Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2005

Continuing Our Commitment

dedication accountable

honesty integrity vital

COLORADO PERA®

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2005

honesty dedication integrity accountable vital

Colorado Public Employees' Retirement Association
1300 Logan Street
Denver, Colorado 80203
303-832-9550
www.copera.org

Prepared by the PERA Staff

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Introductory Section

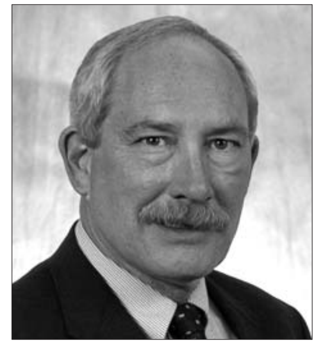
Honesty

honesty *dedication* *integrity* *accountable* *vital*

COLORADO PERA®

Colorado Public Employees' Retirement Association
Mailing Address: PO Box 5800, Denver, CO 80217-5800
Office Locations: 1300 Logan Street, Denver, Colorado
1120 West 122nd Avenue, Westminster, Colorado
303-832-9550 • 1-800-759-7372 • www.copera.org

June 1, 2006



Meredith Williams
Executive Director

Dear Colorado PERA Members, Benefit Recipients, Employers, and Members of the Board of Trustees,

I am pleased to present Colorado PERA's *Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended December 31, 2005. We are proud of PERA's achievements during the year, and we will continue striving to deliver high levels of service to our members and benefit recipients.

For months now, pension funds have been in the glare of the media spotlight amidst headlines of declining funding levels. Colorado PERA has not been excluded from this coverage. In fact, rarely did a day go by in 2005 without some mention of PERA in newspapers across the state, on television news, and even talk radio. Throughout all of this scrutiny and sensationalism, our message has remained the same—PERA is facing a long-term challenge and we have worked and continue to work proactively to address this challenge with thoughtful and measured reform. While there are no quick fixes in the pension world, PERA's approach is based on what is fiscally prudent and what is fair to public employers, members, retirees, and taxpayers.

The Board and staff of Colorado PERA are dedicated to preserving the retirement system and we are doing so with honesty, dedication, and integrity, while at the same time we are accountable in our actions that are vital to the success of Colorado PERA.

Report Contents and Structure

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with PERA's management. This *CAFR* is designed to comply with the reporting requirements as stated under Title 24, Article 51, Section 204(8) of the Colorado Revised Statutes.

This report contains the following five sections:

- The Introductory Section contains this letter of transmittal and general administrative and operational information about Colorado PERA;
- The Financial Section contains the independent auditor's letter, management's discussion and analysis, the financial statements, and other required supplementary information;
- The Investment Section contains information on the management of investments;
- The Actuarial Section contains the certification letter from the independent actuary as well as the results of the annual actuarial valuation and other actuarial statistics; and
- The Statistical Section contains general statistical information about Colorado PERA's finances and participants.

Overview of Colorado PERA

Established in 1931, Colorado PERA operates by authority of the Colorado General Assembly and is administered under Title 24, Article 51, of the Colorado Revised Statutes. Initially covering only state employees, PERA has expanded to include all Colorado school districts except Denver, the State's judicial system, numerous municipalities, and other local government entities.

For most members, PERA serves as a substitute for Social Security. PERA's purpose is to provide benefits to members at retirement or in the event of disability, or to their survivors upon the member's death. PERA also administers a cost-sharing multiple-employer defined benefit healthcare plan

(Health Care Trust Fund), a private purpose trust fund (Life Insurance Reserve), and a multiple-employer Internal Revenue Code (IRC) Section 401(k) defined contribution plan (Voluntary Investment Program).

Highlights and Major Initiatives

Legislation

PERA's goals for the 2005 legislative session were to (1) assure that the employer payment increases provided in Senate Bill 04-257 were funded as planned for implementation in January 2006 and (2) assure that PERA benefits were protected. In addition, the Board of Trustees directed staff to explore making a technical correction to Senate Bill 04-257 that would extend collecting the Amortization Equalization Disbursement (AED) on salaries paid to retirees by PERA-affiliated employers.

The following bills were passed and signed into law:

Senate Bill 05-73: Work After Retirement by PERA Retirees for PERA Employers

Signed by Governor Owens on June 2, 2005, this bill counts work under any arrangement by a PERA retiree for a PERA employer toward the 110-day per calendar year limit. This legislation closed a loophole some PERA retirees were using to circumvent the 110-day limit on work after retirement. The legislation also applied the AED on contributions paid by PERA employers on salaries paid to PERA retirees.

Senate Bill 05-171: Denver Public Schools Retirement System (DPSRS) Merger Authorization

This bill was signed by Gov. Owens on May 24, 2005. The bill was introduced at the request of Denver Public Schools (DPS), which was willing to pay the costs required to accomplish a merger on an actuarially neutral basis without adversely affecting PERA's funding status. One provision of this bill was that PERA, DPS, or DPSRS could terminate the merger prior to January 1, 2007, for specified reasons.

On October 12, 2005, the DPS Board of Education voted to terminate the proposed merger of DPSRS into Colorado PERA. Colorado PERA acknowledges the diligent efforts by all parties involved: the Boards of DPS and DPSRS, as well as the consultants and actuaries, who all worked hard toward the goal of uniting all school districts under one retirement system in Colorado.

House Bill 05-1231: Technical Changes to SB 04-257

Signed by Gov. Owens on April 7, 2005, this bill corrected some parts of SB 04-257 regarding the defined contribution (DC) plan option available for new hire state employees in 2006.

Senate Bill 05-93: Attachment of Public Pension Benefits

This bill allowed for attachment of a public pension participant's benefits if the individual is required to pay restitution for theft, embezzlement, misappropriation, or wrongful conversion of public property. The bill also allowed attachment in the event of a judgment for a willful and intentional violation of fiduciary duties where the offender or a related party received direct financial gain. This bill was signed by Gov. Owens on March 25, 2005, and went into effect for court orders on or after August 8, 2005.

