HB 22-1034

Legislative Council Staff
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Fiscal Note

Drafting Number:	LLS 22-0173	**Date:**	January 18, 2022
Prime Sponsors:	Rep. Bird; Sandridge Sen. Garcia; Priola	**Bill Status:**	House Finance
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Bill Topic: **FPPA STATEWIDE RETIREMENT PLAN**

Summary of Fiscal Impact:

☐ State Revenue
☐ State Expenditure
☐ State Transfer
☐ TABOR Refund
☒ Local Government
☒ Statutory Public Entity

The bill merges the assets and liabilities of the Statewide Hybrid Plan and Statewide Defined Benefit Plan administered by the Fire and Police Pension Association into a new Statewide Retirement Plan in order to align plan benefits and improve the plan's long-term stability. It will minimally increase local expenditures beginning in FY 2022-23 and both increase and decrease expenditures for the Fire and Police Pension Association on an ongoing basis.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: The fiscal note reflects the introduced bill, which was recommended by the Pension Review Commission.

Summary of Legislation

Effective January 1, 2023, the bill merges the assets and liabilities of the Fire and Police Pension Association (FPPA)-administered Statewide Hybrid Plan and Statewide Defined Benefit Plan, including all plan components, into a new Statewide Retirement Plan codified in the newly created Article 31.5 of Title 31 in the Colorado Revised Statutes.

In addition to outlining plan administration and benefits, the bill:

- creates new parity between the plans by giving the same retirement eligibility currently available to defined benefit component members to hybrid component members (the Rule of 80, which means a beneficiary is retirement eligible when their age plus service credit equal 80) and giving defined benefit component members a money purchase component currently available to only hybrid component members;
- creates an annuity on hybrid component benefits accrued prior to the merger to account for the Statewide Hybrid Plan's higher funded ratio, to be based on funded status at time of merger;

- creates a new one percent contribution rate increase for both hybrid plan component employers and members (two percent total), to be phased in at one-eighth of one percent annually over an eight-year period from 2023 to 2030 until both the employer and member rate is nine percent (18 percent total) to pay for the costs related to benefits in the bill;
- codifies a timeline extension on an existing one percent contribution rate increase for defined benefit plan component employers; the increase will take place at the rate of one-half of one percent over 2029 and 2030;
- provides additional privacy protections for plan members; and
- extends the death and disability application deadline from 180 to 365 days.

Background

This bill reflects an FPPA Task Force recommendation to merge the assets and liabilities of the Statewide Hybrid Plan with the Statewide Defined Benefit Plan due to the small size of the Statewide Hybrid Plan, which currently consists of 411 members in 42 departments. As of writing, 49 members in 13 departments will be impacted by the rate increase; the remainder of members and employers are already paying in excess of the bill's required minimum contribution. For more information on the recommendation, see https://www.forwardwithfppa.org. The FPPA's most recent Certified Annual Financial Report is available online at: https://www.fppaco.org/PDF/annual-reports/2020-Annual-Report-FPPA.pdf.

In addition, the bill continues contribution rate increases created under House Bill 20-1044, which phased in a four percent employer contribution rate increase to the Statewide Defined Benefit Plan from 2021 to 2028, until the employer contribution rate matches the member contribution rate of 12 percent.

Local Government

Overall, this bill is expected to have a negligible impact on participating local government employers. As discussed in the Background section, the eight-year contribution rate increase for hybrid component employers impacts 13 fire and police departments covering 49 members, the majority of whom work for the Evans Police Department. The average annual base salary for plan members is $45,000, so the cumulative impact will be approximately $450 per employee at full implementation in 2030.

Statutory Public Entity

The bill will create short-term costs and long-term savings for the FPPA, paid from the plan's trust fund. Short-term costs include computer programming and rulemaking related to the plan merger, with work to be completed by existing FPPA staff and paid from the administrative budget. Long-term savings will be achieved in two ways. By merging a small plan into a larger plan, the long-term issue of benefits paid out being greater than contributions paid in is avoided, reducing FPPA's investment risk. The FPPA will also save on actuarial analysis-related costs with one plan to analyze instead of two. Overall, the bill is expected to improve plan stability.

Effective Date

Sections 2 through 4, 6, 8 through 19, and 21 of the bill take effect January 1, 2023. The remainder of the bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State and Local Government Contacts

Fire and Police Pension Association

Municipalities