

Senate Bill 10-001
Hearing Before the
House Finance Committee

February 10, 2010





Colorado Public Employees' Retirement Association

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October 30, 2009

The Honorable Bill Ritter, Jr.
Governor of the State of Colorado
136 State Capitol
200 E. Colfax
Denver, CO 80203

Dear Governor Ritter:

Created in 1931, the Colorado Public Employees' Retirement Association (PERA) provides retirement and other benefits to more than 440,000 state, school, and local government employees. Over 400 public employers participate in PERA. While PERA's assets have a market value of over \$32 billion, the market downturn of 2008 had a significant impact on the sustainability of the plan. Accordingly, the PERA Board of Trustees took action in late 2008 and began to develop options for returning the system to long-term sustainability. This legislative proposal is designed to have little or no short-term impact on member behavior.

The General Assembly was also concerned about the 2008 conditions, and as part of Senate Bill 09-282, which merged the Denver Public Schools Retirement System with the Public Employees' Retirement Association (PERA), the General Assembly directed the PERA Board of Trustees in C.R.S. § 24-51-211(2) to:

[S]ubmit specific, comprehensive recommendations to the General Assembly regarding the possible methods to respond to the decrease in the value of the association's assets, including real estate, private equity, and other investments, to decrease the amortization period of each division of the association, and to ensure that each division of the association will become and remain fully funded.

The statute required such submission on or before November 1, 2009. Although Senate Bill 09-282 became effective on May 21, 2009, the PERA Board of Trustees began addressing the issues surrounding PERA's funded status long before that date. Beginning in the latter part of 2008, the PERA Board directed staff to review all alternatives to improve PERA's funded status. The Board ultimately commissioned the following steps to guide them in developing a comprehensive proposal:

- May 2009—PERA conducted its regular actuarial valuation for 2008
- May 2009—PERA completed projections of PERA's future funded status
- June 2009—PERA prepared an actuarial experience study
- July 2009—PERA hired a separate actuarial firm to conduct an actuarial audit
- July 2009—PERA directed its actuaries to cost each of the components of the defined benefit plan
- August 2009—PERA Board conducted eight Listening Tour Board meetings around the state

The PERA Board used this information at its September 2009 planning session to set the following guiding principles in the development of this comprehensive package:

- Shared responsibility among members, retirees, and employers;
- Intergenerational equity;
- Long-term sustainability;
- Preservation of the defined benefit plan; and
- Maintaining the same benefit structure for PERA's different divisions to preserve portability.

In addition, the recommendations are designed to have little or no short-term impact on member behavior. As an initial step toward achieving these goals, in September 2009, the Board adopted an 8 percent assumed rate of return (down from 8.5 percent) to better reflect market expectations. The Board also adopted the goal of a 30-year amortization period, meaning that the trust funds would be on track to be fully funded within three decades. The goal of a 30-year amortization period is in line with existing PERA law at C.R.S. § 24-51-211(1), which states that "A maximum amortization period of thirty years shall be deemed actuarially sound." A 30-year amortization period is also consistent with the General Accounting Standards Board (GASB) standards.

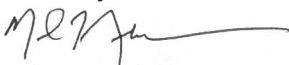
At its regularly scheduled meeting on October 16, 2009, the PERA Board voted unanimously on a package of recommendations to submit to the Colorado General Assembly for its consideration in the 2010 Legislative Session. The recommendations are designed to return PERA to long-term fiscal sustainability. Because this is a package of interdependent elements, it is important that all the recommendations be viewed together as a complete proposal rather than separate options that can be considered in isolation. Changes to one part of the proposal could jeopardize the viability of the entire package.

Enclosed you will find:

1. Summary of PERA Board recommended legislation in 2010
2. Timeline for Development of PERA's Comprehensive Legislative Proposal
3. Actuarial projections showing 2007 and 2008 valuation results for the State, School, Local Government, and Judicial Divisions
4. Actuarial asset value charts illustrating the results of the PERA Board's recommendations for the 2010 legislative session for the State, School, Local Government, and Judicial Divisions
5. Letter dated October 13, 2009, from Cavanaugh Macdonald Consulting, LLC, stating that certain pieces of the legislation cannot be priced to determine the financial impact
6. Final certification letter dated October 27, 2009, from Cavanaugh Macdonald Consulting, LLC, stating that the PERA Board's proposal is a sound actuarial response to PERA's current actuarial situation
7. PERA's *Summary Annual Financial Report* for the fiscal year ended December 31, 2008
8. Presentation to PERA Board by Cavanaugh Macdonald Consulting, LLC, summarizing their Report of the Actuarial Valuation of PERA as of December 31, 2008
9. A study measuring the economic and fiscal impacts of PERA's benefit payments to Colorado recipients and providing a description of PERA members (active and benefit recipients), prepared by Pacey Economic Group

We look forward to our meeting on November 2, 2009, with the Legislative Audit Committee to further explain the Board's proposal and answer any questions the committees may have. We will then meet with the Joint Finance Committee on November 16, 2009, and the Joint Budget Committee on December 17, 2009. Along the way, PERA will seek out legislative sponsors for the Board's comprehensive proposal. As always, PERA staff is prepared to meet with anyone at any time regarding these important issues.

