HB 20-1044

Legislative Council Staff
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REVISED FISCAL NOTE

(replaces fiscal note dated January 31, 2020)

Drafting Number:	LLS 20-0312	**Date:**	February 6, 2020
Prime Sponsors:	Rep. Bird; Garnett Sen. Garcia; Ginal	**Bill Status:**	House Appropriations
		Fiscal Analyst:	Louis Pino | 303-866-3556 louis.pino@state.co.us

Bill Topic: **MODIFY PENSION PLANS ADMINISTERED BY FPPA**

Summary of Fiscal Impact:

- ☐ State Revenue
- ☐ State Expenditure
- ☐ State Transfer
- ☐ TABOR Refund
- ☒ Local Government
- ☒ Statutory Public Entity

The bill modifies various pension plans administered by the Fire and Police Pension Association (FPPA). It will increase costs for local governments on an ongoing basis beginning in FY 2020-21 and, and will increase FPPA workload.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: The fiscal note reflects the introduced bill, as amended by the House Finance Committee.

Summary of Legislation

The bill modifies various pension plans administered by the Fire and Police Pension Association (FPPA).

Statewide Death and Disability (SWD&D) Plan. Beginning January 1, 2021, the bill increases member and employer contributions to the SWD&D plan from 2.8 percent to 3.0 percent of base salary. Thereafter, the bill authorizes the FPPA Board to further increase the contribution rate by 0.2 percent annually.

Statewide Defined Benefit (SWDB) Plan. Beginning January 1, 2021, the bill increases the employer contribution rate to the SWDB plan from 8 percent to 12 percent of base salary. The rate increase is to be implemented over eight years with an increase of 0.5 percent a year.

Beginning January 1, 2021, the bill allows a member to retire with unreduced retirement benefits if they are at least 50 years old and have a combined age and years of service equal to at least 80 years. Under current law, a member is eligible for early retirement with a reduced benefit. The bill allows these unreduced benefit costs to be paid for by an additional 1 percent to the employer contribution rate. This additional rate increase is to be implemented over two years at a contribution rate increase of 0.5 percent of base salary each year. The bill allows the implementation of this rate increase to be deferred if other employer contribution rate increases are being carried out.

The bill authorizes the FPPA Board to increase the member contribution rate if:

- the rate increase is equal for the member and the employer;
- the increase does not affect the plan's status as a qualified plan under federal tax code;
- the increase is approved by 65 percent of the active members of the plan who vote in the election proposing an increase in the member contribution rate; and
- the increase is approved by more than 50 percent of the employers having active members covered by the plan who vote in the election proposing an increase in the member contribution rate.

The bill also authorizes the FPPA Board to decrease the additional contribution rate applied to members and employers that withdrew from the SWDB plan and have reentered, if they determine the rate is higher than what is necessary to pay the costs of the members that rejoined the plan.

Old Hire Pension Plans. The bill grants authority to the FPPA Board to modify the method used to set the contribution policy for employers as the plans' liabilities wind down.

Stabilization Reserve Account (SRA). The bill removes the requirement that any excess amounts between the combined employer and employee contributions and the actuarially determined contribution rate be allocated to the Stabilization Reserve Account (SRA). In addition, the bill converts all individual accounts in the SRA to defined contribution retirement accounts, subject to self direction by the member. The bill requires the FPPA Board to transfer these accounts before January 1, 2021.

Finally, the bill codifies certain sections in statue to conform to current plan benefits and increases in member contribution rates the are already in effect.

Background

Overview. Prior to 1980, all fire and police pension plans in Colorado were administered individually by the municipalities or fire protection districts that employed police officers or firefighters. There was no requirement that these local plans be funded on an actuarially sound basis, and, in the mid-1970s, it became apparent that many plans were significantly underfunded. A 1977 study by the General Assembly concluded that these plans had an unfunded liability in excess of $500 million.

