

**FINAL
FISCAL NOTE**

Drafting Number: LLS 12-0156
Prime Sponsor(s): Rep. Priola
 Sen. Lambert

Date: May 17, 2012
Bill Status: Postponed Indefinitely
Fiscal Analyst: Kerry White (303-866-3469)

TITLE: CONCERNING AN INCREASE IN THE NUMBER OF YEARS USED TO CALCULATE THE HIGHEST AVERAGE SALARY OF A MEMBER OF THE PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION FOR THE PURPOSE OF DETERMINING THE AMOUNT OF THE MEMBER'S RETIREMENT BENEFIT.

Fiscal Impact Summary	FY 2012-2013	FY 2013-2014
State Revenue General Fund	Reduction - see State Revenue section.	
State Expenditures		
FTE Position Change		
Effective Date: The bill was postponed indefinitely by the Senate Finance Committee on April 12, 2012.		
Appropriation Summary for FY 2012-2013: None required.		
Statutory Public Entity Impact: See Statutory Public Entity Impact section.		

Summary of Legislation

This bill changes the manner in which the benefit amount payable to new members in the Public Employees' Retirement Association (PERA) is calculated. For members who are hired on or after January 1, 2013, benefits will be calculated using seven periods of the member's highest average salary (HAS) rather than three. The bill applies to all members, except those in the Judicial division that did not transfer from the Denver Public Schools (DPS) division.

Background

Under current law, the benefit amount payable to a PERA member depends on his or her date of hire, years of service credit, and age at retirement; and is calculated using a percentage of the member's HAS. HAS is one-twelfth of the average of the highest annual salaries on which PERA contributions were paid for three periods of 12 consecutive months of service credit. These periods are not required to be consecutive or the last three years of employment. In calculating benefits, PERA determines the HAS associated with four periods of 12 consecutive months: a base year, plus three additional years. The base year becomes the starting point for the annual limit on salary increases between HAS periods. The annual increase limit is 15 percent for PERA members enrolled before December 31, 2006, and eligible to retire as of January 1, 2011. For all other members, the annual increase limit between HAS periods is 8 percent.

State Revenue

This bill will reduce the retirement benefit amount payable to members that are hired on or after January 1, 2013, and therefore reduce taxable income for future PERA retirees. The impact of these changes on state revenue cannot be estimated.

Statutory Public Entity Impact

By increasing the number of HAS periods, this bill reduces the amount of retirement benefits payable to members hired on or after January 1, 2013 through 2041. Based on the 2010 valuation, the reduction in future liabilities through 2041 totals \$322.3 million as shown in Table 1, below.

Table 1. Present Value of Reduction in Future Liabilities in 2041 under HB12-1150	
PERA Division	Net Change in Accrued Liability
State Division	(\$97,500,000)
School Division	(174,400,000)
Local Government Division	(23,700,000)
DPS Division	(26,700,000)
TOTAL	(\$322,300,000)

Technical Note

The reengrossed version of the bill omits a definition of HAS for current active members who are ineligible to retire. However, based on the House sponsor's public remarks on the bill, and the amendments adopted since its introduction, this analysis assumes the sponsor's intent is to create a new HAS calculation only for members hired on or after January 1, 2013. To the extent the new provision for calculating retirement benefits is intended to apply to current active members who are not eligible to retire as of January 1, 2013, a clarifying amendment may be necessary.

Departments Contacted

Office of Legislative Legal Services

PERA