Commission to Strengthen and Secure PERA

In March 2005, the first meeting was held of the Commission to Strengthen and Secure PERA. This commission was created in December 2004 by State Treasurer Mike Coffman to examine the financial health of PERA and to recommend any changes for possible legislation in the 2006 session of the General Assembly. The commission was co-chaired by former Governor Richard Lamm and former U.S. Senator Hank Brown. Eight other members were from academia and the private sector.

After six months of hearings, discussions, and meetings, the commission released a report in September 2005. This report provided recommendations for PERA reform, which included governance changes (restructuring the PERA Board and increasing legislative oversight), increasing member contributions, decreasing annual cost-of-living adjustments, and increasing the retirement age for PERA-covered employees under the age of 40.

PERA participated in these hearings and provided the Commission with information as requested. We have a proven record of working with legislators and the Governor to develop responsible changes to ensure the soundness of PERA.

Investments

Investment portfolio income is a significant source of revenue to Colorado PERA. The Investment Committee is responsible for assisting the Board in overseeing PERA's investment program.

In 2005, there was net investment income of $3,166,581,000 compared with total contributions by members and employers of $658,472,000 and $612,473,000, respectively.

Proper funding and healthy investment returns are very important to the financial soundness of Colorado PERA. For the year ended December 31, 2005, the total fund had a rate of return of 9.8 percent on a market value basis. PERA's annualized rate of return over the last three years was 15.8 percent, over the last five years it was 4.7 percent, and over the last 10 years it was 9.0 percent.

An integral part of the overall investment policy is the strategic asset allocation policy. The targeted strategic asset allocation is designed to provide appropriate diversification and balance expected total rate of return with the volatility of returns. Specifically, the fund is to be broadly diversified across and within asset classes to limit the volatility of the total fund investment returns and to limit the impact of large losses from individual investments. Both traditional and nontraditional assets are incorporated into the asset allocation mix. During 2005, Ennis Knupp & Associates completed an asset/liability study of the Fund as directed by the Board of Trustees. In December 2005, the Board voted to increase the allocation to international equity by 1 percent and decrease the allocation to alternative investments by 1 percent. Changes in the composition of the actual portfolio are reflected in the "Investment Summary" on page 66.

In addition to asset class targets, the Board of Trustees sets ranges within which asset classes are maintained. The current permissible ranges were adopted by the Board of Trustees in December 2005. The targeted asset allocation mix and the specified ranges for each asset class are presented on page 64. All of the asset classes were within their specified ranges at year end.

PERA's investment policy is summarized in the "PERA Report on Investment Activity" on pages 64–65.

During 2005, staff reviewed the investment strategy for the real estate asset class. With the assistance of a real estate consultant, the Townsend Group, a revised strategy was adopted by the Board. The revised strategy changes the benchmark for the asset class beginning January 1, 2006, removes certain security types from the asset class investment universe, and creates revised risk parameters for various property sectors.

401(k) Plan Activities

In 2005, 401(k) Plan net assets grew from $1,204,725,000 at the end of 2004 to $1,296,998,000 at the end of 2005, with 72,867 participant accounts in the Plan by the close of the 2005 year. The number of participants in the 401(k) Plan decreased by 1.04 percent in 2005, compared with the previous year.

During 2005, 6,483 Colorado PERA members transferred 401(k) Plan account funds (which totaled $140,156,000) to purchase PERA service credit. This represented a 29 percent increase in the number of members who transferred 401(k) Plan funds to purchase PERA service credit compared to 2004, and a 140 percent increase in the 401(k) Plan dollars that were transferred to purchase PERA service credit.

PERAChoice DC Plan

Throughout 2005, PERA staff met with State of Colorado Department of Personnel and Administration staff in preparation for a new defined contribution choice option for eligible State employees effective January 1, 2006. Eligible new State employees may now select the PERA defined benefit plan, the PERA defined contribution plan, or the defined contribution plan offered by the State.

Corporate Governance

PERA continued to be active in the securities litigation arena, fulfilling the Board's commitment to corporate governance reforms such as transparency, accountability, and enforcement of shareholder's rights. PERA also has been active in corporate governance reform through its participation in the Council of Institutional Investors. During 2005, PERA continued to demonstrate its commitment in the securities litigation arena by negotiating substantial settlements with Royal Ahold, N.V. and McKesson HBOC, Inc.

PERA and Generic Trading of Philadelphia, LLC were appointed Lead Plaintiffs in the consolidated securities class action lawsuit against Royal Ahold, N.V., an international food service conglomerate, which arose as a result of the company's overstated earnings. A $1.1 billion settlement was achieved, the largest settlement in U.S. history against a European company. This result underscores the importance of having institutional investors like PERA lead securities class actions to bring accountability to corporate executives and to provide a recovery for shareholders.

Life Insurance Reserve Program Changes

Effective April 1, 2005, UnumProvident became the new carrier and administrator for PERA's life insurance program. UnumProvident offers term life/accidental death and dismemberment (AD&D) insurance with a decreasing benefit based on age. The UnumProvident plan replaced two previous life insurance options available to members through Anthem Life Insurance and Prudential. Active members enrolled in Anthem Life or Prudential were automatically moved to UnumProvident effective April 1, 2005, when the annual open enrollment period began.

Total Compensation Philosophy

The major initiatives of the Total Compensation Philosophy for PERA staff (approved by the Board in 2003) were completed in 2005. During the year, an annual market analysis was completed along with base salary leveling, an incentive plan for the Investment Department, cost-sharing of health insurance, and revisions of the paid time-off and disability programs. The Total Compensation Philosophy provides a platform from which PERA can maintain internal equity, assure competitiveness, and proactively manage the cost of PERA's benefit programs.

Accounting System and Reports

This *CAFR* was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB) in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans; Statement No. 26, Financial Reporting for Postemployment Healthcare Plans Administered by Defined

Benefit Pension Plans; and Statement No. 34, Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments as well as other GASB statements as appropriate.

