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This time, no half-measures on PERA reforms

By **VINCENT CARROLL** | The Denver Post
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Since the executive director of the Colorado public pension system seems confused about the meaning of “in perpetuity,” let’s give him an assist. Here are a few synonyms: forever, infinitely, permanently, for all time, forevermore, until hell freezes over, for eternity.

Greg Smith, by contrast, prefers a more forgiving definition when discussing the financial status of the Colorado Public Employees’ Retirement Association (PERA). In a telephone “town hall” with PERA members a few weeks ago, the executive director proclaimed, “We’re in a position to pay benefits in perpetuity,” and “we can pay benefits in perpetuity,” and “we’re able to pay benefits in perpetuity under our existing assumptions.”

This occurred shortly before Smith and other PERA officials began a “listening tour” of Colorado towns and cities that will continue this summer as they prepare to go to the legislature with recommendations to shore up the pension fund.

Well might you wonder: Why would a trust fund that can pay expected benefits to state employees and teachers, among other groups, until hell freezes over need a financial infusion? Why would lawmakers take such a request seriously?

But of course Smith was trying to have it both ways, with the result that his message was a head-snapping muddle.

We can pay benefits for eternity, Smith assured his audience, but apparently only if eternity is blissfully free of any major financial downturn. Should such an event occur while PERA is “at the 60 percent that we are funded today,” Smith acknowledged to a questioner, “… we will be in the position of potentially exhausting the trust fund” at some point.

It would be interesting to see how PERA would pay expected benefits for all time with an exhausted trust fund. But Smith knows better. If the economy suffered another 2008-like experience, “It would affect benefits across the board,” he said. “It would impact contributions across the board.”

In fact, PERA would be talking about “the types of cuts that occurred in 2010 and even beyond that.”

In other words, PERA urgently needs remedial action. It is not in the admirable shape that officials have argued in recent years whenever critics raised legitimate concerns.

To be sure, Smith has the delicate task of trying to ensure "everyone is working from the same facts" without alarming them, let alone acknowledging the head-in-the-sand attitude adopted by PERA's management after 2010. For six years PERA officials insisted that the reforms adopted in the wake of the Great Recession had put the system on a timely path to solvency. And so Smith now blames the current quest for a new set of reforms on two relatively recent events.

First, PERA's board last year lowered the expected rate of return by a quarter-point, to 7.25 percent, on the reasonable belief that future market gains are likely to average less than in the past. Second, the board adopted new mortality tables to reflect the apparently startling insight, in Smith's view, that "we're finding that people are living longer." Moreover, "people in white collar jobs have traditionally and historically lived longer and that's continuing to develop."

Indeed it is. For that matter, Smith is correct that these two changes resulted in a notable adjustment in the fund's financial status. But it is also the case that PERA's full funding was supposed to be achieved 30 years after the 2010 reforms — in other words, around 2040 — and that date had been pushed back repeatedly long before the recent adjustments while the unfunded liability increased. Now full funding for the state division is estimated at 55 years, and for the schools division that date is even more remote — time frames so lengthy they border on the meaningless.

Smith may be right that PERA "is not in crisis." Its "Stop Light Technology" puts most of its divisions in orange, one step above the red that signals all-out emergency. But the fact that PERA is, in Smith's own words, "too close to the edge to withstand" another market meltdown is precisely because of management's dogged resistance to some of the very reforms it is finally about to consider.

Among potential steps acknowledged by Smith during PERA's town hall: raising the retirement age, hiking the employee contribution, adjusting cost-of-living increases, and moving to the highest five-years of salary for retirement benefits.

"We believe by addressing the promises being made to future generations, as well as other components of benefits that are payable today … we can reduce that risk profile," he said.

PERA's board and then the legislature will ultimately decide the nature of any reform package. And Gov. John Hickenlooper will obviously have a role as well. If he wants to add an unglamorous but vital achievement to his legacy, the governor should insist that any reforms — in contrast to 2010 — put PERA on a course toward genuine solvency that actually does ensure that anticipated benefits are paid out in perpetuity.

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