



Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

**Fiscal Note
 Memorandum**

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April 16, 2018

TO: Majority Leader KC Becker and Representative Dan Pabon
 Members of the House Finance Committee

FROM: Erin Reynolds, Senior Fiscal Analyst
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SUBJECT: Fiscal Assessment of Proposed Amendments to Senate Bill 18-200

At your request, this memorandum includes fiscal impact assessments of the following proposed amendments to Senate Bill 18-200:

- L.027 — change Highest Average Salary to 5 periods;
- L.028 — make salary definition change from net to gross effective January 1, 2020;
- L.029 — remove employee contribution increase; reinstate automatic contribution rate adjustment for employers; and create a direct General Fund distribution to PERA to continue until unfunded liability is paid down;
- L.031 — eliminate defined contribution supplement payment and expansion;
- L.033 — remove modification to earned service credit determination;
- L.034 — Set retirement age for state division at 63;
- L.035 — establish the Pension Review Committee;
- L.036 — three-year Cost of Living Adjustment (COLA) suspension; and
- L.037 — set COLA rate at 1.5% after suspension.

The bill's revised fiscal impact will depend on which of these amendments are adopted. These amendments may also be influenced by other amendments not included in this analysis, but that include:

- L.041 — changes Highest Average Salary to 5 periods; makes the auto adjustment for employer, employees, and the COLA effective January 1, 2019; and changes the state employee retirement age to 60;
- L.042 — classifies county sheriffs, undersheriffs, deputy sheriffs, noncertified deputy sheriffs, and detention officers hired by a local government division, and correctional officers hired by the state division in the same benefit structure as state troopers;
- L.043 — amends L.028 to make the salary definition change from net to gross effective June 30, 2020; amends reengrossed bill to allow an employer to request information from PERA to determine which salary definition to use depending on an employee's hire date; and

- L.044 — amends L.029 to set the direct distribution at \$225.0 million in FY 2018-19, and \$255.6 million in FY 2019-20 to be paid from any fund. Beginning in FY 2020-21, the direct distribution amount is calculated as 3 percent of PERA's current audited payroll, excluding local government division, to be paid from any fund.
- L.045 — adds to Pension Review Committee the ability to determine the necessity of continuing the direct distribution.

#	Description (parenthetical denotes change from reengrossed bill and/or current law)	Initial Fiscal Assessment
L.027	<p>Highest Average Salary to 5 periods. Under current law, the retirement benefit paid to a PERA member depends on his or her date of hire, years of service credit, and age at retirement, and is calculated using a percentage of the member's highest annual salary (HAS) over a period of time, including a base salary year. The amendment changes the number of years factored into the HAS calculation for members who are not vested by, or are hired on or after January 1, 2020, to 5 periods of 12 months.</p> <p><i>(Down from 7 periods in reengrossed bill; up from 3 periods in current law.)</i></p>	<p>Decreasing the number of HAS periods from 7 to 5 will continue to reduce PERA's obligation to beneficiaries and create a cost savings in PERA's trusts, but by a lesser amount than in the reengrossed bill. It should be noted that no change from the status quo will occur until recent hires retire. PERA will provide an updated actuarial assessment of the cumulative impacts each adjustment will have on the unfunded liability in a revised fiscal note.</p>
L.028	<p>Salary definition change effective January 1, 2020. Net to gross salary definition change applies only to members hired on or after January 1, 2020.</p> <p><i>(In reengrossed bill, the salary definition change applies to all members effective in the current fiscal year.)</i></p>	<p>By modifying the effective date of the salary definition change, employers will not incur costs beginning in the current FY 2017-18 to modify their payroll structure and assess the PERA benefit on a modified amount of salary. These costs were not anticipated to impact the state and judicial divisions, where the gross pay definition is already used for budgeting purposes, but the amendment will remove the costs for the remaining divisions, estimated in FY 2018-19, FY 2019-20, and FY 2020-21, respectively, reducing costs shown in the fiscal note dated April 6, 2018 by:</p> <p style="padding-left: 40px;"><i>Local government division: \$2.7m, \$2.9m, and \$3.0m</i> <i>School division: \$19.5m, \$21.2m, and \$21.9m</i> <i>DPS division: \$9.1m, \$9.7m, and \$10.4m</i></p> <p>Modifying the effective date of the salary definition change also eliminates the state income tax revenue reduction estimated at (\$0.7 million) in FY 2018-19, (\$0.9 million) in FY 2019-20, and (\$1.0 million) in FY 2020-21 from the General Fund, as shown in the fiscal note dated April 6, 2018.</p>