GASB Statement No. 25 establishes financial reporting standards for defined benefit plans and standards for the notes to the financial statements of defined contribution plans. GASB Statement No. 26 provides financial reporting guidance for defined benefit pension plans that administer postemployment health care plans.

GASB Statement No. 34 requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it.

In March 2003, the GASB issued Statement No. 40, Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3. This statement became effective for Colorado PERA in 2005 and has been implemented. GASB Statement No. 40 had no monetary impact on the financial statements of Colorado PERA, but does require additional disclosure. This disclosure can be found in the Notes to the Financial Statements (Note 4) in the Financial Section of the *CAFR*.

The accompanying financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized as revenues in the period in which the employer pays compensation to the member and the employer is statutorily committed to pay these contributions to the appropriate pension trust fund and the Health Care Trust Fund. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

State law requires that the State Auditor perform an annual audit of PERA. Pursuant to this requirement, the Broomfield, Colorado, office of Clifton Gunderson LLP audited PERA's 2005 financial statements under the control and oversight of the State Auditor. PERA continues to maintain appropriate controls in all operational areas.

Recognition of Achievements

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to Colorado PERA for its *Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended December 31, 2004. The GFOA's Certificate of Achievement is the highest form of recognition in the area of public employee retirement system accounting and financial reporting. To receive this award, a government unit must publish an easily readable and efficiently organized *CAFR* that meets or exceeds program standards, and satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year. PERA has been awarded this distinction for the past 20 years. We believe this *CAFR* continues to meet GFOA requirements and we are submitting it to the GFOA to determine its eligibility for another Certificate.

The GFOA also awarded Colorado PERA an Award for Outstanding Achievement in Popular Annual Financial Reporting for its *Popular Annual Financial Report* for the fiscal year ended December 31, 2004. This award is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government reports. In order to receive this award, a government unit must publish a *Popular Annual Financial Report* whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

Economic Condition and Outlook

The U.S. economy grew at a moderate pace in 2005. Consumer demand continued to fuel economic growth and business demand was also solid. The spike in oil prices and weather-related disruptions caused a slight slowdown in the fourth quarter of the year. The year ended with positive signs from manufacturing and strong consumer spending. The labor market continued to strengthen during the year; the slack that previously existed is steadily being removed. Inflation levels remained contained during 2005 and ended the year near the upper end of the Federal Reserve Board's (Fed) target range. The Fed continued to raise the Fed Funds rate during 2005; the Fed Funds rate was 4.25 percent at the end of the year.

Underlying the growth in the economy, certain imbalances continue to exist. The housing market in the U.S. may be poised for a slowdown. Any impact on consumer demand will be dependent on the magnitude of the potential correction in residential prices. Foreign demand for U.S. securities has kept longer maturity interest rates low and financed an expanding current account deficit. The magnitude of the current account deficit and the federal government's spending deficit are potential risks to the economy's continued growth path.

Nevertheless, the fundamental factors underpinning the economy's performance remain intact. Corporate earnings continue to grow, albeit at a decreasing rate, and long-term interest rates are low on a historical basis. Not withstanding the potential for an inflation surprise, a rapid increase in energy prices or a rapid fall in the dollar, the economy should deliver modest growth in 2006.

The Colorado economy continues to show improvement; mining, defense, and tourism are the principal factors which are driving the state's growth. The Colorado labor market is improving, personal income is rising, and retail sales are increasing. Residential markets anticipate a mild correction in 2006. The outlook for jobs and unemployment is positive, with expectations for both to improve in 2006.

Funding

The funding objective for Colorado PERA is to be able to pay long-term benefit promises through contributions that remain approximately level from year to year as a percent of salaries earned by members. Each year members and employers pay their share for retirement service earned in that year by PERA members. If the retirement system follows level contribution rate financing principles, the system will be able to pay all promised benefits when due.

PERA directs its efforts to keeping the funding ratio (the ratio of assets to accrued liabilities) for the divisional retirement funds at a minimum of 80 percent. On December 31, 2005, PERA's funded ratio equaled 73.3 percent. (Please see the Management's Discussion and Analysis on pages 21–33 for additional information on PERA's funding ratio.)

The Board of Trustees has focused on improving the funded status since 2002 when the Board approved pursuing legislation in the 2003 session that would stabilize contribution rates and allow for increases or decreases in the rates when certain funding thresholds were reached. This legislation was passed, but ultimately vetoed in 2003. The Board again pursued legislation in 2004 to improve funding and both pieces of legislation were enacted into law (Senate Bill 04-132 and Senate Bill 04-257).

In 2005, Senate Bill 05-73 was enacted that allows PERA to collect the AED on contributions paid by PERA employers on salaries paid to PERA retirees. The Board also raised the service credit purchase rates effective November 1, 2005, to full actuarial cost.

Legislation enacted in 2004 (Senate Bill 04-257) provided for the separation of the State and School Division on January 1, 2006. Data provided by PERA's actuary recognizes this separation and reports information for two separate divisions even though the separation did not go into effect in 2005. Data reported by PERA's Accounting Division is as of December 31, 2005, and will reflect one combined division.

	Funding Ratio	Amortization Period[1]
State Division	71.5%	Infinite
School Division	73.9%	Infinite
Municipal Division	78.0%	Infinite
Judicial Division	86.3%	Infinite
Health Care Trust Fund	17.1%	35 Years

[1] Based on current funding as of December 31, 2005.

During 2005, Buck Consultants, PERA's independent retained actuary, completed a four-year experience study which compared actual to expected results on all PERA actuarial assumptions for the period January 1, 2001, through December 31, 2004. Also during 2005, an audit of PERA's actuarial valuation and processes was conducted by Mercer Human Resource Consulting.

Upon recommendations from the actuaries, the Board reset the actuarial value of assets to equal the market value of assets as of December 31, 2004. In addition, the expected rate of investment return going forward will be based on the beginning of year market value, with annual differences between actual and expected market value of assets smoothed over a four-year period. A number of demographic assumptions also changed; detailed information about these changes can be found in the Management's Discussion and Analysis on page 24. No changes were made to the economic assumptions.

