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PERA pension board must bite the bullet on needed reform

By **VINCENT CARROLL** | The Denver Post
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Prodded by multiple warnings, the Colorado public pension board roused itself last month to make a long-overdue move. It lowered the expected rate of return on its investments.

Unfortunately, that's only a small part of what should be done. Long-term solvency for the Colorado Public Employees' Retirement Association (PERA) remains touch and go even with favorable projections, something you'd never suspect from the glowing self-praise in its annual reports.

Even the board's latest action was only grudgingly conceded. Its members had taken testimony in October from the vice chairman of Blackstone, an investment giant, that PERA's 7.5 percent expected return was far too optimistic. A senior official with Goldman Sachs echoed the concern. And the board knew full well that these analysts were hardly outliers, that assessments from sources as far-flung as the International Monetary Fund, Congressional Budget Office and McKinsey & Co. have predicted future market gains to average less than in the past.

The board also knew that although PERA's past 35 years of performance would have satisfied the 7.5 percent threshold, investment results in this century were less encouraging.

So what did the board do? It lowered the expected rate of return by a mere quarter-point, to 7.25 percent — after rejecting two motions to lower it further. This complacency mirrored that of PERA's official investment consultants, who predictably recommended the board stick with 7.5 percent. Telling people what they want to hear can be extremely lucrative.

Why is this so important? Because even after years of post-recession market gains, PERA at its last annual report was only 62 percent funded and thus a huge potential public liability. And while PERA's situation isn't as awful as what you'll find in states like Illinois, where the predicament is hopeless and crisis inevitable, it's still bad. And it's especially worrisome because estimates for when PERA will achieve full funding keep getting pushed back.

At the time the legislature approved a much-ballyhooed PERA reform bill in 2010, we were told the retirement system would be fully funded in 30 years, meaning by 2041. But that has been abandoned. Now full funding for PERA's two big divisions is anticipated in the late 2050s, if all goes well. Not only do forecasts so far in the future have an unreal quality about them, they offload the risk of a crisis and bailout onto future generations.

As Susan Murphy, one of three PERA board members appointed by the governor, explained earlier this year, "The problem with a 30- or 40-year amortization is that the cost of prior people's service and their retirement is being passed onto the young people and to taxpayers. It's a shifting of responsibility."

How about a 50-year amortization? That's where PERA seems to be heading.

The 2010 reform was essential, but didn't do enough. Indeed, PERA's unfunded liability is greater today than it was in 2010, according to graph from its website. And lowering the assumed rate of return, although a step toward clarifying PERA's financial shape, does nothing to bolster its viability.

What's needed is another reform bill that builds on 2010. At the very least the measure should:

- Change the composition of the 16-member PERA board, which is heavily dominated by PERA members and retirees whose instincts are to a push any financial reckoning into the future. The governor makes only three independent appointments, yet they usually are the most clear-eyed regarding PERA's finances. Two of those appointees — Murphy and Lynn Turner — were responsible for the motions to reduce the assumed rate of return to a more realistic 6.5 or 7 percent. There are plenty of other states whose pension boards are not so stacked with insiders.
- Raise the retirement age for members with 30 years service from as early as 58 to 65 in order to reflect current longevity and the career cycle of the average American.
- And perhaps most important, mandate higher contributions until PERA is fully funded. There are only two possible sources: government employers and employees — although the employers' share already is approaching the breaking point. Currently, for example, school districts must contribute a punishing 19.15 percent of PERA members' pay, while members contribute 8 percent. One way or the other, the total between those two funding sources must rise.

PERA no doubt is having a good investment year, as we all are with the post-election market bounce, and officials are likely to cite it as vindication of the status quo. But one good year will not negate the underlying reality — such as an aging population and paltry productivity growth — that has experts urging caution. The sooner PERA bites the bullet, the more likely it is that relatively modest reforms can still save the day.

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