

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) FY 2010-11 JOINT BUDGET COMMITTEE HEARING AGENDA

**December 17, 2009
3:30 pm - 5:00 pm**

3:30 – 3:35 INTRODUCTIONS AND OPENING COMMENTS

3:35 – 3:55 GENERAL QUESTIONS

1. Can we give PERA greater flexibility to change its investment formulas so that it's better able to adjust to the market?
 - a. What does PERA see as the benefits and the drawbacks to this strategy?
 - b. Has the General Assembly tied PERAs hands by making the investing formulas too inflexible?
 - c. If this flexibility is provided will PERA be able to invest its way out of the problem?
 - d. Could PERA benefit by being able invest more in real estate?
 - e. How does PERA compare to other pension funds across the country, both private and public?
 - f. Are there any examples of any pension funds that did well recently? What did they do to have success? Why didn't PERA do this?

PERA Response:

1. The General Assembly can adjust the allowable investment asset categories as set within statute, CRS 24-51-206.
 - a. Colorado PERA does not see a need to adjust the allowable investment asset categories. The PERA Board has sufficient flexibility to set strategic asset allocation policy in the context of long term expected return and risk assumptions and the plan's liabilities.
 - b. Colorado PERA has sufficient flexibility to construct a diversified portfolio.
 - c. Additional investment category flexibility would not measurably add to future return expectations. According to the actuarial projections of the fund as of the end of 2008, the State and School Divisions would run out of funds within the 30-year actuarial projection period even with an assumed 10 percent annual return going forward. According to PERA's actuaries, to return the PERA Trust Funds to the same actuarial funded status that existed at the end of 2007 would require an investment return

of nearly 60 percent in 2009. The PERA Board does not believe it is reasonable nor fiduciarily prudent to count on future extraordinary positive investment results to return the fund to sustainability.

- d. PERA's current policy target for real estate is 7 percent of total plan assets. This allocation reflects the risk and return characteristics of the asset class. The PERA Board, in conjunction with investment consultants, periodically reviews policy targets and has flexibility to change targets.
 - e. Pension funds, whether public or private, each have unique characteristics including their liability attributes, asset allocation policy and risk tolerance. Due to important differences between plans, comparing PERA's results to other public plans has limited value. As of December 31, 2008, the latest audited returns available, PERA's total fund returns for the three and five year periods ranked in the top quartile (25 percent) of a public fund universe.
 - f. In general, funds with higher allocations to fixed income had stronger comparative performance in 2008. PERA's allocation to fixed income is 25 percent of total plan assets. Expected risk and return are considered in setting asset allocation policy for a long term time horizon. PERA does not change asset allocation policy to embrace a short-term time horizon. Such an approach is similar to market timing and is a high risk strategy. Maintaining a well diversified portfolio is in keeping with the proper discharge of the Board's fiduciary duty.
2. How many tiers of retirees are there? Are any categories of retirees treated differently, and if so, how many categories of these retirees exist?
- a. What causes these tiers?
 - b. Were they driven by a legislative change, a regulatory change, the age of retirement, or does something else cause these differences?

PERA Response:

There are currently three tiers of members and retirees created by legislative action. Individuals within these tiers are not treated differently than other members in the same tier. Tier 1 contains individuals hired before July 1, 2005. Tier 2 contains individuals hired between July 1, 2005, and December 31, 2006. Tier 3 contains individuals hired on or after January 1, 2007. The impetus for the creation of the tiers was to reduce benefits for future new hires.

3. Please describe the difference between partially vested and fully vested.

PERA Response:

Partially vested is the term used in Colorado case law and the Attorney General Formal Opinion #04-4 to describe a PERA participant who is not eligible to retire. Fully vested is used to describe a PERA participant who is currently receiving a benefit or is eligible to draw a benefit.

4. What is PERA's position on the Governor's request to change the ratio of employee verse employer contributions?

PERA Response:

PERA's understanding of the Governor's proposal in relation to employee and employer contributions rates is that the employee contribution would be raised 2.5 percent and the employer's contribution rate would be lowered 2.5 percent for one year in the State and Judicial Divisions only. This proposal will have a negative impact on the funding of these divisions by increasing actuarial liabilities by \$10.4 million in the State Division and \$0.1 million in the Judicial Division. Actuarial liabilities are increased because an employee contribution carries an additional associated liability due to a member being able to leave PERA covered employment and receive a refund of all member contributions plus interest and match on that amount.