Board Composition

PERA is governed by a 16-member Board of Trustees; 14 are elected by the membership for staggered four-year terms and serve without compensation except for necessary expenses. The State Auditor and State Treasurer serve as ex-officio and voting Trustees. In the 2005 Board election, incumbent Scott Noller was re-elected to a four-year term in the School Category; newly elected Susan Beeman and Scott Murphy were elected to serve four- and one-year terms, respectively, in the School Category. Maryann Motza was elected to a four-year term in the State Category and Carole Wright was elected to a four-year term in the Retiree Category. State Treasurer Mike Coffman left his position in May 2005 for active military duty and Governor Owens appointed State Senator Mark Hillman as Acting State Treasurer in June 2005. (Mike Coffman returned from active military service and resumed the office of State Treasurer on March 28, 2006.)

In July 2005, James Casebolt and Mark Anderson were nominated by the Board to be Board Chair and Board Vice Chair, respectively. Their terms as Board officers will end on January 1, 2007.

Employer Affiliations

In 2005, the following seven public employers affiliated with Colorado PERA: Boulder County Public Trustee's Office, City of Lone Tree, Elizabeth Park and Recreation District, Prowers Conservation District, Pueblo Transit, Republican River Water Conservation District, and Y-W Well Testing Association.

Executive Management Changes

On March 1, 2005, Lana Calhoun, Deputy Executive Director of Benefits, retired after 19 years of service at PERA. As the Deputy Executive Director of Benefits, Calhoun managed the Benefit Services, Communications, Customer Service, and Insurance Divisions. Staffed by 77 PERA employees, these divisions provide assistance to members and retirees in all benefit areas and include PERA's call center, publications and Web site management, field education, insurance administration, and benefits calculation and retiree payroll functions. Calhoun also made numerous presentations to Colorado's General Assembly and worked in cooperation with the PERA Board of Trustees regarding planning and strategic planning.

David Maurek, Manager of Strategy and Innovation, assumed the responsibilities of Deputy Executive Director of Benefits. Maurek joined PERA 19 years ago as the Internal Audit Director, a position he held for 15 years. As the Manager of Strategy and Innovation, he was responsible for the coordination of Colorado PERA's strategic planning efforts.

Also at this time, the titles of all PERA Deputy Executive Directors changed to better reflect the job duties of these positions. David Maurek's title is Chief Operating Officer; Jennifer Paquette, Colorado PERA Deputy Executive Director of Investments, is now Chief Investment Officer; and Kim Natale, Colorado PERA Deputy Executive Director of Support Services, is now the Chief Administrative Officer.

Acknowledgements

We thank the staff and management of our affiliated employers for their continuing support. The cooperation we receive from our affiliated employers is significant to Colorado PERA's success.

The compilation of this *CAFR* reflects the combined efforts of PERA staff. It is intended to provide complete and reliable information as a basis for making management decisions, determining compliance with legal provisions, and determining responsible stewardship of assets contributed by the members and their employers.

This *CAFR* is being mailed to all affiliated employers and other interested parties; a summary will be sent to members and benefit recipients. An electronic version is available on the Colorado PERA Web site at www.copera.org.

I would like to express my gratitude to the staff, Board of Trustees, and consultants who worked diligently to ensure the successful operation of Colorado PERA in 2005.

Respectfully submitted,

Meredith Williams
Executive Director

COLORADO PERA®

Colorado Public Employees' Retirement Association
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1120 West 122nd Avenue, Westminster, Colorado
303-832-9550 • 1-800-759-7372 • www.copera.org

James Casebolt
Board Chair

June 1, 2006

To All Colorado PERA Members, Benefit Recipients, and Employers:

As Chair of the Board of Trustees of the Colorado Public Employees' Retirement Association, I am pleased to present Colorado PERA's 2005 *Comprehensive Annual Financial Report (CAFR).* This report offers a detailed view of the financial and actuarial status of your retirement system.

During 2005, the DJ Wilshire 5000 returned 7.8 percent and the fixed income market produced low single-digit returns. However, the PERA trust fund returned a solid 9.8 percent, above the actuarial assumed investment return of 8.5 percent.

Like other pension plans, the actuarial value of PERA's pension trust funds has declined significantly due to the underperformance of 2000–2002. The PERA Board of Trustees acted throughout 2005 to address PERA's funded status and worked extensively with staff and external consultants to develop recommendations for potential legislation in 2006. After extensive negotiations with all parties interested in PERA, the 2006 General Assembly passed significant legislation for increased funding to the plan.

A provision of legislation passed in 2004 contained in Senate Bill 04-257 called for the collection of the employer contribution on salaries paid to rehired retirees. PERA began receiving contributions on these retired members on July 1, 2005, and while it is difficult to determine cause and effect, this action may have led to the decline in the number of members retiring in 2005, compared to the previous year.

During 2005, talks continued related to the merger of the Denver Public Schools Retirement System (DPSRS) into PERA, pursuant to legislation authorizing the merger that was passed and signed into law earlier in the year. While it remains a desirable goal to have all public school employees under one retirement system in Colorado, the merger was terminated in October by the Denver Public Schools Board of Education.

The Board also increased the cost to purchase non-covered service to the full actuarial rate effective November 1, 2005.

PERA underwent additional scrutiny during the year as the news media turned its attention to public pension fund management and funding status. In addition to the annual financial audit performed by an external audit firm with the oversight of the Office of the State Auditor, PERA's internal policies on a variety of management issues were also examined in depth. The findings of both the financial and performance audit were reported to the Legislative Audit Committee of the Colorado General Assembly, and appropriate adjustments to PERA's policies were made.

In closing, on behalf of the Board, I reiterate our commitment as Trustees of the PERA Plan to provide competitive benefits while ensuring the integrity of the Fund. I extend appreciation for your continued support and interest in Colorado PERA.

