As the financial crisis hits Colorado, PERA’s new oversight commission is sidelined

Top Colorado lawmakers said the move was intended to save $100,000 in the $30.3 billion state budget, but critics suggest it's a bad idea

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Brian Eason
Two years ago, when Colorado lawmakers agreed to rescue the state pension plan from the financial brink for the second time in a decade, they insisted on new safeguards.

Among them: A special oversight commission with a subcommittee comprised of lawmakers and outside financial experts to monitor the reforms, vet pension-related legislation, and — if necessary — advise the legislature against future financial missteps.

Today, the Public Employees’ Retirement Association, or PERA, faces its first serious test since the reforms took effect — a pandemic-driven economic crisis that some fear could look more like the Great Depression than the Great Recession. But the new pension oversight committees haven’t met since the pandemic hit — and they won’t until 2021 after state lawmakers put a moratorium on committee work to save money.

Some of the commission’s members say the hiatus is cause for concern. To wit: At precisely the time that lawmakers face major budget decisions about PERA’s finances, the entity created to help lawmakers avoid repeating past mistakes is prohibited from weighing in. Already, lawmakers have made one major decision without consulting the commission.

In interviews, top lawmakers insist that PERA’s financial well-being remains top of mind as the state navigates the current crisis. Leaders in both parties agreed to suspend this year’s interim committees, which included the pension review boards and seven others. But they note that standing committees exempted from the moratorium, such as the Joint Budget and Legislative Audit committees, have had briefings from PERA officials in recent months.

But the General Assembly’s response to the state budget crunch already is exacting a financial toll on the pension. In June, the Joint Budget Committee voted to eliminate a $225 million payment to the pension for this year, a key...
provision of the 2018 reform package. At the same time, the JBC rejected other options that would have hurt PERA’s finances even more.

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Notably, the payment is one of the main items the suspended pension committee was explicitly required by law to oversee. And more difficult policy changes under the panel’s purview could be on the horizon as the pandemic’s economic toll continues to mount.

“I think that’s exactly the time you would want (that input),” said Lang Sias, a former Republican state lawmaker who serves on the pension review subcommittee. “If the legislature chooses to discard it, OK fine. But why not gather that input?”

Why the committees were canceled

In an interview, House Speaker KC Becker, a Boulder Democrat, defended the legislature’s decision to suspend the interim committees, which came during an election year.

She said lawmakers and legislative staffers alike were exhausted from a session that was interrupted and then extended due to the pandemic. In
addition, key state officials were deemed too busy coordinating the response to the coronavirus to devote time to additional legislative hearings. And, she said, the $100,000 price tag to cover staff, travel and lawmaker per diems for the eight committees covered by the order was considered too expensive amid a $3 billion budget shortfall in the $30.3 billion budget.

House Speaker KC Becker visits with her family before the opening of the session as the second regular session of the 72nd Colorado General Assembly convenes at the Colorado Capitol on January 8, 2020 in Denver. (Kathryn Scott, Special to The Colorado Sun)

The measure to eliminate the meetings in the interim between legislative sessions passed without controversy — the vote was a combined 96–3 from the two chambers.

Still, Becker acknowledged there were good arguments for allowing the pension committee to continue meeting. She co-wrote the 2018 bill setting up the oversight committee in the first place.

“I think that’s fair,” she said of the criticisms about canceling the oversight committee hearings. “I think that’s one that was definitely like, ‘Should they keep meeting?’ PERA’s a little bit different, but once you start making
exceptions,” it could have opened up the floodgates to more. “We just drew a hard line.”

Sias counters that the meetings could have been held remotely at minimal cost to taxpayers. Six of the 10 members, including Sias, are not lawmakers and don’t get paid for the work. But even if the meetings cost the state, he said the price tag is sure to pale compared to the choice that lawmakers ultimately made when they approved the budget.

PERA’s funding assumes 7.25% annual returns on its investments, so eliminating the $225 million payment this year cost the system an estimated $990 million in lost returns over time due to compounding interest. That’s money that taxpayers and public employees will have to come up with in future years, and at a higher price, because money into the pension today is worth more than money tomorrow.

“If you look at the rest of the budget and other things that you might be forced to cut, how many of them have that kind of a significant, compounding, quantifiable impact?” Sias said.

State Rep. Shannon Bird, the Democratic vice chairwoman of the pension subcommittee, said it was unfortunate that the committee was suspended. But, she added, it felt like a “reasonable trade-off” to make given the dire budget situation. Also, she insisted that persuading her colleagues in the legislature to restore the money cut from PERA will be a top priority for her as soon as funding is available.
In the meantime, PERA’s independent board of directors is gearing up for what could be some of its most consequential meetings in years. The system ended 2019 with a $29.8 billion unfunded debt to retirees and remained poised for full-funding within the recommended 30-year window. But that doesn’t account for what’s happened in 2020.

Amid the economic downturn, the pension system will conduct what’s known as an experience study — a once-every-few-years review of all of its financial assumptions. The exercise involves estimating future market returns, the lifespan of its retirees and estimates of public sector employment. In effect, the study tells PERA how much money it needs from employees and the government to afford its retirement benefits. All three of those estimates could hold huge financial implications for government budgets across Colorado, including the state, school districts and a number of local agencies.

The last PERA experience study culminated in the 2018 pension reform measure, which increased contributions, cut benefits and established the $225 million annual payment. It also created the oversight committee tasked with keeping the system on track.

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But while the experience study attempts to predict what’s going to happen, state lawmakers will dictate some of what actually occurs. Not only does the legislature control contribution rates and pension benefits, it also controls the state’s personnel budget, which PERA’s funding is tied to. Even something seemingly unrelated to the pension, such as furloughing workers or instituting pay cuts, could mean less money to pay down PERA’s unfunded debt.
PERA’s last two financial crises didn’t develop overnight. It took a series of political missteps and market struggles that gradually added billions to unfunded debt before policymakers recognized it as a full-blown crisis.

“It’s something that bears repeating amongst legislators — it’s easy to not remember that (PERA’s) a liability that has to be addressed first,” said Bird, who represents Westminster.

“We have no money for anything if we can’t figure out PERA,” she added.

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