The PERA Board has not taken a position on this proposal. A similar budget balancing procedure was passed by the New Mexico legislature earlier this year and a lawsuit is currently pending to challenge the matter.

5. What is the status of incorporating the Denver schools into PERA? How will Denver schools interrelate to the PERA?

PERA Response:

The Denver Public Schools Retirement System will be incorporated into PERA on January 1, 2010, under Senate Bill 09-282. The consolidation process is proceeding smoothly and PERA anticipates no issues of note to transpire during the final integration process. School District No. 1 (Denver Public Schools or DPS) will then become like any other PERA employer except it will have its own separate trust fund under PERA and its own contribution rate structure as determined by statute.

6. Please provide an historical number, by year, of the number of employees who buy service credits and how many were bought on average.
- Has this changed over the years? **Yes**
 - How has it changed?
 - When did it change?
 - Why did it change?

PERA Response:

A 5-year limit on the purchase of non-governmental employment was imposed by Federal law in 1997. A 10-year limit on the total amount of service credit that can be purchased (government and non-government) was imposed by State Law in 2003. The price to purchase service credit was statutorily set at the “full actuarial cost” in 2006.

- Who makes the decision to change how these credits can be purchased?
Colorado Legislature subject to the limitation of Federal law.

| Purchase Service Agreements - 2000 thru YTD 2009 | | | | |
|---|-----------------------------|------------------------------|--------------|-----------------------------|
| Year | Purchased Service \$ | Total Years Purchased | Count | Avg. Years Purchased |
| 2000 | \$101,433,000 | 3,438.964 | 865 | 3.976 |
| 2001 | \$127,383,000 | 4,955.483 | 1200 | 4.130 |
| 2002 | \$362,109,000 | 20,301.476 | 4323 | 4.696 |
| 2003 | \$771,960,000 | 66,723.123 | 12490 | 5.342 |
| 2004 | \$212,802,000 | 27,128.499 | 6392 | 4.244 |
| 2005 | \$307,982,000 | 27,228.631 | 6108 | 4.458 |
| 2006 | \$106,561,000 | 13,273.767 | 3663 | 3.624 |
| 2007 | \$25,117,000 | 1,175.201 | 538 | 2.184 |
| 2008 | \$32,547,000 | 1,479.366 | 638 | 2.319 |
| 2009* | \$21,142,000 | 1,019.079 | 556 | 1.833 |

*Through Oct. 2009.

7. When was the last performance audit done for PERA? Who performed it? Please provide a copy of the audit.

PERA Response:

The last performance audit was performed by Clifton Gunderson at the direction of the State Auditor’s Office and the Legislative Audit Committee in August of 2005. A copy of the audit is provided as Attachment A.

3:55 – 4:20 COST OF LIVING ADJUSTMENT (COLA)

8. Do we have a statutory or regulatory definition of the cost of living adjustment (COLA)? If so, what is that definition?

PERA Response:

The Cost of Living Adjustment is set in statute C.R.S., 24-51-1001-1009, and minimally supplemental in Rule by the Colorado PERA Board of Trustees: The full text of the applicable Statutes and Rules follow:

Part 10: Increases in Benefits

24-51-1001. Types of benefit increases.

(1) For benefit recipients whose benefits are based on the account of a member who was a member, inactive member, or retiree on December 31, 2006, annual increases in retirement benefits and survivor benefits shall occur on March 1 if said benefits have been paid for at least three months preceding March 1. Such increases in benefits shall be calculated in accordance with the provisions of sections 24-51-1002 and 24-51-1003 and shall be paid from the division trust funds.

(1.5) and (2) (Deleted by amendment, L. 93, p. 478, § 6, effective March 1, 1994.)

(3) For benefit recipients whose benefits are based on the account of a member who was not a member, inactive member, or retiree on December 31, 2006, annual increases in retirement benefits and survivor benefits, if any, shall be effective with the July benefit in accordance with the provisions of section 24-51-1009 and shall be paid from the retirement benefits reserve or the survivor benefits reserve, as appropriate, so long as the following requirements are satisfied:

(a) The benefits have been paid to the benefit recipient for the full preceding calendar year; and

(b) The retiree retired with a service retirement benefit pursuant to section 24-51-602, or retired with a reduced service retirement benefit pursuant to section 24-51-604 but has, as of January 1, attained the age and service credit years that when combined total at least eighty-five years, or retired with a reduced service retirement benefit pursuant to section 24-51-604 but has, as of January 1, attained the age of sixty. No minimum age or service credit requirement shall apply to disability retirees or survivor benefit recipients. (4) Benefits that are calculated

pursuant to part 17 of this article shall be governed by the benefit increase provisions of such part 17.