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L.029 A	<p>Amendment L.029 has three specific fiscal impacts as described in the following three rows.</p> <p>Remove increase in employee contribution. Remove employee contribution increases.</p> <p><i>(The reengrossed bill increases employee contributions by 0.5% in July and 0.5% in January of FY 2018-19; 1.0% in FY 2019-20, and 1.0% in FY 2020-21, for a total contribution increase of 3%.)</i></p>	<p>Removing the employee contribution will remove the state income tax revenue reduction resulting from the decrease in state and local government employee's net pay, estimated at (\$3.1 million) in FY 2018-19, (\$10.7 million) in FY 2019-20, and (\$13.2 million) in FY 2020-21 from the General Fund.</p> <p>The amendment also removes the workload impact of creating this new payroll deduction amount, and removes the noted potential impact on participating employee behavior related to retention and retirement.</p>
L.029 B	<p>Automatic contribution rate adjustment for employers. Effective January 1, 2020, require employer contribution rate increases and decreases when certain thresholds are met, as follows:</p> <ul style="list-style-type: none"> o when the blended total contribution amount is less than 98% of the blended total actuarially required contribution, then the employer contribution rate may be increased up to 0.5% per year, not to exceed current statutory contribution rates plus 2% total; and, o conversely, when the blended total contribution amount is greater than or equal to 110% of the blended total actuarially required contribution, then the employer contribution rate may be reduced up to 0.5% per year, not to be less than current statutory contribution rates. <p><i>(Initially in the introduced bill; however, only the employee automatic adjustment mechanism remains in the reengrossed bill.)</i></p>	<p>The automatic adjustment provision for participating employers creates a future potential employer contribution rate increase of up to 2%. Future contribution rate adjustments will follow actuarial assessments, and be triggered for all participating employers when the blended total contribution amount is less than 98% of the actuarially required contribution. These potential expenditure increases will be addressed during the annual budget process if triggered.</p> <p>The decrease, if triggered, will not fall below current statutory rates and will also be addressed during the annual budget process if triggered.</p>

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L.029 C	<p>Create direct General Fund distribution to pay down unfunded liability. Create a direct distribution to PERA from the General Fund beginning in FY 2018-19 until there is no unfunded liability for the state, judicial, school, or DPS division's PERA trusts. The distribution is to be calculated using the annual payroll reported in the most recent PERA Certified Annual Financial Report (CAFR), using PERA's adopted payroll growth assumptions, and a rate of 2.7% in FY 2018-19, and 3.0% in FY 2019-20 and each year thereafter.</p> <p><i>(Not in any prior versions of the bill.)</i></p>	<table border="1"> <thead> <tr> <th data-bbox="1266 292 1436 324">FY</th> <th data-bbox="1489 292 1808 324">Direct Distribution*</th> </tr> </thead> <tbody> <tr> <td data-bbox="1266 332 1436 365">FY 2018-19</td> <td data-bbox="1489 332 1808 365">\$ 216,597,420</td> </tr> <tr> <td data-bbox="1266 373 1436 406">FY 2019-20</td> <td data-bbox="1489 373 1808 406">\$ 249,087,034</td> </tr> <tr> <td data-bbox="1266 414 1436 446">FY 2020-21</td> <td data-bbox="1489 414 1808 446">\$ 257,805,080</td> </tr> <tr> <td data-bbox="1266 454 1436 487">FY 2021-22</td> <td data-bbox="1489 454 1808 487">\$ 266,828,257</td> </tr> </tbody> </table> <p>*Uses 2016 CAFR Annual Payroll for Active Members (PERA 2016 CAFR, pp 174-175), excluding local government division, and assumes a 3.5% payroll growth rate.</p>	FY	Direct Distribution*	FY 2018-19	\$ 216,597,420	FY 2019-20	\$ 249,087,034	FY 2020-21	\$ 257,805,080	FY 2021-22	\$ 266,828,257
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L.031	<p>Eliminate defined contribution supplement payment and expansion. Eliminates the defined contribution supplement adjustment to the employer contribution rate set to begin January 1, 2021, in the reengrossed bill. The supplement represents the amount that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability, plus investment earnings on that amount, assessed by PERA's actuaries and paid on behalf of employees who begin employment on or after January 1, 2019.</p> <p>The amendment also eliminates the extension of the defined contribution plan option to other divisions.</p> <p><i>(Under current law, only state division employees, with certain exceptions, are eligible to elect the defined contribution plan.)</i></p>	<p>The employer-paid defined contribution supplement that the amendment removes is estimated to have a substantial but unquantified impact on participating employers, depending on many factors, in particular the rate of participation in the defined contribution plan (state division participation is currently about 12%) and the future financial health of the PERA trusts. The amendment removes this impact.</p> <p>The elimination of the defined contribution expansion will improve the future financial health of the PERA trusts. PERA will provide an updated actuarial assessment of the impact on the unfunded liability for a revised fiscal note.</p>										

