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By the Numbers: 3 Big Takeaways from PERA's Latest Annual Report

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Colorado's public pension management agency, PERA, just released its 2023 annual report.[i] As an organization that provides retirement benefits to more than 138,500 Coloradans and manages more than $61.5 billion dollars across its investment portfolios (an amount $20 billion larger than the entire state budget), its influence over public finance looms large.

Three takeaways from PERA's latest financials:

5 of 5 PERA Divisions met funding requirements.

- In order for the PERA fund divisions to stay on track to pay down the combined unfunded liability of $27.5 billion, new non-member contributions must meet what is called the actuarily determined contribution rate (ADC). **For the third straight year, all 5 PERA divisions (state, education, local government, judicial and DPS) met their ADCs.** This assured that each fund remains within its 30-year amortization window as established by major 2018 reforms.[ii] The cause of PERA's deteriorating financial position before those reforms was persistent failures to meet their ADCs as costs rose.

Keeping PERA on track to becoming fully funded has come at a very high cost.

- Total annual **contributions increased by 43% ($1.143 billion) while the number of active members has grown by just 0.93% (1,964)** since 2018. In 2023, contributions totaled $3.8 billion.
- The 2018 reforms to PERA that set the fund on a course to be fully funded within 30 years did so by increasing contributions from members, employers, and taxpayers and reducing benefits for retirees. It also established that up to three automatic adjustments could be triggered to further increase contributions and reduce benefits. **There have been two such adjustments since 2018, but the latest report indicates that the third will not be triggered this year.**
  - A large share of annual contributions is paying down the unfunded liability rather than just funding the current benefits that active members are accruing. In FY25, the total contribution as a share of payroll is projected to be 33% for the state division and 32.7% for the school division. Meanwhile, only 13% of contributions to the state division and 14.6% of contributions to the school division will fund benefits for active members. Therefore, 61 cents of every dollar contributed to the state division on behalf of current members is going towards paying down the unfunded liability on service already accrued. For the school division, it is 55 cents of every dollar. **In 2023, schools paid more than $1.16 billion just towards PERA's unfunded liability—an amount equal to more than $21,000 per teacher.** In 2021, it was $16,100.[iii]

- PERA retirees have also incurred higher costs over the past few years as **automatic cost of living adjustments (COLA) have dropped to 1% annually**. This decline coincided with higher levels of inflation than the state had experienced in decades. Inflation was 3.3% over the last 12 months and 7.5% over the last two years.

Despite no new automatic trigger this year, there is still an elevated risk that even higher contributions will be needed in the future amid rising costs.

- If all actuarial assumptions are met, the state and school divisions of PERA are still facing at least 23 years of elevated costs. If they are not met, greater sacrifices will be needed. The most critical of these actuarial assumptions is the 7.25% target rate of return. This is the rate of return required for PERA's investments to generate enough funding to pay for contributing members' benefits. PERA reports that it has a 53% chance of achieving the target rate, which would mean fully funding the school division in 27 years. It also reports a 25% chance of reaching only 6.18%, which would push the amortization window to 69 years and almost certainly instigate further reforms to increase contributions and reduce benefits. Although the 2023 annual report affirms that the expected real geometric mean returns will be sufficient, extreme recent volatility should give some cause to remain cautious. Though the average rate of return since 2007, a 14-year time period that spans two recessions, is 7.58%, the geometric mean rate of return is only 6.8%. This demonstrates the fund's vulnerability to a future economic downturn, which would bring PERA's future back into the legislative spotlight.

Bottom Line

PERA remains an integral financial institution influencing state and local budgets across Colorado. The most recent annual report is welcome news that some stability has been achieved, but it is critical to not lose sight of the impacts of elevated costs on taxpayers and reduced benefits on members. **Getting PERA's finances back on track will be a painful process now and for years to come.**

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[i] https://www.copera.org/files/68e5ab405/Annual+Comprehensive+Financial+Report+2023.pdf
[ii] https://leg.colorado.gov/bills/sb18-200
[iii] https://commonsenseinstituteco.org/dollars-and-data-2021/