Sincerely,

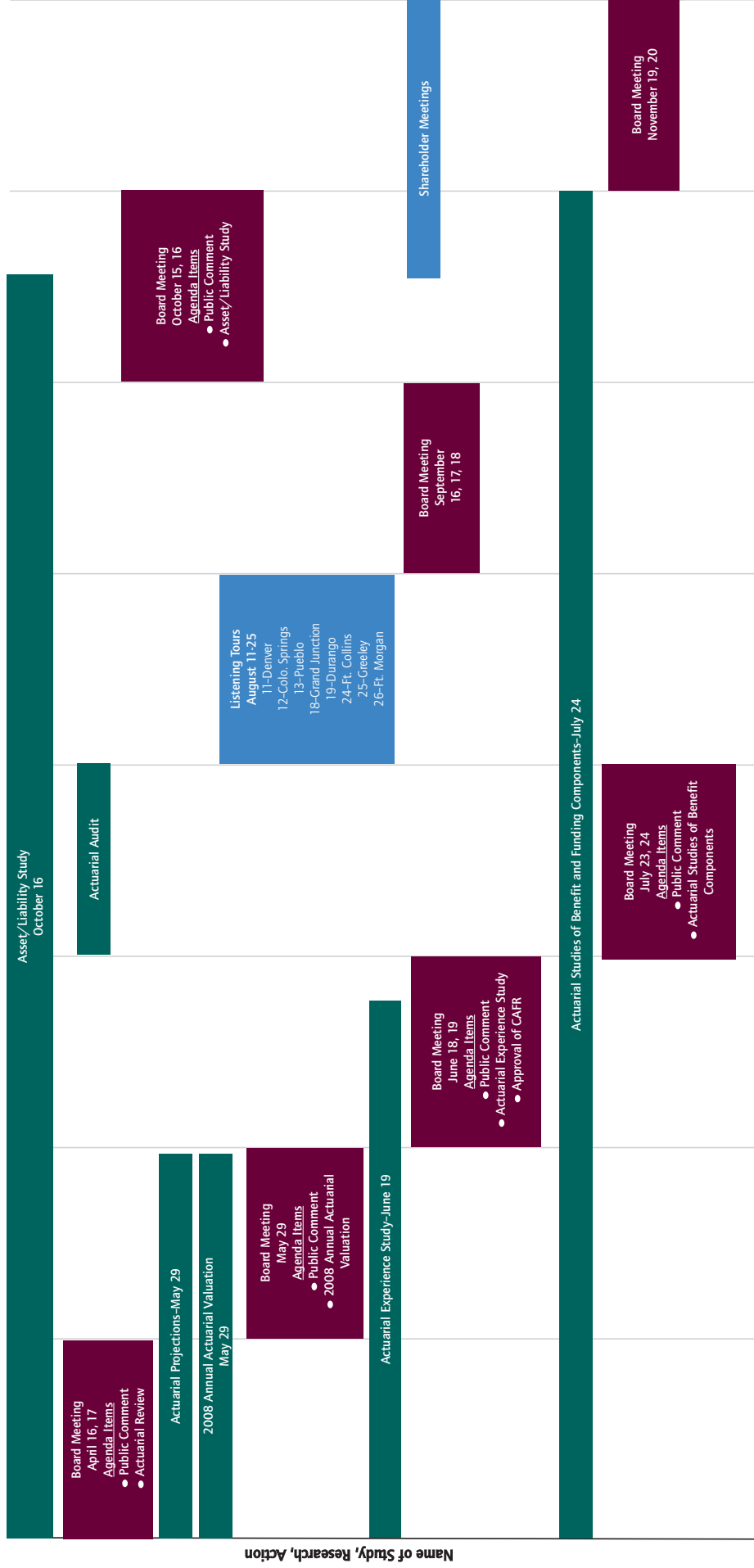


Mark Anderson
Chairman of the Board of Trustees
Colorado PERA