Editor's note: Subsection (4) is effective January 1, 2010.

24-51-1002. Annual percentages to be used.

(1) For benefit recipients whose benefits are based on the account of a member who was a member, inactive member, or retiree on December 31, 2006, the cumulative increase applied to benefits paid shall be recalculated annually as of March 1 and shall be the total percent derived by multiplying three and one-half percent, compounded annually, times the number of years such benefit has been effective after March 1, 2000. Benefits for vested inactive members with at least twenty-five years of service credit and benefits for survivors of deceased vested inactive members who had at least twenty-five years of service credit shall be increased by the annual increase specified in sections 24-51-1001 to 24-51-1003 under prior law from the date of termination of membership or July 1, 1993, whichever is later, to March 1, 2000, or the date benefits commence, whichever is earlier.

(a) (Deleted by amendment, L. 2000, p. 782, § 7, effective March 1, 2001.)

(a.5) Repealed.

(b) (Deleted by amendment, L. 2000, p. 782, § 7, effective March 1, 2001.)

(2) (Deleted by amendment, L. 93, p. 478, § 7, effective March 1, 1994.)

(3) (a) Notwithstanding subsection (1) of this section, the increase applied to benefits of persons whose benefits are based on the account of a member who was not a member, inactive member, or retiree on June 30, 2005, but was a member, inactive member, or retiree on December 31, 2006, shall be the lesser of three percent or the actual increase, as calculated by the United States department of labor, in the national consumer price index for urban wage earners and clerical workers during the calendar year preceding the increase in the benefit. The increase applied to such benefits shall be recalculated annually as of March 1, and shall be the compounded annual percentage of the annual increases applied to such benefits. If the benefit has not been paid during all twelve months of the calendar year preceding March 1, then the annual increase shall be prorated.

(b) Benefits for vested inactive members who were not members, inactive members, or retirees on June 30, 2005, but were members, inactive members, or retirees on December 31, 2006, with at least twenty-five years of service credit, as

well as benefits for survivors of such deceased vested inactive members who had at least twenty-five years of service credit shall be increased by the annual increase specified in sections 24-51-1001 and 24-51-1003 and paragraph (a) of this subsection (3), from the date of termination of membership to the date benefits commence.

(c) Subsection (1) of this section shall apply to persons who:

(I) Were hired on or before June 30, 2005, by an employer participating in a school district retirement system created pursuant to part 2 of article 64 of title 22, C.R.S.;

Editor's note: This version of subparagraph (I) is effective until January 1, 2010.

(I) Were hired on or before June 30, 2005, by an employer participating in a school district retirement system created pursuant to part 2 of article 64 of title 22, C.R.S., prior to its repeal in 2010;

Editor's note: This version of subparagraph (I) is effective January 1, 2010.

(II) On the day before the effective date of the merger, were members of the school district retirement system created pursuant to part 2 of article 64 of title 22, C.R.S.; and

Editor's note: This version of subparagraph (II) is effective until January 1, 2010.

(II) On the day before the effective date of the merger, were members of the school district retirement system created pursuant to part 2 of article 64 of title 22, C.R.S., prior to its repeal in 2010; and

Editor's note: This version of subparagraph (II) is effective January 1, 2010.

(III) Become members of the association because of the merger described in sections 22-64-220 (4) (a) and 22-64-221, C.R.S.

Editor's note: This version of subparagraph (III) is effective until January 1, 2010.

(III) Repealed.

Editor's note: This version of subparagraph (III) is effective January 1, 2010.

(4) Notwithstanding the provisions of subsections (1) and (3) of this section, the increase, if any, applied to the benefits of persons whose benefits are based on

the account of a member who was not a member, inactive member, or retiree on December 31, 2006, will be calculated and paid in accordance with section 24-51-1009.

24-51-1003. Annual increases in the base benefit.

