



Colorado Legislative Council Staff Fiscal Note
FINAL
FISCAL NOTE

Drafting Number: LLS 11-0727
Prime Sponsor(s): Sen. Renfroe

Date: May 18, 2011
Bill Status: Postponed Indefinitely
Fiscal Analyst: Kerry White (303-866-3469)

TITLE: CONCERNING A REQUIREMENT THAT CERTAIN EMPLOYEES OF EMPLOYERS THAT ARE MEMBERS OF THE PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION JOIN A NEW DEFINED CONTRIBUTION PLAN TO BE CREATED BY THE ASSOCIATION.

Fiscal Impact Summary	FY 2011-2012	FY 2012-2013
State Revenue	See State Revenue section	
State Expenditures	See State Expenditures section	
FTE Position Change		
Effective Date: The bill was postponed indefinitely by the Senate State, Veterans, and Military Affairs Committee on February 14, 2011.		
Appropriation Summary for FY 2011-2012: See State Appropriations section.		
Local Government Impact: See Local Government Impact section.		

Summary of Legislation

This bill modifies contributions to and membership in the Public Employees' Retirement Association (PERA). It also eliminates new enrollment in the existing defined benefit (DB) plans for all PERA divisions as of January 1, 2012.

A new defined contribution (DC) plan is created, and all existing DC plan members and newly hired employees are required to enroll in the new plan as of January 1, 2012. Participants of the new DC plan are not considered members of PERA, which among other things, eliminates the amortization equalization disbursement (AED) and supplemental AED (SAED) payments made to PERA by employers on their behalf. Terms and conditions relating to the new DC plan are specified, including a provision that allows participants who elect a life annuity distribution option to enroll in the health care program as a benefit recipient.

State Revenue

The bill will affect state revenue in two ways. First, it eliminates SAED payments, which are funded by moneys that would have otherwise been available for salary increases. To the extent that employers would have given employees a pay increase and reduced this amount by 0.5 percent

to fund the SAED payments, this bill would increase the taxable incomes of employees and generate additional state income tax revenue. As it is unknown whether employers would give pay increases in future years, the amount of any additional revenue has not been estimated. Second, it affects the timing of the collection of state income tax for PERA members receiving benefits. Once a DB plan member begins to receive distributions, these amounts are paid and taxed on a monthly basis. Conversely, DC plan benefits are paid when the member elects them, typically on a periodic or lump-sum basis.

State Expenditures

The bill reduces state expenditures in the short term by eliminating AED and SAED payments. But, in the long term, state expenditures will increase to cover PERA's DB plan obligations for the state and judicial divisions.

AED payments. Beginning on January 1, 2012, the employer AED payments are eliminated for participants in the DC plan, including all newly hired employees. Overall, this bill will reduce state expenditures for the state and judicial divisions beginning in FY 2011-12. The projected reduction in AED payments was not available at the time of this writing.

SAED payments. With the elimination of SAED payments for DC plan participants, employee contributions are also reduced by SB11-127. It should be noted that between FY 2009-10, and FY 2011-12, no salary increases were provided to employees in the personnel system, so SAED payments were made as state expenditures from the General Fund and other funds. If this trend continues, any cost reductions identified as employee savings would shift to employer savings. The projected reduction in SAED payments was not available at the time of this writing.

DB plan benefit payments. Closing DB plans to new enrollees as of January 1, 2012, will reduce the amount contributed to PERA trust funds, eventually causing obligations to exceed contributions and interest earnings and requiring a "pay-as-you-go" system. Under this bill, PERA's state division DB plan is expected to become insolvent in 2030 and will require an increase in state expenditures to meet future obligations. In today's dollars, this cost is approximately \$6.5 billion. The judicial division DB plan will become insolvent as of 2029 and will require an increase in state expenditures to cover the \$38.6 million owed in benefits.

Public Employees' Retirement Association Impact

By eliminating AED and SAED contributions and closing DB plans to new enrollment, this bill increases the amortization period among each of PERA's divisions. Without the required increases in annual contributions, each division's DB plan is anticipated to become insolvent, as shown in Table 1.

Table 1. Projected Insolvency of PERA DB Plans under SB11-127		
Division	Increase in Annual Required Contribution	Projected Year Division Becomes Insolvent
State	8.72 percent	2030
Judicial	5.62 percent	2029
Local Government	4.10 percent	2039
School	7.52 percent	2034
Denver Public Schools	1.15 percent	2031

Health Care Trust Fund (HCTF). Currently, 1.02 percent of the employer contribution is directed to the HCTF for PERA members. Under SB11-127, existing DC plan members and new employees hired on or after January 1, 2012, will be enrolled in the new DC plan. Participants in the new DC plan are not considered PERA members, and as a result, they will not make HCTF contributions. The bill also authorizes certain DC plan participants to enroll in the HCTF without requiring any contributions. The fiscal note assumes these participants will be provided access to the PERACare plan, but will not receive any benefit recipient subsidies.

Local Government Impact

Similar to the state and judicial division, in the short-term, the bill will reduce expenditures for local governments and school districts by eliminating AED and SAED payments. However, the fiscal note assumes that these entities will still be required to pay DB plan benefits in their respective divisions when the DB plans become insolvent.

State Appropriations

The many appropriations required in this bill will be addressed in a revised fiscal note.

Departments Contacted

Governor's Office	Higher Education	Judicial
Personnel and Administration	PERA	