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L.033	<p>No modification to earned service credit determination. The amendment removes the provision in the reengrossed bill that modifies the way service credit is earned for part-time work for PERA members who begin employment on or after January 1, 2020, specifically that a member working less than 8 months a year has his or her earned service credit determined by the ratio of part-time work to full-time work and the number of months for which contributions are remitted to the number of months required for a year of service credit.</p> <p><i>(Return to current law.)</i></p>	<p>The impact of the earned service credit modification has not been estimated in the fiscal note. The amendment will return the service credit determination to current law.</p>
L.034	<p>Retirement age for state division at 63. In the reengrossed bill, state division members, with the exception of state troopers, are eligible to retire at any age upon reaching 40 years of service, and at age 65 with at least 5 years of service. The amendment modifies the latter age so that state division members may retire at 63 with at least 5 years of service.</p> <p><i>(The retirement age for state division employees in current law is any age for 35 years of service, age 60 with 30 years of service, and at least 5 years of service, age 65.)</i></p>	<p>Modifications to the retirement age impact benefit eligibility and timing. PERA will provide an updated actuarial assessment of the cumulative impacts each adjustment will have on the unfunded liability for a revised fiscal note.</p>

#	Description (parenthetical denotes change from reengrossed bill and/or current law)	Initial Fiscal Assessment
L.035	<p>Pension Review Committee. The reengrossed bill replaces the existing Police Officers' and Firefighters' Pension Reform Commission, a standing legislative interim committee, with the Public Pension Legislative Oversight Committee, which is required to study and develop proposed legislation relating to the funding and benefit designs of both PERA and the Fire and Police Pension Association. The reengrossed bill also modifies committee membership and allows the committee to commission an independent review of the economic and investment assumptions used to model the PERA financial situation every three years.</p> <p>The amendment modifies the commission's name to the Pension Review Committee and adds the study and development of proposed legislation relating to PERA to its charge.</p> <p><i>(In the reengrossed bill, committee membership was modified to include four senators appointed by the Senate President, four representatives appointed by the House Speaker, and four non-voting members appointed by the State Treasurer. The committee charge included an ability to conduct an independent review of PERA's assumptions every three years.)</i></p>	<p>The amendment removes the bill's need for an appropriation of \$200,000 to the Legislative Department for purposes of conducting an independent review of PERA's assumptions. The Police Officers' and Firefighters' Pension Reform Commission and its staff can accomplish the new workload within existing appropriations.</p>

#	Description (parenthetical denotes change from reengrossed bill and/or current law)	Initial Fiscal Assessment
L.036	<p>Three-year COLA suspension on retirement benefits. The amendment suspends all cost-of-living-adjustments (COLA) to a member's retirement benefit for a three-year period.</p> <p><i>(In the reengrossed bill, the COLA was reduced to 0% for the years 2018 and 2019, and for three years for benefit recipients whose effective date of retirement is on or after January 1, 2011.)</i></p>	<p>Suspending the COLA for three years will continue to reduce PERA's obligation to beneficiaries and create a cost savings in PERA's trusts, by a greater amount than in the reengrossed bill. PERA will provide an updated actuarial assessment of the cumulative impacts each adjustment will have on the unfunded liability for a revised fiscal note.</p>
L.037	<p>Set COLA rate at 1.5%. The reengrossed bill sets the COLA at 1.25% after the suspension. The amendment changes the COLA amount to 1.50%.</p> <p><i>(Under current law, the COLA is 2%.)</i></p>	<p>Increasing the COLA rate from the reengrossed bill, but reducing the COLA rate from current law, will continue to reduce PERA's obligation to beneficiaries and create a cost savings in PERA's trusts. PERA will provide an updated actuarial assessment of the cumulative impacts each adjustment will have on the unfunded liability for a revised fiscal note.</p>

Prepared by Legislative Council Staff