

Adams County Retirement Board
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MEMORANDUM

TO: Members of the Adams County Retirement Plan

FROM: Adams County Retirement Board (the "Board")

DATE: April 4, 2012

SUBJECT: Proposed Legislation – SB 12-149

We want to keep you informed as to matters impacting the Adams County Retirement Plan ("Plan"). We wish to bring to your attention proposed legislation that the Adams County Retirement Board (the "Board") has asked the Colorado Legislature to pass. The proposed legislation is SB 12-149 and would allow the Board to reduce future benefit accruals of current employees. SB 12-149 is being sponsored by Senator Pat Steadman and will be sponsored in the House by Representative Kevin Priola. If SB 12-149 is enacted into law, it is anticipated that no reductions under the Plan would occur prior to January 1, 2014. Before changes to the Plan are effective, the Board intends to hold town hall meetings to inform members of the changes. The Board also intends to make readily available information regarding changes to the Plan on its website. The Board does not intend to terminate the Plan. The Board intends to make prospective changes to the Plan which will bring the funded status of the Plan to an acceptable level over a thirty year period. The Board does not intend to reduce benefits that a member has already earned.

SB 12-149 seeks to give the Board an additional tool to remedy a significant funding problem for the Plan. The Plan was only 52% funded as of its January 1, 2011 actuarial report, which means that the Plan has assets sufficient to pay only 52 cents on the dollar. We expect the Plan's funded status to decline even more when the 2012 actuarial report is issued. Our actuaries have told us that when a mature retirement plan, such as the Adams County Retirement Plan, falls below 60% funded, it is difficult, if not impossible for the plan to recover and return to a funded status sufficient to ensure the sustainability of the plan.

To improve funding, there are essentially three options: (1) increase employer and employee contributions, (2) increase investment returns, and (3) decrease payments out of the Plan. The Board already has implemented Options 1 and 3. Option 2 is not a realistic option because of low investment returns experienced by the Plan since 2000.

With respect to Option 1, the Board has been increasing employer and employee contributions annually for many years. By 2015, employer and employee contributions are scheduled to reach 18% combined. Employees must also contribute towards their Social Security and Medicare benefits. Thus, by 2015 each employee's contribution to the Plan, Social Security and Medicare will be 16.65% of the employee's compensation. The Board feels that increasing employee and employer contributions beyond 18% is not a realistic option at this time

due to the strain it places on the employee's net take home pay. The law governing the Plan does not allow Adams County and Rangeview Library District to contribute more than employees contribute, so the County and the Rangeview Library District cannot dedicate additional funds to resolve the funding problem.

With respect to Option 3, the Board already has implemented a number of measures over the past seven years to decrease payments out of the Plan. Effective for 2005, the Board created Tier 2, which reduces benefits for employees hired on or after January 1, 2005. Effective for 2010, the Board created Tier 3, which further reduces benefits for employees hired on or after January 1, 2010. Our actuaries have told us that the Option 1 and 3 funding changes should improve the Plan's funded status over time but they are not sufficient to ensure the sustainability of the Plan.

The Board believes that to ensure the sustainability of the Plan, it needs to take Option 3 further and reduce future benefit accruals of current employees. The Board anticipates that it will need to reduce future benefit accruals of current employees who are receiving the richest benefits, which are employees in Tier 1 and 2. Notably, many of the Board members and the Plan Administrator are in Tier 1, so these reductions will impact them as well. The Board will not reduce vested benefits already accrued for any member whether active or retired. SB 12-149 specifically prohibits any such reduction.

The Board has proposed responsible reform to allow the Board to improve the Plan's funded status and ensure that the Plan is able to pay benefits to all employees, not just those employees retiring today or in the near future. SB 12-149 would allow the Board to modify future accruals of benefits and age and service requirements in situations when the sustainability of the Adams County Retirement Plan is jeopardized. To limit the impact of the legislation, SB 12-149 contains a five-year sunset provision, meaning that the legislation will expire within five years and changes to the Plan must be made within that time period.

The Board believes that it needs the Colorado Legislature to pass SB 12-149 so that the Board can take steps to ensure the sustainability of the Plan and ensure that all Plan members receive the benefits they have paid for and earned. SB 12-149 and an information fact sheet are attached. We encourage you to support the Board in its efforts and contact your State Senator and Representative and encourage them to pass SB 12-149.

The Board is listening and wants to hear and address your concerns. If you have any questions or need additional information, please contact the Plan Administrator at 720-523-6167.