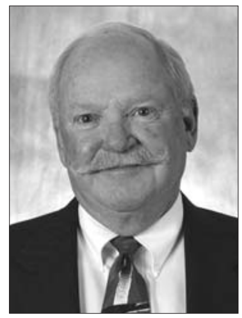
Sincerely,

James Casebolt
Chair, Board of Trustees

Board of Trustees

By state law, the management of the public employees' retirement fund is vested in the Board of Trustees of the Colorado Public Employees' Retirement Association. The Board is composed of 16 members, including the State Auditor and the State Treasurer as ex-officio members. The 14 representative members are elected by mail ballot by their respective Division members to serve on the Board for a four–year term. Five members are elected from the School Category and four from the State Category in the State and School Division, two from the Municipal Division, and one from the Judicial Division. Two members are elected by benefit recipients. If a Board member resigns, a new member is appointed from the respective Division for the remainder of the year until the next election.

James Casebolt, Chair
Judge, Colorado Court of Appeals;
Current term expires June 30, 2007



Mark J. Anderson, Vice Chair
Risk Manager, City of Colorado Springs;
Current term expires June 30, 2006

Sara R. Alt
Retired Legislative Liaison;
Current term expires June 30, 2007

Susan Beeman
Teacher on special assignment for Exceptional Student Services for Pueblo School District 60;
Current term expires June 30, 2009

Donna J. Bottenberg
Professor and Director of the Center for Professional Development, University of Northern Colorado;
Current term expires June 30, 2006

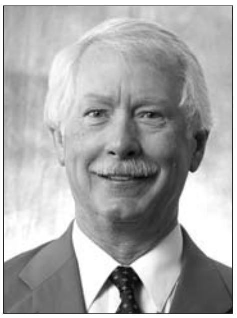
Michael H. Coffman
State Treasurer;
Ex-officio member; Continuous term
(Military Leave of Absence Effective May 2005)

F. Elizabeth Friot
Professor of Secondary Education, Metropolitan State College of Denver;
Current term expires June 30, 2007

Joanne Hill
State Auditor;
Ex-officio member; Continuous term

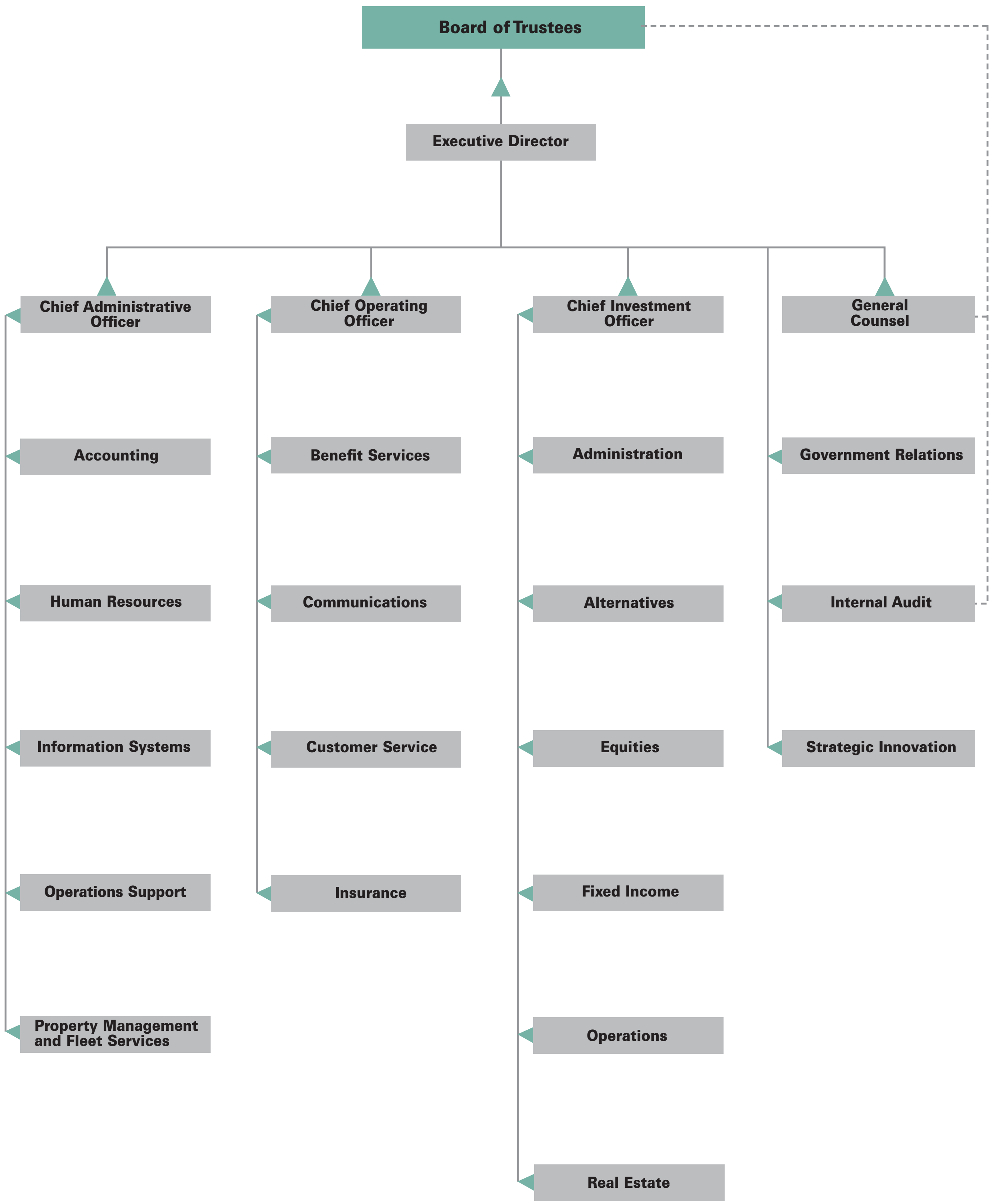
Mark Hillman
State Treasurer;
Ex-officio member; Continuous term

Patricia K. Kelly
City Attorney, City of Colorado Springs;
Current term expires June 30, 2007



