

Senate Finance Committee

SB 200 (PERA)

March 13, 2018

Brad Hughes
(bradleyhughes@comcast.net)

PERA makes Social Security look safe!

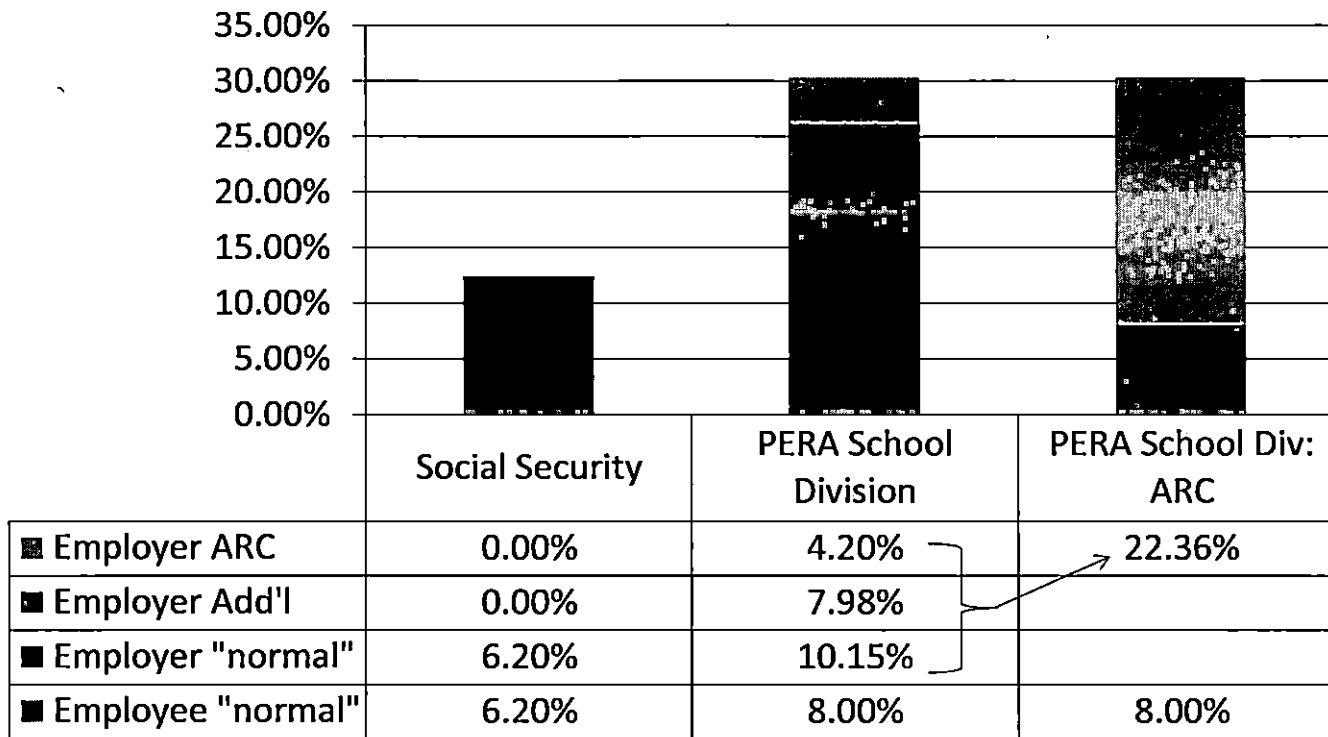
- PERA liabilities are larger than the entire Colorado state budget. Federal employee liabilities (CSRDF) are about \$100B relative to a \$4.3 trillion federal budget.
- AVERAGE PERA annual benefit (Age 58 with 23 years service) \$38,300
- AVERAGE Social Security Benefit (Age 73 but can't receive until 62) \$16,100
- Maximum Social Security Benefit at Full Retirement Age (66) \$31,700
 1. Req'd: Maximum contrib. for 35 years
 2. If FRA max is postponed until 70 years old, max benefit is \$41,000
- AVERAGE public sector benefit (national data) \$20,000
- Over 1/3 of PERA beneficiaries make over \$50,000 per year. (p.210 of CAFR 2016) while 0 of 62 million SS beneficiaries get \$50,000 (SSA.gov)

of PERA beneficiaries making more in retirement than:

	2013	2016
• \$50,000	29,044 (28%)	35,190 (31%)
• \$100,000	999	1,620
• \$150,000	62	112
• \$200,000	11	24

Key: PERA payments are out of control compared to federal employees and SS beneficiaries. PERA payments are unsustainable and threaten the economic viability of Colorado. Excess PERA benefits and the PERA retiree demographic explosion has been substantially borne by the taxpayer. All Colorado citizens (now and future) will suffer unless PERA beneficiaries carry their own weight.

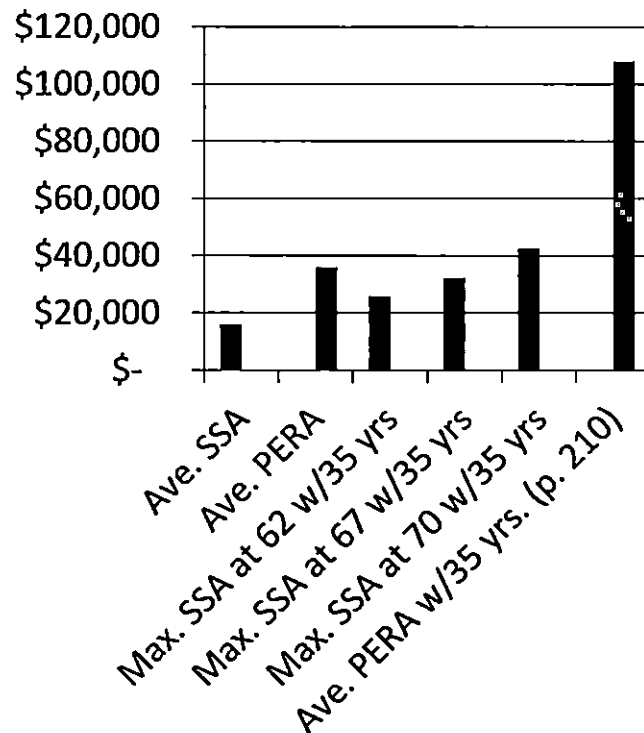
Comparative Contribution Rates Social Security and PERA School Division