FPPA reform. In 1978 and 1979, the General Assembly enacted legislation to reform fire and police pension plan administration. First, legislation limited membership in existing local plans to firefighters and police officers who were hired prior to April 8, 1978. Between 1980 and 2013, the state contributed nearly $650 million in funding to stabilize these "old-hire" plans using insurance premium taxes that would have otherwise been credited to the General Fund. Nearly all participants in "old hire" plans have retired. Second, for police officers and firefighters hired on or after April 9, 1978 ("new-hire" plans), the General Assembly created the Statewide Defined Benefit Plan and established the Fire and Police Pension Association (FPPA) to administer the plan.

Elements of the administration of the plans are outlined in state law, including contribution rates for employers and employees, retirement age, return and transfer of contributions, the process for modifying benefits, and other factors affecting the plans. The FPPA annually brings requests for legislative changes related to the plans to the Pension Review Commission (formerly the Police Officers' and Firefighters' Pension Reform Commission) for review and approval.

SWD&D Plan. The FPPA also administers the SWD&D plan, which provides disability and death benefits to police officers and firefighters. Up until 1996, the SWD&D plan had been funded entirely through an annual state contribution. In 1996, the General Assembly provided a final state contribution designed to be sufficient to fund the benefits of members hired prior to January 1, 1997, in perpetuity. Benefits for members hired after January 1,1997 are funded entirely through employer and/or member contributions.

Stabilization Reserve Account (SRA). Under current law, the difference between the combined employer and employee contributions and the actuarially determined contribution rate is allocated to the SRA. Amounts set aside in the SRA are allocated to individual accounts for each member and may receive benefits from the account upon retirement. However, if the normal cost of the SWDB plan exceeds the combined member and employer contribution rate, funds from the SRA are required to make up the shortfall. Since the SRA was established, benefits allowed under the SWDB plan have increased to the extent that all revenue generated from member and employer contributions are required to pay the normal costs of the plan.

Local Government

Beginning January 1, 2021, local governments participating in the SWD&D and SWDB plans will have expenditure increases to cover the employer contribution rate increases under the bill. The impact of the employer contributions on local governments will vary by size of the local government and its number of employees. The fiscal note highlights three examples of potential local fiscal impacts. These costs are based on current employees and do not account for employment or salary growth. Since local governments budget to the calendar year, these costs are shown by calendar year (CY). These amounts will increase based on FPPA Board decisions on the SWD&D employer increase, up to 0.2 percent allowed annually under the bill; and costs will also increase over the eight year SWDB contribution increase period, by 0.5 percent per year. Local government employer costs may also increase by 1 percent to pay for the unreduced retirement benefit provided under the bill. This future cost may only take place when another employer contribution rate increase is not in effect.

- *City of Aurora*. The City of Aurora estimates their expenditures will increase by $181,300 in CY 2021 for the increase in the employer contribution rate to the SWD&D Plan. The employer contribution rate increase to the SWDB plan is expected to cost the city $158,100 in CY 2021. Expenditures are estimated to be approximately $1.7 million higher at full implementation at 4.0 percent. The city did not have an estimate for potential expenditures related to the unreduced retirement benefit.

- *City of Colorado Springs*. The City of Colorado Springs expenditures are expected to increase by $95,544 in CY 2021 from the change in the employer contribution rate to the SWD&D plan. The city is expected to see costs increase by almost $337,000 in the first year of the SWDB plan employer contribution rate increases. The city did not have an estimate for potential expenditures related to the unreduced retirement benefit.

- *The Town of Basalt*. Expenditures for the Town of Basalt will increase by $1,070 for the increase in the SWD&D contribution rate in CY 2021. The town estimates expenditures will increase by $42,800 each year once the full four percent employer contribution rate increase is implemented for the SWDB plan. Finally, the town expects expenditures to increase by $10,700 each year with the unreduced retirement benefit.

Statutory Public Entity – Fire and Police Pension Association of Colorado

The bill results in a minimal impact in the FPPA's workload. Under the bill, the FPPA Board may increase SWD&D rates by 0.2 percent annually; increase SWDB rates through an election process; and modify the method used to set the contribution policy for the Old Hire Pension Plans. This workload is anticipated to take place in the normal course of FPPA Board business and FPPA administration.

Effective Date

The bill takes effect August 5, 2020, if the General Assembly adjourns on May 6, 2020, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Counties	Fire and Police Pension Association	Higher Education
Law	Municipalities	Sheriffs