The percentage recalculated pursuant to the provisions of section 24-51-1002 shall be multiplied by the base benefit to determine the increased benefit. In no case shall the benefit paid be less than the base benefit.

**24-51-1004. Annual increases for benefits effective prior to May 1, 1969.
(Repealed)**

24-51-1005. (Repealed)

24-51-1006. (Repealed)

24-51-1007. (Repealed)

24-51-1008. (Repealed)

24-51-1009. Annual increase reserve - creation.

(1) Each year prior to the effective date of an annual increase, the board shall determine the amount of the annual increase to be paid, if any. In no event shall the board award an annual increase to any division that exceeds the amount provided for in this section.

(2) The maximum annual increase that may be awarded by the board pursuant to section 24-51-1001 (3) shall be determined based on annual actuarial valuations of the annual increase reserve of each division. Each year after the board determines the annual increase amount, and prior to its effective date, a sum equal to the net present value of the total actuarial cost of paying the annual increase to all eligible recipients shall be reallocated from the annual increase reserves of each division to the retirement benefits reserve or the survivor benefits reserve, as appropriate. All annual increase payments shall be made from the reserves used for monthly benefit payments, and no annual increase payments shall be made from the annual increase reserve.

(3) The annual increase reserve of each division shall contain the allocations specified in this subsection (3). Such amounts shall be retained in the annual increase reserve of each division until removed from that reserve pursuant to this section. The allocations shall be as follows:

(a) A portion of the employer contribution specified in section 24-51-401

(1.7) (a) equal to one percent of the salaries of members who were not members, inactive members, or retirees on December 31, 2006;

(b) A sum received in connection with purchased service credit pursuant to section 24-51-503 (3), specified as annual increase allocation; and

(c) A proportional share of the investment income earned on the amounts specified in paragraphs (a) and (b) of this subsection (3).

(4) An actuarial valuation shall be conducted each year for the annual increase reserve of each division for the purposes of this section. The actuarial valuation shall include a determination of the total market value of the assets in the reserve and a calculation of the net present value of the actuarial liabilities associated with providing each of the annual increases described in paragraphs (a), (b), and (c) of this subsection (4). The maximum annual increase awarded by the board shall be the lesser of the following calculations:

(a) A permanent increase equal to three percent of current benefits payable to benefit recipients then eligible for an annual increase in accordance with section 24-51-1001 (3);

(b) A permanent increase of current benefits payable to benefit recipients then eligible for an annual increase in accordance with section 24-51-1001 (3) that is equal to the actual increase, as calculated by the United States department of labor, in the national consumer price index for urban wage earners and clerical workers for the year associated with the actuarial valuation of the annual increase reserve; or

(c) A permanent increase of current benefits payable to benefit recipients then eligible for an annual increase in accordance with section 24-51-1001 (3) that will exhaust ten percent of the year-end balance at market value of the annual increase reserve.

(5) No calculation made pursuant to this section shall cause a reduction in current benefits of eligible benefit recipients.

Rule 10 further defines eligibility for and determination of annual increases in benefits.

10.10 Retroactive Effective Date of Retirement or Survivor Benefit

A. For a retiree who was a member, inactive member, or retiree on December 31, 2006, if the effective date of the benefit is retroactive, then increases in the benefit shall be determined by considering the benefit to have been paid from the effective date.

B. For a survivor benefit recipient, if the effective date of the benefit is retroactive, then increases in the benefit shall be determined by considering the benefit to have been paid from the effective date.

10.20 Increase in Benefits for Cobeneficiaries

For cobeneficiaries whose benefits are based on the account of a retiree who was not a member, inactive member, or retiree on December 31, 2006, the annual increase shall be effective only if the retirement benefits have been paid on the account for the full preceding calendar year and the retiree had met the requirements in 24-51-1001(3)(b), C.R.S. If upon the death of the retiree, the retiree had not met the requirements in 24-51-1001(3)(b), C.R.S. the cobeneficiary will be eligible to receive an annual increase when the retiree would have met the requirements in 24-51-1001(3)(b), C.R.S.

9. How does this decision get made for the COLA? Did PERA request the change to the PERA COLA in the late 90s? Did they oppose it?