Note: The Employers in the PERA case are the taxpaying households of the state

Comparative Benefits/Objectives

(see pages 206-10 in 2016 CAFR)



- **Contributions**
 - SSA = 12.4%
 - PERA = 18.0%
- **To Qualify for top benefits**
 - SSA = 35 years at max income contrib. rate
 - PERA = 3 years at peak salary
- **Income replacement objectives**
 - SSA = 33% max.
 - PERA = open-ended
- **When does one initially vest?**
 - SSA = ten years of minimum contrib.
 - PERA = five years of employment
- **Other Retirement saving options available**
 - SSA
 - Company plans (DC or DB)
 - Personal savings
 - PERA
 - Personal savings
 - Other PERA options
- **Status of Plans**
 - SSA = Technically insolvent 2033
 - PERA = Technically insolvent now

Average PERA Retirement Characteristics

Year	Ave. Monthly Benefit \$	Ave. Age at Retirement	Ave. Years of Service
2004	\$2,288	57.9	22.4
2005	\$2,447	58.0	23.0
2006	\$2,538	58.1	22.9
2007	\$2,658	58.0	23.1
2008	\$2,772	58.0	23.2
2009	\$2,885	58.0	23.3
2010	\$2,905	58.1	23.6
2011	\$2,966	58.1	23.6
2012	\$3,020	58.2	23.5
2013	\$3,068	58.2	23.5
2016	\$3,193	58.5	23.2

The (under-estimated) funding gap is widening, even with markets booming

Discount rate = 7.5%, \$ Billions (S&P 500 has doubled while the funding ratio has dropped 9.4%!

Year	Assets	Liabilities	Deficit	Deficit %	Funding Ratio
2008	\$39.0	\$55.6	\$16.8	30.2%	69.8%
2009	\$37.6	\$54.5	\$16.9	31.1%	68.9%
2010	\$39.2	\$59.3	\$20.1	33.9%	66.1%
2011	\$37.2	\$60.7	\$23.5	38.8%	61.2%
2012	\$39.1	\$61.8	\$22.7	36.8%	63.2%
2013	\$41.1	\$66.9	\$25.8	38.5%	61.5%
2016	\$43.4	\$71.6	\$27.2	39.6%	60.4%

Who will represent the taxpayer?

Legislators, judges, executive branch and teachers union all benefit from PERA yet decide what happens to PERA. Private sector taxpayers have no voice yet pay the bill.

Since TABOR was passed by the Colorado voters (1992) more than a dozen statewide tax increases have been on the ballot. Only two passed; a citizen-initiated tobacco tax hike in 2004 and the lawmaker-backed tax on marijuana after voters legalized it. But efforts to boost funding to schools, highways and other popular causes have repeatedly been rejected by wide margins. (A66 and A69 were soundly defeated.) Taxpayers need a voice!

Current retirees (125,000) have benefited the most from the PERA funding debacle while taxpayers have suffered the worst. A 2015 GAO study found that 55 to 64-year-olds have an average of \$104,000 and those 65 to 74 have an average \$148,000 in their 401(k) while an average PERA retiree at age 58 surpasses that in 3-4 years. 25% of PERA retirees have a present value of \$1 million in future benefits. Over 66% of PERA funding comes from the taxpayer while struggling with their own retirement.

The active (approx. 225,000) and inactive (approx. 230,000) PERA members whose normal contributions are not funding (are falling short of) the benefits they are accruing and whose AED/SEAD contributions (from the taxpayers) are large but still not sufficient to fill the void created by the overall contribution/benefit mismatch in PERA.

Recommendations

PERA benefits far exceed those in Social Security and the private sector. Future benefits have to be reduced (or employee contributions substantially increased) for those who are still working while leaving current retirees alone. This has happened in the private sector.

Spiking has to stop completely and immediately. It is unfair and unaffordable. Spiking doesn't occur in Social Security or the private sector.

Taxpayers contribute over twice what the PERA beneficiary contributes. This doesn't happen in Social Security or the private sector. A successful PERA solution must benchmark fairly with SS and private pensions as well as restoring balance between beneficiaries and taxpayers. The ratio of taxpayer-to-beneficiary has grown from 1:1 (1969) to 2.4:1 (2016) and continues to grow. We need to restore equity between employees and taxpayers and between retirees and the next generation.

PERA liabilities have exploded over the past 9 years despite a booming market and no recession. Colorado's credit rating was downgraded. Action must be taken now before the next recession. Requirements for retirement age and years of service have to be substantially increased to reflect demographic and economic realities. Avg. age of PERA retiree = 58. Avg. age of SS retiree = 73.

The Colorado Senate should engage with economist Dr. Lawrence Kotlikoff, nationally recognized public pension expert, former member of the Council of Economic Advisers, and Research Associate at the NBER, to draft best practice recommendations to resolve the PERA financing debacle. It gets worse every year despite periodic triage and broken promises.