COLORADO PERA

March 17, 2016

The Honorable Jared Polis
United States Representative
1433 Longworth HOB
Washington, DC 20515

Dear Congressman Polis: VIA Email & Regular Mail

As the Executive Director of the Colorado Public Employees' Retirement Association (Colorado PERA), I am writing to you today to express concerns about plans to introduce federal legislation that would negatively impact Colorado's largest retirement plan. Colorado PERA invests more than $44 billion in member assets and serves as the primary retirement plan for nearly 550,000 of Colorado's former and current public employees. I am asking you, as a legislator who is familiar with the contributions to Colorado's quality of life made by Colorado's public employees, to decline to co-sponsor or support the proposed “Public Employee Pension Transparency Act” (PEPTA).

Representative Devin Nunes (R-CA) introduced PEPTA as H.R. 1628 in 2013, and recently his office sent a "Dear Colleague" message asking each Member of Congress to co-sponsor the legislation in 2016. For a number of reasons, Colorado PERA respectfully asks you not to co-sponsor or support this legislation.

The legislation would not produce savings, protect benefits, nor result in more transparency. It is an inappropriate Federal mandate on state and local governments that threatens to undermine recovery efforts and recent pension reforms. Attached is an updated fact sheet on pensions and other public finance issues. If anything, the legislation will cause potentially alarming misinformation to be spread.

PEPTA would require pension plans that cover state and local government employees to report to the U.S. Treasury Department the amount of their pension liabilities and assets using criteria set forth in the legislation and by the Treasury Secretary. If the plans did not comply, the state and local governments would be subject to punishment in the form of being stripped of the ability to issue federally tax-exempt bonds. The bill also would state that Congress will not provide any federal money to states and local governments to shore up their public pension funds, or be liable for those pension benefits. State and local governments are not seeking such Federal funding and certainly there is no such effort in Colorado.

Colorado PERA opposes the proposed PEPTA legislation because it is based on the incorrect assumption that many state and local plans are headed toward insolvency, and that public plans do not currently provide meaningful information about their financial condition. To the contrary, in Colorado and other states, the legislatures and governors have addressed the pension funding problems and taken action to ensure that pension plans are sustainable. In Colorado, you may remember, the Legislature passed Senate Bill 10-001 in 2010. Senate Bill 10-001 will eliminate the unfunded liability of Colorado PERA over a 38-year period with a combination of tough but necessary changes that earned support from a bipartisan group of legislators and from employer, employee, and retiree groups.

Through that state legislation, 80 percent of the gap between assets and liabilities will be met by changes affecting employees, such as: (1) limiting the COLA for all current and future retirees, (2) increasing the reduction for early retirement, (3) changes to the method for calculating highest average salary, (4) requiring Colorado PERA retirees to contribute to the pension fund if they return to work for a Colorado PERA employer, and (5) increasing retirement ages for new hires and some current members. Another 10 percent of the gap will be met by allocating to the pension fund more money from employees' salary increases. Only the remaining 10 percent will be met by increasing Colorado PERA employers' contributions to Colorado PERA. The truth is that Colorado PERA is now structurally sound and is on the path to eliminating all unfunded liabilities.

The proposed federal legislation would create a false picture of public pension plans by requiring them to report assets and liabilities using an investment discount rate based on the U.S. Treasury yield curve. Currently, the 30-year Treasury bond is yielding about 2.7 percent. Using that rate would greatly drive up reported liabilities and make Colorado PERA appear to be very poorly funded. The practice of Colorado PERA as well as most other public pension plans is to use a realistic assumption for long-term investment return in calculating the value of actuarial liabilities. This rate is examined in great depth each year by the Colorado PERA Board of Trustees, with the advice of expert economists, actuaries, investment consultants and accounting firms. In 2013, the Board lowered this long-term assumed rate to 7.5 percent. While Colorado PERA's annualized investment return has been more than 9 percent over the 30 years ending in 2014, the fact is that even if Colorado PERA earns an annualized return of 6.5 percent in the future, unfunded liabilities will still be eliminated with no revisions to the provisions of SB 10-001.

There is no rational basis to calculate the value of Colorado PERA's benefit obligations by assuming that Colorado PERA's investments will earn only the rate of interest earned by U.S. Treasury bonds; such a rate is not only artificial but it bears no relationship to the asset allocation actually contained in the Colorado PERA portfolio. Colorado PERA's $44 billion trust fund is invested in a diversified portfolio of stocks, bonds, real estate, private equity, and other assets.

There are several things that PEPTA would NOT do:

- ***Does NOT lower taxpayer costs***
  - The Federal government does not guarantee state and local government employees' pensions, and public pension plans are not asking for Federal financial assistance.
  - At a time when both Congress and the Administration want to remove regulatory barriers, this bill would impose complicated, costly Federal mandates that will only interfere with state and local recovery efforts.

- ***Does NOT increase transparency and understanding regarding state and local government retirement systems***
  - PEPTA is not about transparency. Public pension reporting is already transparent.
  - State and local government pension systems are currently required to report all of their financial data in Comprehensive Annual Financial Reports (CAFR),

which are audited, publicly available, and can be easily accessed by anyone. The CAFR contains considerable information about the pension fund's liabilities, asset values, assumptions, rates of return, annual required contributions, as well as other pertinent information.
    - Using one interest rate across the country reduces transparency as it inherently ignores the vastly different asset allocation across thousands of pension systems.
    - The proposed rate moves every day, which means the value moves every day as well and provides no meaningful guidance as to the true cost of funding the system to taxpayers, members and policy makers.

- ***Does NOT improve public pension accountability***
    - State and local government retirement systems are already required to adhere to strict accounting standards set by the Governmental Accounting Standards Board (GASB). This independent, standard-setting body recently updated the reporting requirements of states and localities.
    - Since 2010, an unprecedented number of states made changes to their pension benefits, contribution requirements, or both - all done without the need for Federal intervention.

It is worth noting that PEPTA would not apply to federal employees' pension programs, whose funding challenges are very large in comparison to those faced by state and local plans, which are being well-addressed by state legislatures.

For all these reasons, Colorado PERA requests that you not co-sponsor the legislation proposed by Representative Nunes, and in fact we hope that you will oppose it if it comes before the full House of Representatives. I hope this information is helpful to you. Please do not hesitate to call or e-mail me if you have any questions or if I can be a resource to you regarding this bill, public pension plans, retirement security, or the 550,000 members and benefit recipients of PERA.

Sincerely,

Gregory W. Smith
Executive Director
Colorado Public Employees' Retirement Association

Attachments

cc: Colorado Congressional Delegation
Eve Lieberman, Chief of Staff
Blain Miller-McFeeley, Legislative Assistant