Enclosures



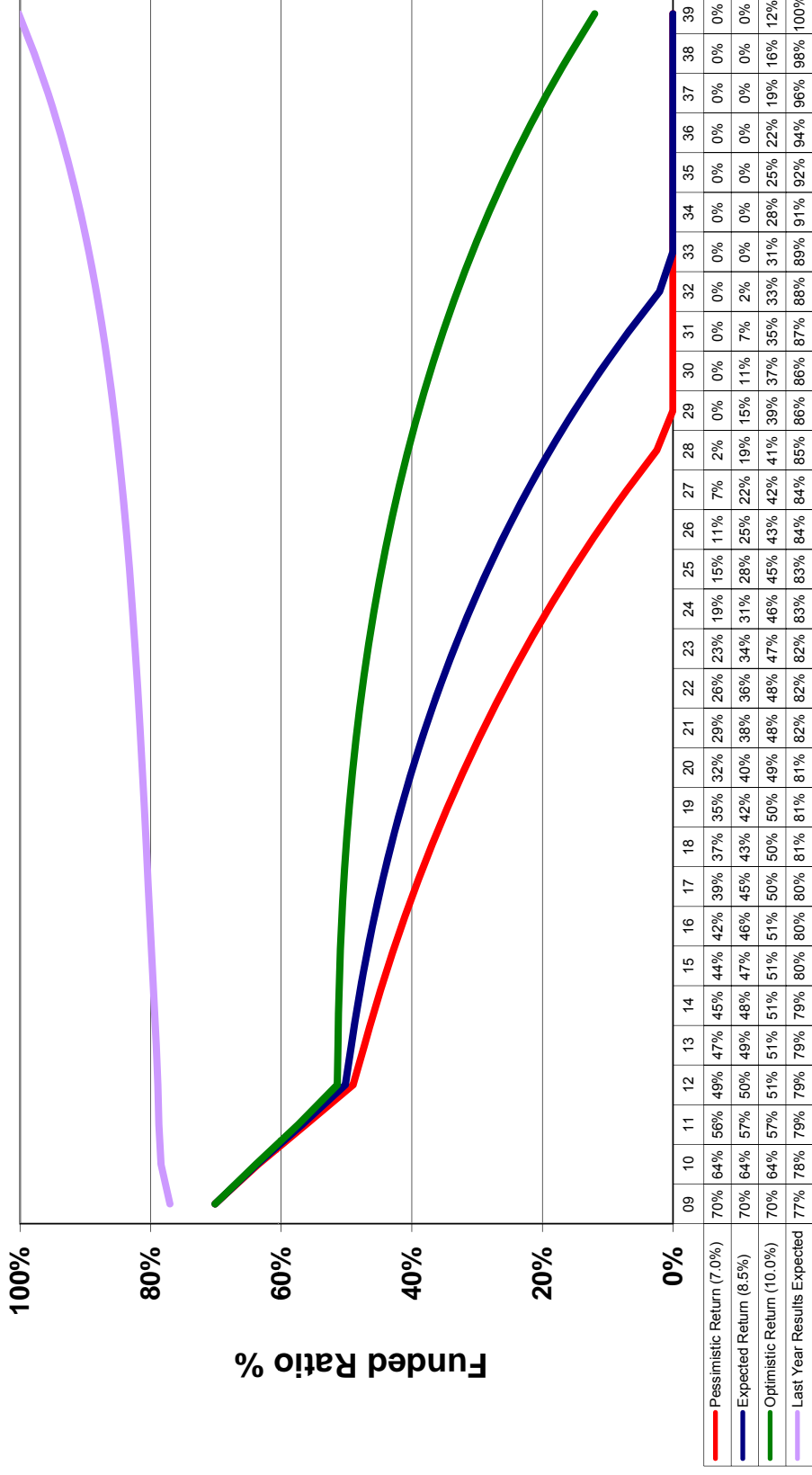
Timeline for Development of PERA's Comprehensive Legislative Proposal



