides, the PERA retirement plan remains a highly competitive benefit for public employees. For members of the Defined Benefit Plan, it will continue to provide a reliable retirement benefit which has an average annual distribution that exceeds the maximum Social Security benefit. For members of the Defined Contribution Plan, PERA continues to offer members the ability to take their accounts with them, should they leave PERA employment.

Keeping PERA on track to full funding was the right thing to do for PERA and the entire state of Colorado. I hope you will take a moment to review the details of the changes as a result of SB 200.

Respectfully,

Ron Baker
Colorado PERA Interim Executive Director

(continued inside)

Impact of CHANGES

Senate Bill 18-200 (SB 200) was passed by the Colorado General Assembly on May 9, 2018, and signed by Governor Hickenlooper on June 4, 2018. This legislative package will restore PERA to full funding within 30 years. By enacting SB 200, PERA's membership and Colorado taxpayers will benefit from a stronger, more stable retirement fund.

Listed below are the provisions of SB 200 that affect PERA's membership.



Current Members

- » Increase the member contribution rate by an additional 2 percent of pay (phased-in beginning July 1, 2019) totaling 10 percent for most members by July 1, 2021.
- » Require a three-year wait before receiving the first annual increase.
- » Set the annual increase cap at 1.5 percent.
- » Redefine PERA-includable salary to include sick leave payout.
- » Increase to five years the Highest Average Salary (HAS) calculation for nonvested members (for those with fewer than five years of service credit as of January 1, 2020); increase to three-year HAS for Judicial Division members who do not have five years of service credit as of January 1, 2020.



Current Retirees

- » Set the annual increase cap at 1.5 percent.
- » Suspend the annual increase for two years (effective for 2018 and 2019).
- » Increase the working retiree contribution rate (for retirees working for PERA employers) by an additional 2 percent of pay (phased-in beginning July 1, 2019) totaling 10 percent for most retirees by July 1, 2021.



Employers

- » Increase the employer contribution rate by an additional 0.25 percent except for Local Government Division employers, effective July 1, 2019.
- » Require contributions on deductions made to cafeteria or qualified transportation plans for new members hired on or after July 1, 2019.
- » Redefine PERA-includable salary to include sick leave payout for all current and future members.



State Direct Distribution

- » Receive a direct distribution from the State budget of \$225 million to the trust funds of the State, School, Denver Public Schools, and Judicial Divisions, starting July 1, 2018.



Future Members

(starting membership 1/1/2020 or as indicated)

- » Increase eligibility requirements (age and service) for full service retirement benefits to age 64 with 30 years of service; age 55 and 25 years of service for a reduced service retirement. (For State Troopers, full service retirement eligibility will increase to age 55 with 25 years of service and age 55 with 20 years of service for reduced service retirement eligibility.)
- » Increase the number of years used in the HAS calculation to five years; increase to three-year HAS for Judicial Division members.
- » Set the annual increase cap at 1.5 percent.
- » Require a three-year wait before receiving the first annual increase.
- » Increase the member and working retiree contribution rates incrementally by an additional 2 percent of pay for new hires, totaling 10 percent for most members as of July 1, 2021.
- » Redefine PERA-includable salary to include sick leave payout.
- » Require contributions on deductions made to cafeteria or qualified transportation plans.*
- » Expand Defined Contribution (DC) Choice to employees hired in the Local Government Division on or after January 1, 2019, and to classified college and university employees hired on or after January 1, 2019.

* Applies to new PERA members hired on or after July 1, 2019.



Other Provisions

SB 200 contains additional provisions to ensure PERA remains a stronger and more stable retirement fund.

- » **Automatic Adjustment Provision**—Adjusts four components: member contributions, employer contributions, State direct distribution, and the annual increase. If the fund is behind the 30-year goal, member and employer contributions will increase, the direct distribution will increase, and the annual increase percentage will be reduced by up to 0.5 percent in one year.
- » **Legislative Oversight**—Expands the existing Police Officers' and Firefighters' Pension Reform Commission to include oversight of PERA and creates a pension review subcommittee exclusively focused on PERA. The 14-member subcommittee will include four legislators appointed from the Commission and 10 appointed external experts from relevant industries.
- » **Safety Officer Rate and Benefit**—Apply the State Trooper contribution rate and benefits to other safety officers, including sheriff deputies and corrections officers hired on or after January 1, 2020.

PERA BENEFITS THAT DIDN'T CHANGE

PERA's Defined Benefit Plan remains one of the most competitive plans in the country, providing Colorado's public employees with a comprehensive benefit package that includes the following:

- » A secure retirement income that cannot be outlived.
- » The ability to take retirement savings to other Colorado public employers who are affiliated with PERA.
- » An individual account where your money is always yours and earns interest.
- » Annual cost-of-living increases in retirement benefits that are compounded year over year.
- » Disability and survivor benefits.
- » Access to voluntary programs such as 401(k) and 457 plans as well as health and life insurance.



DON'T FORGET the Upcoming Telephone Town Hall

Colorado PERA Interim Executive Director Ron Baker will discuss the provisions of SB 200 and how it will reset PERA's path toward full funding and financial resilience, as well as share details from PERA's 2017 *Comprehensive Annual Financial Report*.

PERA will call your telephone number on file on June 26 at 6:30 p.m. and you can opt to join the meeting.

If you miss the call, a full recording will be available on www.copera.org about one week later.

WATCH A VIDEO MESSAGE FROM RON BAKER ONLINE AT WWW.COPERA.ORG