Administrative Organizational Chart

As of May 15, 2006



Colorado PERA Executives and Management

(Left to right): David Maurek, Chief Operating Officer; Jennifer Paquette, Chief Investment Officer; Meredith Williams, Executive Director; Kim Natale, Chief Administrative Officer; Greg Smith, General Counsel

(Left to right): John Spielman, Director of Internal Audit; Karl Paulson, Manager of Strategic Innovation; Rob Gray, Director of Government Relations

(Left to right): Chris Reilly, Director of Alternative Investments; Tom Liddy, Director of Investment Operations; Jim Liptak, Director of Equities; Jim Lavan, Director of Real Estate; Bill Koski, Director of Fixed Income; Martha Argo, Director of Administration

(Left to right): Wendy Tenzyk, Director of Insurance; Anne Bandy, Director of Customer Service; Rick Larson, Director of Benefit Services; Katie Kaufmanis, Director of Communications

(Left to right): Dennis Fischer, Director of Property Management and Fleet Services; Sharyl Harston, Director of Human Resources; Donna Trujillo, Director of Operations Support; Mike Miller, Director of Information Systems; Karl Greve, Director of Accounting/Controller

Certificate of Achievement

Health Care Program Consultant

Leif Associates, Inc.
1515 Arapahoe Street
Tower 1, Suite 410
Denver, CO 80202

Independent Auditors

Clifton Gunderson LLP
370 Interlocken Boulevard
Suite 500
Broomfield, CO 80021

Investment Performance Consultants

Ennis Knupp & Associates
10 South Riverside Plaza
Suite 700
Chicago, IL 60606

The Northern Trust Company
50 South LaSalle Street
Chicago, IL 60675

Investments—Portfolio Consultant

Ennis Knupp & Associates
10 South Riverside Plaza
Suite 700
Chicago, IL 60606

Investments—Real Estate Project Consultant

Townsend Group
500 East Eighth Avenue
Suite 300
Denver, CO 80203

Investments—Real Estate Performance

Ennis Knupp & Associates
10 South Riverside Plaza
Suite 700
Chicago, IL 60606

Russell Real Estate Advisors, Inc.
4330 La Jolla Village Drive
Suite 300
San Diego, CA 92122

Master Custodian

The Northern Trust Company
50 South LaSalle Street
Chicago, IL 60675

Pension and Health Care Program Actuary

Buck Consultants, an ACS Company
1200 17th Street
Suite 1200
Denver, CO 80202

Risk Management

IMA of Colorado
1550 17th Street
Suite 600
Denver, CO 80202

401(k) Consultant

Mercer Human Resource Consulting
1225 17th Street
Suite 2200
Denver, CO 80202

401(k) Investment and Performance Consultant

R.V. Kuhns & Associates, Inc.
805 SW Broadway
Suite 2200
Portland, OR 97205

401(k) Service Provider

CitiStreet LLC
One Heritage Drive
North Quincy, MA 02171

Financial Section

Dedication

honesty dedication integrity accountable vital

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

Board of Trustees
Colorado Public Employees' Retirement Association
Denver, Colorado

We have audited the accompanying statements of fiduciary net assets and the related statement of changes in fiduciary net assets of the Colorado Public Employees' Retirement Association as of and for the year ended December 31, 2005 which collectively comprise Colorado Public Employees' Retirement Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Colorado Public Employees' Retirement Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Colorado Public Employees' Retirement Association's December 31, 2004 financial statements, and in our report dated May 23, 2005, we expressed an unqualified opinion on the respective financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Colorado Public Employees' Retirement Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado Public Employees' Retirement Association as of December 31, 2005, and related changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Report of the Independent Auditors

In accordance with *Government Auditing Standards*, we have also issued a report dated May 26, 2006, on our consideration of Colorado Public Employees' Retirement Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 21 through 33, and the schedule of funding progress and schedule of employer contributions on pages 54 through 56 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Colorado Public Employees' Retirement Association's basic financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section, investment section, actuarial section and statistical section listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Denver, Colorado
May 26, 2006

(In Thousands of Dollars)

Management is pleased to provide this overview and analysis of the financial activities of the Colorado Public Employees' Retirement Association (PERA) for the year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Letter of Transmittal beginning on page 3 of this *CAFR*.

PERA administers six fiduciary funds, including three defined benefit pension trust funds: the State and School Division Trust Fund, the Municipal Division Trust Fund, and the Judicial Division Trust Fund (the Division Trust Funds). PERA also administers one defined contribution pension trust fund, the 401(k) Voluntary Investment Program, a healthcare plan, the Health Care Trust Fund (HCTF), and one private purpose trust fund, the Life Insurance Reserve (LIR).

Financial Highlights

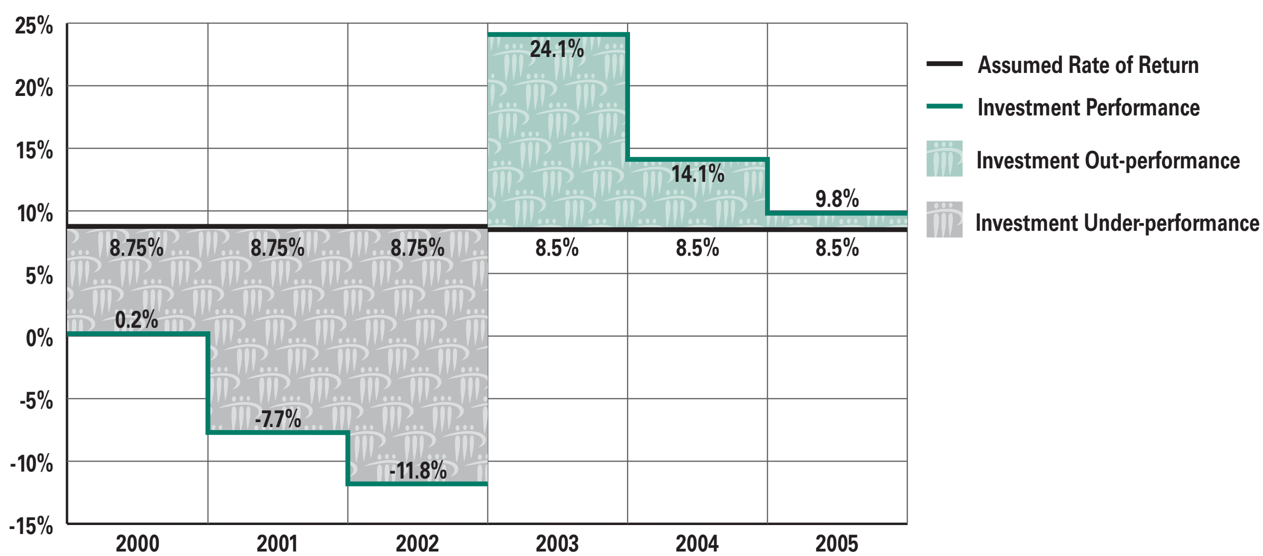
Net Assets—Plan net assets for all funds administered by PERA increased $2,347,480 during calendar year 2005.

