

## Proposed Amendments to SB 18-200

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The current version of SB 18-200 solves PERA's funding problem by creating a financial insecurity problem for PERA retirees and a recruitment and retention problem for PERA employers. The bill's use of similar percentage figures with different bases, some of which compound and some of which do not, makes it difficult to uncover the cause of those problems. The explanation and graph on the back of this page explains the major effects of the bill (as introduced) on the budgets of those affected. The unevenness in levels of sacrifice is striking.

Senate amendments actually increased the disparity in the bill's assignment of sacrifice by eliminating the already too small increase in employer contributions. Ironically, PERA employers were a major cause of the current problem by failing to make over \$4.5 billion of contributions actuarially required to pay for the benefits they were promising their employees over the last 15 years!

SB 18-200 needs to establish a PERA employer contribution increase that is fair to PERA participants and taxpayers alike. The increase needs to be adequate to pay back the \$4.5 billion accumulated employer contribution shortfall with interest, and the repayment of a shortfall that took 15 years to accumulate may require a 30-year repayment period. In any case, increased employer contributions should be designed to fully pay off the shortfall rather than some arbitrary percentage.

The cuts to the pension COLA present an even bigger problem in the current version of SB 18-200. Because these cuts are hidden in fixed rate COLAs it is impossible to determine exactly how fast retirees' financial security will deteriorate, but if inflation stays at the conservative 2% per year rate that the current COLA is based on, retirees would lose 9.4% of their purchasing power over the bill's first 10 years. The loss would be significantly higher if the bill's automatic adjustment feature is triggered since the adjustment for retirees (unlike the adjustments for employers and employees) is compounded.

A simple, predictable and fair adjustment to the pension COLA would be to tie it to the annual change in cost of living figures used to calculate social security's COLA.

Given PERA's financial situation, it would probably not be prudent to fully match inflation, but something like 80% of the social security COLA percentage seems appropriate. This would mean for example, that in 2018, since social security recipients received a 2% COLA in January, PERA retirees would receive a 1.6% increase in July. Eighty percent of inflation would provide a substantial savings to PERA whose fixed rate pension COLAs have approximately matched inflation over the last 15 or 20 years. At the same time it would avoid the devastatingly rapid loss of financial security which would hit retirees under the COLA currently proposed. If automatic adjustments stay in the bill, the 80% figure could be adjusted in 2 - 5% increments.

The other problem that would be solved by slowing the erosion of pension purchasing power would involve the recruitment and retention of public employees. The current version of SB 18-200 would transform PERA from being a recruitment and retention asset for public employers into a recruitment and retention liability. Teachers and many other recruits with degrees have other job opportunities that don't require contributing 11% of their salaries to pay for a pension that will lose 25% or more of its purchasing power over the course of a 30 year retirement.

I hope you will amend SB 18-200 as passed by the Senate with these two provisions:

1. Add back an employer contribution increase and structure it to fully repay employers' \$4.5 billion accumulated shortfall.
2. Change the PERA pension COLA from 0% for 2 years and 1.25% after that, to 80% of the most recent Social security pension COLA each year.

## Fact Sheet on the Impacts of SB18-200 to the Budgets of PERA Retirees, Employees and Employers

SB18-200 was developed, and has been debated and amended so far, with a focus on finding a way to pay off PERA's unfunded liability within 30 years. The primary ways of doing so under the bill are to reduce the COLA for PERA retirees, and to increase contributions to the fund from PERA system employees and employers. The mechanism for the COLA reduction is very different from that of the contribution increases and there is an important difference between the two contribution increases as well. This paper will look at those differences and their effects on the affected interest groups.

The easiest difference to understand is the difference between the contribution increases for employers and employees. Both of these are expressed as percentages of employee salary, but the employer spends only a fraction of his or her budget – typically less than half – on employee salaries. Therefore, the impact of SB18-200 on the employer (i.e. the percentage of his or her budget that is made unavailable to spend on things other than SB18-200) is also less than half of the percentage contribution increase mandated in the bill. For the employee, however, the percentage reduction in his or her salary is exactly the same percentage that his or her contribution to PERA will be increased under SB18-200. Therefore, after the initial phase ins, employer contributions under the bill are 1% of their budgets and employee contributions are 3% of their budgets.

The COLA reduction works entirely differently from the way the contribution increases work, even though it can also be expressed as a percentage of the retiree's budget. The reason is that it is cumulative. Every year's percentage reduction adds to the total of all previous years' reductions. If we ignore inflation, we can express the effect of SB18-200 on retirees' budgets as being a reduction of approximately 2% in 2018, 4% in 2019, and 4.75%, 5.5%, 6.25%, etc. in following years. Strictly speaking, the reductions are not exactly additive, but they are close over a short period. Mathematically correct figures are used in the graph below.

Percent of Budget Diverted by SB18-200 (as introduced)  
to Reduce PERA's Unfunded Liability