PERA Response:

Cost of Living Adjustments for beneficiaries of the PERA Trust Fund are governed by statute. House Bill 2000-1458 changed the COLA from an indexed COLA based upon the lower of the national Consumer Price Index-W or 3.5 percent to fixed 3.5 percent. PERA did not initiate this change, but ultimately the change was incorporated as a part of a more comprehensive bill which had significant additional modifications to the PERA benefit structure and the bill was supported by the PERA Board.

10. Why can the State increase the COLA, but not decrease it?
 - a. When was the last time the state increased the COLA, and why was it increased at that time?

PERA Response:

The General Assembly cannot decrease the COLA (absent actuarial necessity) because it is part of the contractual obligations that accrue under a pension plan protected under the Colorado Constitution Article II, Section 11 and the United States Constitution Article 1, Section 10 for vested contractual rights. The General Assembly can raise the COLA because it would be considered a benefit enhancement, which is not subject to restrictions.

- A. The last time the General Assembly effectively raised the COLA was in 2000 under House Bill – 1458 because the indexed COLA to the lower of the CPI-W or 3.5 percent was fixed at 3.5 percent. The nature of the indexed COLA was set in House Bill 1993 - 1324.

11. Is the document that employees receive while they are working (which describes their contributions and benefits) legally binding?

PERA Response:

The provisions of any employer provided documents must be consistent with the statutory provisions governing PERA to be binding. Terms of the plan are legally binding and protected from reduction by the Constitution.

12. Will the cost of living adjustment (COLA) change based on inflation or will it be based on the actuarial soundness of the fund?

PERA Response:

Currently, there are three COLA structures in place for the three tiers of members and beneficiaries. For members and beneficiaries hired prior to July 1, 2005 the COLA is statutorily set at 3.5 percent compounded annually. For members and beneficiaries hired between July 1, 2005, and December 31, 2006, the COLA is statutorily set at the lower of CPI-W or 3.0 percent compounded annually. For members or beneficiaries hired on or after January 1, 2007, the COLA is the lower of the following three calculations:

- 3.0 percent compounded annually;
- national CPI-W; or
- the amount of funds necessary to actuarially exhaust 10 percent of the assets from the Annual Increase Reserve funds of a division.

The Board's proposal would limit all tiers to the lower of 2 percent or CPI-W and post January 1, 2007, tier will be further limited by funds available in the Annual Increase Reserve. Ultimately, the COLA cap will rise when the funded status of the Plan reaches 110 percent and will subsequently fall if the funded status of the Plan reaches 90 percent.

13. If we move to the current estimate of fund, rather than using December 2008 (which was the lowest point), would it change what PERA needs?

PERA Response:

No, the PERA Board's Comprehensive Recommendations for the 2010 legislative session took into account a range of possible investment returns in 2009 that exceeded the fund's assumed investment rate of return in keeping with its stated goal of amortizing all unfunded accrued liabilities over 30 years.

14. Does PERA have a legal opinion as to whether their proposal meets the requirements as stated in the 2004 Attorney General's opinion (page 3)?

PERA Response:

PERA has a legal opinion that indicates their proposal is constitutional and thus consistent with our understanding of the 2004 Attorney General's Formal Opinion.

4:20 – 4:50 PERA'S 2010 LEGISLATIVE PACKAGE

15. Is there something in the proposal that would allow for changes to the nature of the automatic AED/SAED increases if conditions changed? If so, what is the trigger and how does it impact the AED/SAED?

PERA Response:

Yes, if the actuarial funded status of a division of PERA reaches one hundred and ten percent then the AED and SAED contribution rates would decrease by one half of one percent each. This is a portion of the Board's "corridor concept" as more fully described in the comprehensive proposal.

16. If a retired employee comes back into the employ of the state, can he or she receive both a retirement benefit and a salary under this proposal? If so, under what conditions? How will this differ from the current system?

PERA Response:

The current provisions of statute impose a 5 percent reduction in a retirees monthly benefit for each day the retiree works for a PERA affiliated employer in

excess of 110 days in each calendar year. The Board's proposal does not alter this provision. Current law requires the payment of employer contributions, AED and SAED on all retiree salary and the PERA Board's proposal would add an additional contribution by the retired employee at the rate of 8 percent of salary, (except State Troopers and CBI agents who will pay 10 percent). PERA retirees may continue to work for non-PERA affiliated employers without limit.

17. Do certain provisions of the plan allow employees to be grandfathered out of the legislative proposal, and if so, which provisions? Please be specific.