	2005 Change in Net Assets	2005 Ending Net Assets
State and School Division Trust Fund	$1,936,766	$31,956,662
Municipal Division Trust Fund	289,761	2,377,471
Judicial Division Trust Fund	16,161	194,665
401(k) Voluntary Investment Program	92,273	1,296,998
Health Care Trust Fund	11,573	193,132
Life Insurance Reserve	946	14,700
Total increase in plan net assets	**$2,347,480**	**$36,033,628**

The increase was primarily due to strong investment returns in international stock, alternative investments and real estate. Investments for the three defined benefit plans, the Health Care Trust Fund and the Life Insurance Reserve are pooled. For the year ended December 31, 2005, the rate of return on the pooled investment assets was 9.8 percent, which was less than the 14.1 percent for the year ended December 31, 2004, but continues to exceed the actuarial assumed rate of 8.5 percent.

Investment Performance Trend Information—While the fund has posted three strong years, the plan is still recovering from the underperformance of 2000 through 2002, which was one of the worst bear markets ever recorded. The chart below compares the actual investment performance of the pooled investment assets versus the actuarial assumed rate of return for the period 2000 through 2005.

Actual vs. Assumed Rate of Return 2000–2005



As will be shown later, the under-performance of 2000 to 2002 continues to have a dramatic and negative effect on the funding ratio and actuarial health of the plan.

Management's Discussion and Analysis
(In Thousands of Dollars)

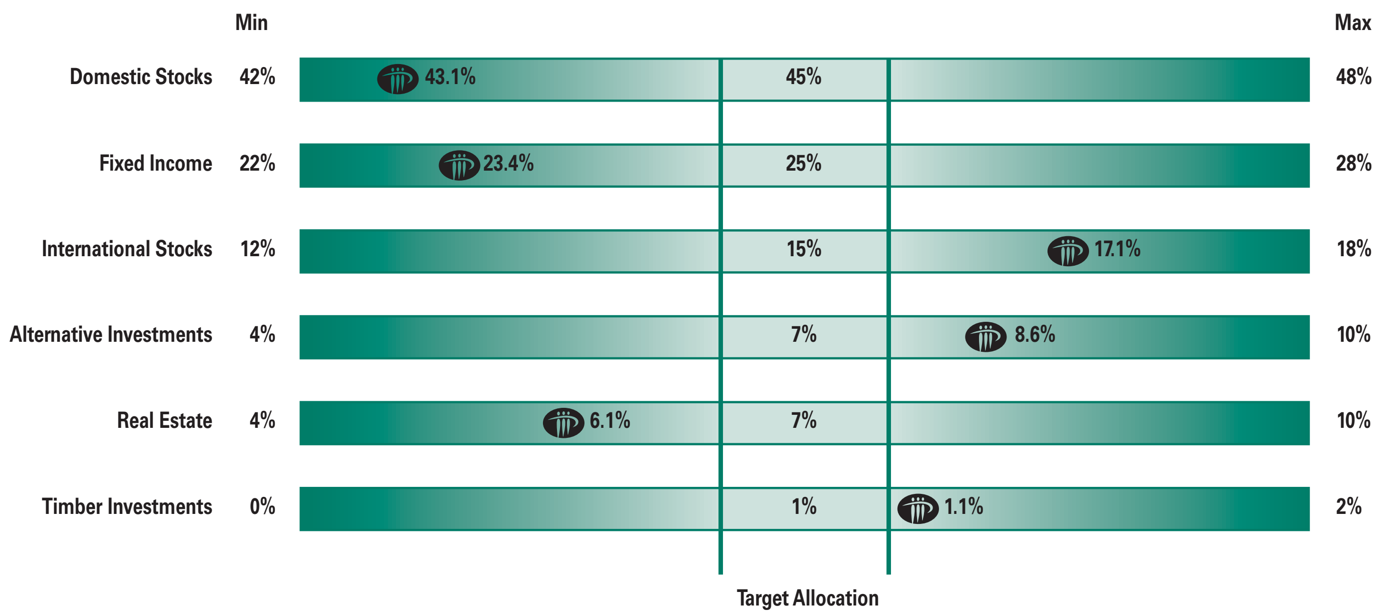
Asset Allocation—The Board of Trustees of PERA (the Board) has the responsibility for the investment of PERA's funds with the following limitations: the aggregate amount of monies invested in corporate stocks and fixed income securities convertible into stock cannot exceed 65 percent of the book value of the fund, no investment in common and/or preferred stock of any single corporation can exceed 5 percent of the then book value of the fund, and the fund cannot acquire more than 12 percent of the outstanding stocks or bonds of any single corporation. As fiduciaries of the funds, the Board is responsible to carry out their investment functions solely in the interest of the PERA members and benefit recipients and for the exclusive purpose of providing benefits.

The Board commissioned an Asset/Liability Study in 2005, which was prepared by Ennis Knupp & Associates. The objective of the study was to determine the optimal strategic asset allocation policy that would ultimately allow PERA to meet its benefit obligations while also ensuring that PERA incurs appropriate levels of risk. The Board's policy specifies the desired target allocation for each asset class as well as the ranges within which each asset class may operate. As a result of the study, the Board approved new asset allocation targets and ranges, effective January 1, 2006, at its December 2005 Board meeting.