Name of Study, Research, Action

2009

School Division Actuarial Projection



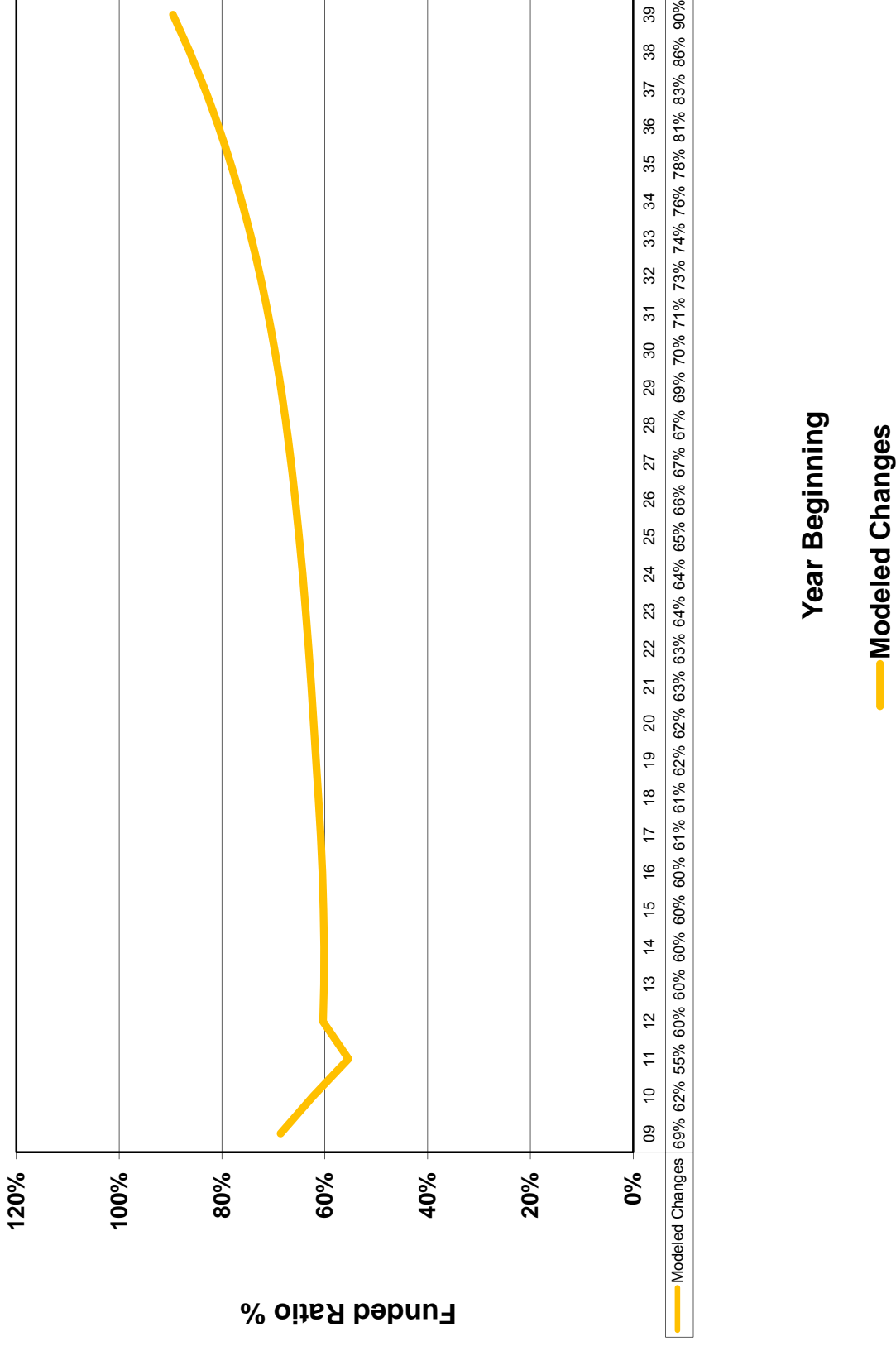
Year Beginning

— Pessimistic Return (7.0%) — Expected Return (8.5%) — Optimistic Return (10.0%) — Last Year Results Expected

December 31, 2008, Valuation Results

School Division 30-Year Funded Ratio Projection of Board's Recommendation

Based on 2008 Valuation Results and 8.0 Percent Expected Return





Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

January 27, 2010

Mr. Mark Anderson
Board Chairman
Public Employees' Retirement Association of Colorado
1300 Pennsylvania Street
Denver, CO 80203-2386

Dear Mr. Anderson:

This is to certify that the comprehensive plan of benefits and contribution changes contained in SB 10-01 as amended, and up for consideration by the PERA Board of Trustees at its January 28, 2010 meeting is a sound actuarial response to PERA's current financial situation. It is a reasonable approach to ultimately achieving the goal of fully amortizing the unfunded actuarial accrued liability of PERA's divisions and thereby reaching a 100% funded ratio for each division within the next 30 years.

If you have any questions, please do not hesitate to contact me.

Sincerely yours,

Thomas J. Cavanaugh, FSA, FCA, EA, MAAA
Chief Executive Officer

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