

ALERT! ALERT! ALERT!

General Support Services
Division of Finance and Procurement
Office of the State Controller
1525 Sherman St., Ste 250
Denver CO 80203
Phone: 303-866-3281
Fax: 303-866-4233

ALERT #140

TO: Department Controllers, Fiscal Officers and Other Interested Parties

FROM: Arthur L. Barnhart *Art*
State Controller

DATE: September 6, 2001

SUBJECT: **Fiscal Rule Hearing Scheduled**
Word Change to PERA Footnote

Fiscal Rule Hearing Scheduled

A Fiscal Rule Hearing has been scheduled for October 10, 2001 at 8:30 AM in the State Services Building, 1525 Sherman Street, 2nd Floor, Conference Room B. The most recent proposed changes can be viewed on the Internet at:

<http://www.sco.state.co.us/rules/proposed/proposed.html>

The website will be updated with any new proposed changes.

Please note the 8:30 AM start time, as a later start time had been proposed but was rejected due to schedule conflicts.

Word Change to PERA Footnote

Agencies and institutions issuing standalone financial statements should use the following suggested language for the PERA footnote. This text replaces 2001 Fiscal Procedures manual language pg. 101-102 and the previous Alert! item. (Text to be deleted is represented by strikethrough and text to be added is underlined):

NOTE X. PENSION PLANS

A. PLAN DESCRIPTION

Virtually all of the department/institution's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans are included



in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203.

Plan members vest after five years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. ~~If a member has five years of service credit and their age plus years of service equals eighty or more, they are also eligible for retirement benefits.~~ Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates and are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their spouse or their eligible children under the age of 18 (23 if a full time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

B. FUNDING POLICY

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their annual gross covered wages to an individual account in the plan. ~~During FY00-01, the state contributed 10.4 percent (13.1 percent for state troopers and 14.0 percent for the Judicial Branch) of the employee's gross covered wages which was allocated to three separate programs by PERA according to statutory formula as follows:~~

- ~~◆ 1.1 percent was allocated to the Health Care Trust Fund before January 1, 2001. After January 1, 2001, 1.42 percent was allocated to the Health Care Trust Fund.~~
- ~~◆ After January 1, 2001, the amount needed to meet the match requirement set by the PERA Board was allocated to individual member's eligible voluntary tax deferred retirement program. For the calendar year 2001, the matching amount was set at 100 percent of the first 3 percent of employee salary. Two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match.~~
- ~~◆ 9.3 percent was allocated to the defined benefit plan before January 1, 2001. After January 1, 2001, the balance remaining after allocations to the Matchmaker Program and the Health Care Trust Fund was allocated to the defined benefit plan.~~

During FY00-01, the state contributed 10.4 percent (13.1 percent for state troopers and 14.0 percent for the Judicial Branch) of the employee's gross covered wages which was allocated by PERA before January 1, 2001, as follows:

♦ 1.1 percent was allocated to the Health Care Trust Fund.

♦ 9.3 percent was allocated to the defined benefit plan.

After January 1, 2001, the state contribution was allocated to three separate programs by PERA according to a statutory change in funding policy:

♦ 1.42 percent was allocated to the Health Care Trust Fund.

♦ The amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (See Note XX below.)

♦ The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

The annual gross covered wages subject to PERA is the gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

The department/institution's contributions to the three programs described above for the fiscal years ending June 30, 2001, 2000, and 1999 were \$x,xxx, \$x,xxx, and \$x,xxx, respectively. These contributions met the contribution requirement for each year.

NOTE XX. VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning on January 1, 2001, the Matchmaker Program established a the state matched state match for PERA member's voluntary contributions to tax-deferred retirement plans. The match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month (7 percent for judges in the Judicial Branch). The PERA Board sets the level of the match annually – based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403b plan. Members who contribute to any of these plans also receive the state match.

NOTE XXX. POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the

Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During FY00-01, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230.00 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note X B.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 1999 there were 31,266 participants, including spouses and dependents, from all contributors to the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Rocky Mountain Life. Members may join one or both plans, and they may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

Other Programs

(Refer to GASB Statement No. 12 for disclosure requirements for other postretirement health care and life insurance benefit plans.)

A copy of the Fiscal Procedures Manual replacement pages may be found on the SCO website after September 7, 2001.