



## PERA's Automatic Adjustment Provision

By Erin Reynolds

Senate Bill 18-200, Modifications to the Colorado Public Employees' Retirement Association (PERA) to Eliminate Unfunded Liability, included an automatic adjustment provision (AAP) that triggers when PERA's trusts are not on track to reach full funding within the targeted 30-year period. This *issue brief* discusses how the provision works and has been used since 2019.

### Automatic Adjustments to Employer and Member Contribution Rates and the Annual Increase (AI) for Retirees

Beginning July 1, 2019, with the first adjustment permitted on July 1, 2020, and each July 1 thereafter, PERA must annually determine whether adjustments are required based on certain conditions, as shown in Table 1. The items subject to adjustment include the employer and member contribution rates, the AI cap rate for retirees, and, under certain circumstances, the direct distribution payment from the state.

When adjustments are made, they must equally impact employers, members, and retirees, and may not exceed

the maximum yearly adjustment of each component. Adjustments may occur only once in a calendar year, and are triggered when the blended total contribution amount is less than 98 percent or more than 120 percent of the blended total actuarially required contribution, using the following definitions:

- **"Blended total contribution amount"** is the weighted average of the total amounts paid by employers and members to PERA by all divisions, including the allocated amount contributed by the state, not to include the portions of employer contributions remitted to the Health Care Trust Fund and the AI reserve.
- **"Blended total required contribution"** is the weighted average of the total reported actuarially determined contribution rates and member contribution rates for PERA's five division trust funds.
- **"Weighted average"** is the proportion of unfunded actuarial accrued liability attributable to each division based on the most recent actuarial valuation.

**Table 1. Automatic Contribution and AI Cap Rate Adjustments**

***When the blended total contribution amount is less than 98% of the blended total required contribution:***

|                            |  |
|----------------------------|--|
| AI Cap Rate                | reduced up to 0.25%; not to be reduced to less than 0.5% total                 |
| Employer Contribution Rate | increased up to 0.5%; not to exceed statutory contribution rates plus 2% total |
| Member Contribution Rate   | increased up to 0.5%; not to exceed statutory contribution rates plus 2% total |
| Direct Distribution        | increased by up to \$20 million; not to exceed \$225 million in a fiscal year  |

***When the blended total contribution amount is greater than 120% of the blended total required contribution:***

|                            |  |
|----------------------------|--|
| AI Cap Rate                | increased up to 0.25%; not to exceed 2% total                        |
| Employer Contribution Rate | reduced up to 0.5%; not to be less than statutory contribution rates |
| Member Contribution Rate   | reduced up to 0.5%; not to be less than statutory contribution rates |
| Direct Distribution        | reduced by up to \$20 million in a fiscal year                       |

Source: Section 24-51-413, C.R.S.

## First Automatic Adjustment, FY 2020-21

PERA's 2018 Comprehensive Annual Financial Report (CAFR) indicated a -3.5 percent rate of return on 2018 investments, largely due to the December 2018 stock market performance. As a result, the AAP triggered, increasing employer and member contribution rates by 0.5 percent and decreasing the AI cap rate by 0.25 percent effective for the fiscal year beginning July 1, 2020. No change was triggered for the direct distribution amount from the state, as it is currently funded at its maximum of \$225 million per year.

The impact of the AAP for FY 2020-21 is shown in Table 2 below. For further information, a summary of the first AAP assessment and results are also provided on page 193 of PERA's 2018 CAFR.<sup>1</sup>

## Automatic Adjustment Impact on Employees

As a result of the first automatic adjustment that increases member contributions by 0.5 percent across all five divisions in FY 2020-21, an employee who makes \$50,000 per year will see a net pay decrease of \$250 over

the course of the year as a result of the additional contribution. The increased member contribution amount resulting from any automatic adjustment is credited to a member's account regardless of whether the employee has elected the defined benefit or defined contribution plan, while the increase from the employer contribution is credited solely to the defined benefit plan.

## Automatic Adjustment Determination for FY 2021-22

The next AAP assessment to determine whether or not there will be an automatic adjustment effective July 1, 2021, will be based on the December 31, 2019, actuarial valuation. This will incorporate PERA's investment returns for calendar year 2019. The actuarial valuation is prepared by the PERA Board's actuarial service provider, Segal, and will be released at the June 2020 PERA Board of Trustees' meeting. PERA's 2020 calendar year investment performance will be incorporated into the December 31, 2020, actuarial valuation, which will be released in June 2021.

**Table 2. FY 2020-21 PERA Contributions Before and After the First AAP**

| <b>BEFORE</b>  | <b>Member</b>         | <b>Employer Base</b>         | <b>AED</b>             | <b>SAED</b>             | <b>AI Cap</b>          |
|----------------|-----------------------|------------------------------|------------------------|-------------------------|------------------------|
| State          | 9.5                   | 10.4                         | 5.0                    | 5.0                     | 1.50                   |
| State Troopers | 11.5                  | 13.1                         | 5.0                    | 5.0                     | 1.50                   |
| School         | 9.5                   | 10.4                         | 4.5                    | 5.5                     | 1.50                   |
| Local Gov't    | 8.0                   | 10.0                         | 2.2                    | 1.5                     | 1.50                   |
| Judicial       | 9.5                   | 13.9                         | 3.8                    | 3.8                     | 1.50                   |
| DPS            | 9.5                   | 10.4                         | 4.5                    | 5.5                     | 1.50                   |
| <b>AFTER</b>   | <b>Member (+0.5%)</b> | <b>Employer Base (+0.5%)</b> | <b>AED (no change)</b> | <b>SAED (no change)</b> | <b>AI Cap (-0.25%)</b> |
| State          | 10.0                  | 10.9                         | 5.0                    | 5.0                     | 1.25                   |
| State Troopers | 12.0                  | 13.6                         | 5.0                    | 5.0                     | 1.25                   |
| School         | 10.0                  | 10.9                         | 4.5                    | 5.5                     | 1.25                   |
| Local Gov't    | 8.5                   | 10.5                         | 2.2                    | 1.5                     | 1.25                   |
| Judicial       | 10.0                  | 14.4                         | 3.8                    | 3.8                     | 1.25                   |
| DPS            | 10.0                  | 10.9                         | 4.5                    | 5.5                     | 1.25                   |

*AED: Amortization Equalization Disbursement.*

*SAED: Supplemental Amortization Equalization Disbursement.*

<sup>1</sup> PERA's 2018 Comprehensive Annual Financial Report: <https://www.copera.org/sites/default/files/documents/5-20-18.pdf>.