PERA Response:

Yes, certain provisions of the PERA Board's proposal allow certain groups of members to be "grandfathered" into certain aspects of their current benefit structure for legal reasons and to prevent motivating certain behavior detrimental to the funding status of the Fund. These provisions are best understood by referencing Attachment B, "Colorado PERA 2010 Legislative Recommendation - *Effect of the recommendation on Colorado PERA Membership.*"

18. Are there legal issues with changing any portions of the retirement plan for any employees?

PERA Response:

Yes, there are significant legal issues in reducing benefits for current members and retirees of the plan. The Board's recommendation addresses the legal context surrounding changes to benefits and contributions for current and retired members. In the Boards' view, the actuarial projections under the current set of actuarial assumptions put the fund at significant risk of running out funds within the actuarial projection period of 30 years. Therefore, a state of actuarial necessity exists that allows the General Assembly to modify benefits to return the plan to actuarial soundness.

19. How are Denver public schools handled under the PERA legislative proposal?

PERA Response:

The Denver Public Schools Retirement System (DPSRS) will be incorporated into the administrative purview of PERA on January 1, 2010. Until this time, Colorado PERA does not have the authority to administer the Denver Public Schools Retirement System. At its November Board meeting, the DPSRS Trustees voted to recommend to the PERA Board that it seek the same legislative measures to ensure the sustainability of the Denver Public Schools Trust as the PERA Board recommended for the current PERA divisions. The PERA Board

- will address this issue at its Board meeting on December 18, 2009.
20. How does the Governor's plan (to supplant a portion of the State's funding percentage with employee funds) interact with PERA's legislative request?

PERA Response:

The Governor's proposal to replace employer contributions to the fund with employee contributions for one year is outside of the PERA Board's proposal. As noted in the response to question #4, unfunded liabilities in the State and Judicial divisions would increase. The Governor's proposal is a budgetary effort and does not appear to be intended to address the funded status of the Plan. The sole objective of the Board's package is to address the financial condition of the plan and return it to long-term sustainability. As stated above, the Governor's proposal has a negative impact on Plan funding.

21. It is my understanding that proposal does not have any proposals to change the governance structure of PERA itself. Why not?

PERA Response:

Correct, the PERA Board's recommendations do not include a change to the governance structure. The structure of the Board was significantly altered by legislative action in 2006, Senate Bill 06 -235. There is no indication that the Board has not fulfilled its fiduciary duty as directed by statute and common law. In addition, the financial situation of the fund is wholly the result of severe adverse economic and investment conditions that have negatively impacted the global economy. In addition, there is no indication that the PERA Board's size or configuration is in any way impairing the efficiency or operation of PERA. Finally, the existing provision for legislative oversight and reporting by PERA have proven to be highly effective during this challenging economic environment.

4:50 – 5:00 DEFINED CONTRIBUTION PLAN

22. How did the merger of the State's defined contribution (DC) plan into PERA go?

PERA Response:

The assumption of the administrative direction of the State's Defined Contribution plans by the PERA Board as directed by Senate Bill 2009-66 on July 2009 was a success.

23. What percentage of new employees take advantage of the defined contribution plan?

PERA Response:

Since the inception of a defined contribution plan option on January 1, 2006, 10.8 percent of eligible new hires have chosen the defined contribution plan.

24. How much would it cost to move all state employees to a defined contribution plan? Please include the costs for the unfunded liability.

PERA Response:

This is an extremely difficult question to answer. The analysis required to provide a complete response cannot be accomplished in the time frame allotted for PERA's responses to the JBC. Questions for further examination would include: How would the current unfunded liability be funded? Would current members of the defined benefit plan be able to continue to accrue service? What would the replacement defined contribution structure be? How would disability and survivorship insurance be obtained? Would there be a retiree health care program? What if certain employers wished to continue a defined benefit plan? Would the funding of a closed defined benefit plan follow the Governmental Account Standards Board's requirements? What legal issues would be encountered?

These difficult questions and others would have to be addressed to begin to understand the financial implications and social considerations of this proposed action.

Colorado PERA has engaged the services of an economist to analyze the implications and costs of moving to a defined contribution structure. PERA has reason to believe, given the historical experience of other states and our own experience with a mandatory defined contribution option, that such a transition would increase the unfunded liability and be prohibitively expensive to implement and administer. PERA expects the economic analysis in January 2010.