The Common Sense Policy Roundtable is a non-partisan informational resource for public policy makers and future leaders. CSPR researches and promotes common sense solutions for economic issues in Colorado.

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Colorado PERA
Unfunded Liabilities and Reform

This year, the Colorado Public Employees Retirement system (PERA) faced a $30 billion unfunded liability, or roughly $6,000 for every man, woman, and child in Colorado. This is an obligation of Colorado's taxpayers. The PERA board attempted to close that gap with a package of recommendations approved by the Legislature in 2010.

Contributing factors to PERA's unfunded liability were:

- ⊗ The unrealistic defined benefit structure.
- ⊗ The automatic 3.5% cost of living adjustment (COLA) regardless of inflation.
- ⊗ The practice of using the average of the employee's three highest salary years to determine their benefits. This was taken advantage of by legislators who would earn 30K while serving in the legislature — then become cabinet members making six figures and have their benefits based on their cabinet salary. Also, teachers who became school administrators in their final years.
- ⊗ Retirement age was set at the rule of 85 (meaning age plus service must equal 85 with a min age of 55).
- ⊗ The practice of purchasing service credits to get people to retire early (no longer allowed).
- ⊗ The market crash of 2008 was a significant factor too — however, what it really did was pullback the curtains and expose the larger structural flaws in the current system.
- ⊗ PERA's board assumed an 8.5% return on investment (ROI). Mike Rossen believes this should be closer to 6%. PERA has a 25 year average of over 9% — this change would be done by the PERA board.

"These measures are not enough to permanently close the funding gap and ensure long-term stability of PERA."

2010 Legislative Changes

The legislative changes made in the 2010 bill did nothing to address the largest problem with PERA — the defined benefit structure. There were a number of good reforms made the in the bill, including:

- Reduced the COLA to 2% or inflation — whichever is lower.
- Placed an anti-spiking provision on salary when determining benefits at 8% annually. So if an employee went from making 30K to 100K per year there would be an 8% annual cap on what can be used to determine benefits.
- Raised the retirement age to Rule of 90 (age plus service must equal 90 — minimum age 60) for all divisions except the school division which was increased to a rule of 88.
- Required a minimum 5 year vesting period before allowing an employee to retain a 50% match from the employer.
- In addition to not tackling the defined benefit structure, the 2010 bill also increased the state (taxpayers) contribution by 2% — this is referred to as AED. There is no way to put an exact dollar amount on this because it's based on payroll which fluctuates. It also increased the employee's contribution by 2% — know as the SAED.

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"Transition away from the defined benefit plan to a defined contribution plan."

The Way Ahead

The most immediate way to solve the unfunded liability is to suspend cost of living increases until the fund is financially solvent. This would take roughly 7 years according to PERA's actuaries. Once the fund is at 100% the legislature would have to direct the PERA board to use that money to pay all existing obligations and put it in a system that has zero risk. The legislature could then create — based off of the current model for state division employees — a DC plan for all new employees.

This course of legislative action is the most immediate way to solve the unfunded liability, but would undoubtedly be met with a lawsuit. That is why the legislature should present a plan for voter approval that would fully transition PERA to a defined contribution system, and restore parity between public and private employee retirement options.