



OVERVIEW OF THE COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

by Rachel Kurtz-Phelan

The Colorado Public Employees' Retirement Association, or PERA, was established by the Colorado General Assembly in 1931. PERA manages the retirement benefits for approximately 488,000 PERA retirees and members who work for more than 500 employers. PERA members work in one of five divisions: the state division, school division, Denver Public Schools division, local government division, or judicial division. Most PERA members become vested in pension benefits after five years of employment and are not eligible to receive federal Social Security benefits. PERA is the largest pension fund in Colorado, and the 21st largest public plan in the United States.

Plan Administration

Colorado PERA administers a variety of different plans, including a defined benefit plan, defined contribution plan, 401(k) plan, 457 plan, health care plan, and life insurance plan. Both the defined benefit plan and defined contribution plan are funded through employee and employer contributions and investment earnings.

A *defined benefit* plan provides retirement benefits based on calculations using predetermined factors, such as the retiring member's age, years of service to the employer, salary, and a fixed benefit accrual rate (a percentage of salary for each year of service). A *defined contribution* plan provides benefits based solely on contributions that are made to the account by

the employer and employee, and the level of investment earnings the account has accrued over time. The investment risk in a defined contribution plan is borne by the employee, while the investment risk in a defined benefit plan rests with the plan itself.

PERA Quick Facts¹

- For every \$1 PERA receives from an employer contribution, it pays out \$3.40 in benefits.
- PERA's 8 percent rate of return assumption is the median for public pension plans in the United States.
- Between 1987 and 2012, 80 percent of PERA's funding came from member contributions and market performance and 20 percent came from employers.
- PERA benefit payments represent 3.3 percent of the state's total wage income.
- Spending by PERA retirees generates approximately 23,000 jobs and \$232 million in state and local tax revenue for Colorado.
- PERA's net assets as of December 31, 2010, were \$38.7 billion.
- PERA's net assets as of December 31, 2011, were \$37.5 billion. This includes \$2.6 billion in contributions and investment earnings and \$3.8 billion in benefits paid, a net reduction of \$1.2 billion.

¹PERA 101, August 13, 2012, Colorado Public Employees' Retirement Association

Retiree Eligibility and Benefits

To be eligible to receive a full retirement benefit, a PERA member must meet certain requirements for age and years of service credit. Retirement benefits under PERA's defined benefit plan are based on the PERA member's age, years of service, and highest average salary (HAS). HAS is 1/12th of the average of the member's highest annual salaries that are associated with three 12-month periods. These periods are not necessarily consecutive.

In calculating a member's HAS, PERA determines the highest annual salaries associated with four periods of 12 consecutive months. Of the four periods, the period during which the lowest salary was earned is used as the base year in the calculation. Since the HAS calculation formula considers salary levels over four 12-month periods, it restricts short-term salary "spiking."

Recent Legislative Changes

Senate Bill 10-001. In 2010, the General Assembly enacted Senate Bill 10-001, pension reform legislation aimed at increasing PERA's actuarial funded ratio to 100 percent within 30 years. The legislation:

- changed the contribution amounts for both employers and employees;
- placed a cap on cost-of-living adjustments for retirees;
- modified retirement benefit calculations and eligibility;
- created new contributions and guidelines for working retirees; and
- included a provision stating that the General Assembly may alter the member benefits provided by the defined benefit plan.

The legislature also enacted Senate Bill 10-146, which temporarily shifted a portion of PERA employer contributions to employees through FY 2011-12.

PERA's 2011 Financial Recap

Table 1
PERA 2011 Financial Recap

| Contributions | |
|--|--------------------------|
| Employer | \$1,013,731,000 |
| Member | \$676,768,000 |
| Purchased Service | \$31,441,000 |
| Retiree Health Care Premiums | \$113,218,000 |
| Federal Health Care Subsidies | \$14,650,000 |
| Other (i.e. interest payments) | \$11,984,000 |
| Total | \$1,861,792,000 |
| Investments | |
| Net Change in Fair Value | (\$105,461,000) |
| Interest | \$349,238,000 |
| Dividends | \$377,830,000 |
| Real Estate/Alternative Investments | \$227,310,000 |
| Securities Lending | \$14,570,000 |
| Investment Expense | (\$142,377,000) |
| Total | \$721,110,000 |
| Total Contributions and Investments | \$2,582,902,000 |
| Benefits Paid | |
| Pension Benefits | (\$3,323,426,000) |
| Health Care Benefits | (\$214,189,000) |
| Disability and Life Insurance | (\$5,557,000) |
| Refunds | (\$176,244,000) |
| Other | (\$9,396,000) |
| Administrative Expenses | (\$42,694,000) |
| Total | (\$3,771,506,000) |

Source: Colorado Public Employees' Retirement Association

*Note: These amounts do not include defined contributions plans.