CSPERA
WORKING FOR RETIREMENT SECURITY

Breaking News!

Bulletin from the Colorado School and Public Employees Retirement Association

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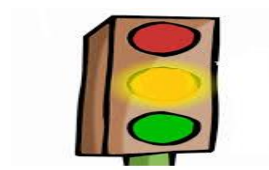
PERA's "Signal Light" Fund Monitor Turns Orange
PERA Plan Changes Likely To Be Suggested



How would you strengthen PERA's Finances?

This important bulletin contains two parts. There's an information section describing possible changes to PERA, and a simulation game that will make clear the difficult matter of deciding how to strengthen the PERA fund. **We hope you will...**

... **First** read the article titled "Possible PERA Changes," and...

... **Then** try the "M&M Game," developed by SecurePERA, which follows further below.

Possible PERA Changes Reviewed by SecurePERA

Why are PERA plan changes being considered?

Financial adjustments to PERA in 2010 projected approximately 30 years to full funding. New demographics indicate that PERA retirees are living longer than those projections. Also, the PERA Board, last year, took the conservative step of lowering its expected long term annual average investment return from 7.5% to 7.25%. Two more factors: the number of school district employees, and the wages of those employees, have both grown less than projected, reducing planned income to PERA.

Those developments have led to a projected **78 years to full funding** for PERA's School Division. All PERA Divisions are in the concerning "Orange" level of PERA's "Signal Light" monitoring, meaning all have over 50 years projected to full funding.

Are we back to the serious financial condition of 2010?

No. PERA is not projected to run out of funds, as had been projected eight years ago. And PERA's **actual** average annual return on investment in the long and medium term has been over 8%, significantly higher than the Board's current assumed rate of return.

However, given 78 years to full funding, there is high risk, over such a long time frame, that an international or national economic downturn could occur and stress a plan that isn't fully funded. Thus, plan changes will likely be discussed by PERA Trustees and recommended to legislators this fall.

Can the PERA Board itself change the plan?

Most plan changes must be passed by the legislature and signed by the governor. The PERA Board and its staff can make suggestions to the legislature and can work with legislators to craft the wording of PERA bills.

What plan changes might the PERA Board consider?

In its Telephone Town Hall, SecurePERA noted that "fixing" the fund must involve increasing contributions to PERA, or decreasing benefits paid by PERA, or some combination of both. SecurePERA then presented several possible plan changes, as follow...

--- Increase active employee contributions

Senate Bill 1 of 2010 caused employees to forego 0.5% of their negotiated salary raises in each of several years, with those funds to be paid by Districts into the PERA fund. **Impact**: reduced take home pay for active employees.

--- Increase employer contribution

The current School District contribution, not counting funds taken from foregone employee raises, is 14.65% of payroll. **Impact**: increased expense for district budgets.

--- Increase age required for full retirement

Currently, some employees are eligible for full retirement at age 50 with 30 years of service, most at age 58 with 30 years, and some at age 60 with 30 years. The PERA Board might discuss a retirement plan requiring age 65 or, like current Social Security for those born after 1960, at age 67 with some required years of service. **Impact**: New employees have longer road to retirement and school districts have higher payroll cost as higher-paid staff stay longer.

--- Change in calculation of Highest Average Salary (HAS)

Currently, HAS, a major factor in determining retirement benefit, is the average of a retiree's three highest earning years. The Board might discuss increasing HAS to five years, or seven years, or longer. **Impact**: A five year HAS reduces the retirement benefit by 3%-5% from the three year plan, and a seven year HAS reduces it by 6%-11% from the three year plan.

--- Have a "COLA Suspension," a period of time with zero COLA

SecurePERA's conversation included four options: skipping one year of COLA (as was done in 2010); skipping two consecutive years of COLA; a staggered plan of skip a year, then have a 2% COLA, then skip a year, then continue at 2% each year; or no skipping of any COLA years. **Impact**: Current and future retirees lose 2% of income and its future compounding for each year of skipped COLA. Current active employees would experience any adopted skip plan when they retire.

--- Decrease the annual Cost of Living Adjustment (COLA)
For most employees the current COLA is 2% in years when PERA does not have a negative return on investment. SecurePERA's program reviewed a variety of possibilities, including no change in the 2% COLA, or decreases down to 1.75%, 1.5%, 1.25%, 1%, or 0%. **Impact**: In ten years, a decrease to 1.75% = 2% benefit reduction; decrease to 1.5% = 5% benefit reduction; decrease to 1.25% = 7% benefit reduction; decrease to 1% = 9% benefit reduction; decrease to 0% = 18% benefit reduction.

Now try SecurePERA's... "M&M GAME"

Now that you've read the "Possible PERA Changes" article above, you know details about various PERA change choices and their impacts on PERA retirees, employees, and employers. What follows here is a great way to experience for yourself the conversations and the deliberations that are likely happening among PERA leaders this autumn.

Try this version of a game recently demonstrated by SecurePERA. The goal: reduce PERA School Division's troubling 78 years to full funding to 30 years. The background information above has explained the financial impact of possible changes.

Here's the game... Place 78 M&Ms (or any small objects) on a table top. Those M&Ms represent the currently-estimated 78 years to full funding. Then use the information below to make action choices and take away M&Ms as indicated by your choices. Win the game by reducing the M&M count to a number at or very near 30. Don't immediately consume removed M&Ms, because you may change your mind about option selections as you move through the choices.

--- For each 0.5% in foregone employee raises, take away 8 M&Ms.
--- For each 0.5% of payroll that you increase employer contributions, take away 9 M&Ms.
--- If you increase age of retirement to 67 years of age, take away 18 M&Ms.
--- If you increase age of retirement to 65 years of age, take away 15 M&Ms.
--- If you change Highest Average Salary factor from 3 years to 5 years, take away 4 M&Ms.
--- If you change Highest Average Salary factor from 3 years to 7 years, take away 7 M&Ms.
--- If you change Highest Average Salary to a whole-career average, take away 30

M&Ms.

- --- For each year that you skip a COLA payment, take away 4 M&Ms.
- --- If you reduce the annual COLA from the current 2% to 1.75%, take away 13 M&Ms.
- --- If you reduce the annual COLA from the current 2% to 1.5%, take away 22 M&Ms.
- --- If you reduce the annual COLA from the current 2% to 1.25%, take away 28 M&Ms.
- --- If you reduce the annual COLA from the current 2% to 1.0%, take away 33 M&Ms.
- --- If you reduce the annual COLA from the current 2% to 0%, take away 48 M&Ms.

The above impact numbers are, of course, estimates, and there is, one can see, a multitude of intermediate actions between the steps listed above. But this exercise is not unlike the conversations of the PERA Board as it deliberates what recommendations to make to legislators (the PERA Board cannot itself change the above factors) in the 2018 session. CSPERA will work to keep members informed of developments on proposals for plan change.

Address
1085 Peoria St.
Aurora, CO 80011
Phone: 303-326-1808
Fax: 303-326-1810