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PERA finances hit “critical juncture” as unfunded liabilities top $32 billion

The latest financial outlook will do nothing to preempt what is sure to be contentious, partisan fight over the state retirement system’s future in the 2018 legislative session.

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Colorado’s three largest public pension funds now have about a 40 percent chance of running out of money in the coming decades, putting the Public Employees’ Retirement Association on its most precarious financial footing since the Great Recession.

According to financial projections released last week, Colorado’s public retirement funds are now only 58.1 percent funded, down from 62.1 percent last year and 64.7 percent in 2010 — the year the legislature enacted sweeping reforms to shore up the pension fund.

Because taxpayers and public employees are contributing more money into the fund, the state retirement system is actually on more solid financial ground than it was in 2010. But seven years later, it’s increasingly clear that those reforms — which trimmed benefits and boosted contributions from employees and taxpayers alike — have fallen well short of what was needed.

Friday’s financial report is the first since PERA adopted new formulas to reflect slower stock market growth and longer life expectancies.

The report contained a measure of good news — PERA hit its investment targets in 2016 for the first time in years — but the latest financial outlook does nothing to preempt what is sure to be contentious, partisan fight over the state retirement system's future in the 2018 legislative session.

The mood at Friday's board of directors meeting was one of foreboding — and tensions occasionally flared.

Board member Lynn Turner, a former chief accountant for the U.S. Securities and Exchange Commission, likened the status quo to "a Ponzi scheme" — an analogy that drew a swift rebuke from PERA staff.

"It's unequivocal now: We are taking money from the new employees and using it to pay off this liability for the old employees," said Turner, a Gov. John Hickenlooper appointee. "And some might call that a Ponzi scheme."

Meanwhile, another Hickenlooper appointee chastised PERA for not being forthright with the public about how dire the situation has become.

"I think many of us have been concerned that we have been painting a picture that is less critical than the situation is, in our messaging to taxpayers and to our beneficiaries," board member Susan Murphy said at the meeting. "We are at a critical juncture, and our messaging has to reflect that."

Today, the state's unfunded liability has grown to $32.2 billion — an amount so large it would take 78 years to pay it all off at the current pace.

And that's if you use PERA's assumed investment return of 7.25 percent a year. Under a more conservative accounting method required by the Governmental Accounting Standards Board, Colorado's pension fund would owe $50.8 billion in unfunded benefits to current and future retirees, leaving it it only 46 percent funded.

"The fact of the matter is, the time for action was yesterday," said state Treasurer Walker Stapleton, a potential Republican candidate for governor who for years has said PERA's accounting methods obscure a harsher financial reality. "We need to proactively work together to fix this problem, because the future of our school districts and cities depend on it."

Smith wasn't available Tuesday for an interview. But in a statement issued Friday, he said that even using PERA's projections, instead of the stricter GASB standard, the risk "is too high."

Financial analysts with Cavanaugh Macdonald put the chances of future insolvency due to lackluster investment returns as high as 44 percent for the school pension fund. The state and local government divisions came in at 38 percent and 35 percent, respectively.

To put it another way, if PERA simply repeated the 5.2 percent it earned on its investments over the last decade, all but one division would be on a path toward insolvency. If its investments grew by 9.8 percent as they did over the past 35 years, however, the system would return to full funding within 30 years.

For now, the ball remains in PERA's court. The group's staff this summer went on a listening tour across the state, and the board is expected to make a formal recommendation to lawmakers later this year on how to shore up the pension fund. If the 2010 reforms are any model, it could call for some sort of shared sacrifice among employees, retirees and taxpayers.

With a GOP-led Senate in an election year, Stapleton said PERA officials shouldn't expect taxpayers to contribute any more than they already have — particularly after the changes adopted in 2010 fell short of a long-term fix.

TAGS: **JOHN HICKENLOOPER**, **PERA**, **RETIREMENT**

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Statehouse reporter Brian Eason joined The Post from the Indianapolis Star, where he covered city hall for the news outlet's watchdog team beginning in 2014. Before that, he was an investigative reporter at The Clarion-Ledger in Jackson, Miss., and covered local government at The Leaf-Chronicle in Clarksville, Tenn. He graduated in 2009 from the University of Missouri with degrees in journalism and political science.

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