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Auditors say Colorado pension plan recovering

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DENVER — Colorado's pension fund is back on track toward solvency after state lawmakers became the first in the nation to cut retiree benefits to prevent its pension system from going broke, auditors said Monday. <

The next few years may be bumpy, however, because of losses from 2008 that are still being absorbed by the pension fund.

Thomas Cavanaugh, an actuary for Cavanaugh Macdonald Consulting, told lawmakers that they would have to spend 40 percent of state payroll on retiree benefits if the pension system runs out of money.

"Your assets over 30 years would get to the point where it's fully funded. If there were no money at all, you'd be looking at 40 percent of payroll," Cavanaugh told lawmakers on the Legislative Audit Committee.

"We're well on the way to protecting our retirees," said Rep. Joe Miklosi, D-Denver.

Auditors from KPMG said Monday the plan had net income of $5.2 billion last year after losing $11 billion a year earlier. Net assets rose from $29.5 billion in 2008 to $33 billion in 2009.

Even with the fund's 17 percent investment return for 2009, the actuarial loss was $2.9 billion because of losses from the prior two years, but Cavanaugh said the changes in benefits saved the state $8.8 billion.

The pension system covers 450,000 state workers, teachers and local government employees, as well as lawmakers.

State budget officials had warned that without changes, the Public Employees Retirement Association plan would go broke in 20 years.

Under a new law that took effect March 1, retirees who normally get a 3.5 percent cost-of-living increase get no such increase this year. That saved PERA $80 million.

Next year, retirees will get the lesser of inflation or 2 percent. After that, annual increases could be no greater than 2 percent.

The retirement age for new employees rose from 55 to 60, and contributions would increase for both employees and their government employers.

According to Cavanaugh, the state employee plan is now 67 percent funded, the school division 69 percent, local government 76 percent and the judicial department 77 percent. He said without the changes, the market value would be 9 percent lower, putting the funds in jeopardy.

Lawmakers questioned a decision to merge with the Denver Public Schools Retirement System, which ran into financial difficulty because of risky investments, but PERA officials assured lawmakers the state is not liable.

"They never mingle and one cannot subsidize the other. In the worst case that it ran out of money, it becomes pay as you go. It never becomes the liability of the state of Colorado," said PERA general counsel Greg Smith.

The merger became an issue during the U.S. Senate campaign of Sen. Michael Bennet after critics said the school system got stuck paying millions of dollars in interest and fees because of a pension financing deal Bennet recommended while he served as superintendent.

The deal may have cost Denver an extra $25 million because of the recession.

The Denver school board unanimously backed the deal in 2008 in hopes of saving tens of millions of dollars in annual debt costs. But, much like an adjustable rate mortgage, the deal's interest rate was subject to change depending on economic conditions.

The Associated Press