	12-31-2004 Actual %	12-31-2005 Actual %	2005 Target %	2006 Target %	2006 Ranges
Domestic Stocks	42.2%	**43.1%**	45%	45%	42%-48%
Fixed Income	21.7%	**23.4%**	25%	25%	22%-28%
International Stocks	16.6%	**17.1%**	14%	15%	12%-18%
Alternative Investments	10.2%	**8.6%**	8%	7%	4%-10%
Real Estate	7.2%	**6.1%**	7%	7%	4%-10%
Timber	1.0%	**1.1%**	1%	1%	0%-2%
Cash and Short-Term Investments	1.1%	**0.6%**	0%	0%	

Asset allocation decisions are made based on the total holdings of the portfolios within each asset class. Therefore, the investment receivables, payables, accruals and cash and short-term investments are allocated back to the investment portfolios that hold them for purposes of the table and graph shown above.

2006 Asset Allocation Permissible Ranges vs. 12/31/05



In addition to the asset allocation study that was completed in 2005, a thorough reevaluation of the strategic plan for investing in real estate was completed by the Townsend Group and approved by the Board. The revised strategy changes the benchmark for the asset class beginning January 1, 2006, creates revised risk parameters for various property sectors, and removes public REITs and real estate debt from the real estate allocation. The implementation of this strategy can be seen in the drop in public REITs and real estate debt from $321,759 and $202,551 in 2004 to $0 and $105,271 in 2005, respectively.

Cash and Short-Term Investments—As of December 31, 2005, PERA had cash and short-term investments of $651,301, a decrease of $382,228 from 2004. This decrease was due to refining the methods for monitoring cash positions and expediting their investment in other asset classes.

(In Thousands of Dollars)

Investment Settlements and Other Receivables and Payables—As of December 31, 2005, PERA had Investment Settlements and Income Receivables of $152,708, an increase of $35,670. This increase was primarily due to increases in pending investment sales at the end of the year. As of December 31, 2005, PERA had Investment Settlements and Other Liabilities of $177,404, an increase of $88,952. This increase was due to increases in pending investment purchases and a rise in outstanding benefit cash transactions at the end of the year.

Securities Lending Collateral—As of December 31, 2005, PERA had securities lending collateral of $5,197,660, an increase of $675,681 from 2004. Reallocation and market appreciation resulted in the demand for and value of U.S. Equities available for loan. During 2005, the lending agent also fully integrated the mortgage backed security portfolio into securities lending.

Commitments—As of December 31, 2005, PERA had commitments for the future purchase of investments in alternative investments of $1,518,781, and real estate of $765,466.

Actuarial Assumption and Methodology Changes

Actuarial Experience Study and Actuarial Review—Colorado PERA underwent an Actuarial Experience Study, conducted by Buck Consultants, and an Actuarial Review, conducted by Mercer Human Resource Consulting, for the defined benefit pension trust funds and the Health Care Trust Fund. The purpose of an Actuarial Experience Study is to measure actual plan experience and compare this experience to current assumptions and recommend changes to the assumptions. The purpose of the Actuarial Review is to have an independent actuary review the most recent valuation (December 31, 2004) to ensure that it has been performed and was reported in conformance with applicable actuarial standards of practice. The review is also used to identify any changes in assumptions, methods or communication that, in the independent actuary's opinion, would improve the quality of the actuarial valuation and the understanding of its intended audience.

As a result of these studies the Board approved a number of recommended actuarial changes and these changes were implemented for the December 31, 2005, actuarial valuation. The changes are outlined below:

Asset Valuation Methodology Changes—Based on the studies and the recommendations of the independent actuarial firms, the Board approved the following:

- Fully recognize the transitional amount of unrealized gains from the 1992 actuarial change from cost value to smoothed market value ($130 million).
- Change the method of calculating the actuarial value of assets such that the expected rate of investment return going forward will be based on the beginning of year market value, with annual differences between the actual and expected market value of assets smoothed over a four-year period.
- Reset the actuarial value of assets to be equal to the market value of assets as of December 31, 2004.

	December 31, 2004 Actuarial Value of Assets	Market Value Reset[1]	December 31, 2004 Market Value of Assets
State and School Division Trust Fund	$28,594,699	$1,425,197	$30,019,896
Municipal Division Trust Fund	1,990,652	97,058	2,087,710
Judicial Division Trust Fund	170,111	8,393	178,504
Health Care Trust Fund	166,619	14,940	181,559
	$30,922,081	**$1,545,588**	**$32,467,669**

[1] Market Value Reset shown includes the 1992 transitional adjustment.

Funding Ratio Effect From Market Valuation Reset as of December 31, 2004

	December 31, 2004 Funding Ratio	December 31, 2004 Funding Ratio with Market Value Reset[1]
State and School Division Trust Fund	70.1%	73.6%
Municipal Division Trust Fund	77.2%	81.0%
Judicial Division Trust Fund	81.0%	85.0%
Health Care Trust Fund	15.1%	16.5%

[1] Market Value Reset shown includes 1992 transitional adjustment.

The actuarial value of assets for December 31, 2005, fully recognizes the December 31, 2004, market value and includes only the year 2005 for smoothing purposes. After this reset, we will transition back to a four-year smoothing methodology using the new calculation procedure.

Management's Discussion and Analysis
(In Thousands of Dollars)

Actuarial Assumption Changes—Based on the studies and the recommendations of the independent actuarial firms, the Board approved the following assumption changes:

- Adjustments to the mortality tables for members, regular and disabled retirees.
- Adjustments to the withdrawal rates for those under and over five years of service.
- Adoption of separate retirement rates for those eligible for unreduced and reduced retirements.
- Adjustments to the rates of disability.
- Adjustments to the individual salary increase table.
- Adjustments to the expected rates of participation in the Health Care Trust Fund programs.

These new assumptions were used in preparing the December 31, 2005, actuarial valuations.

Current Year Actuarial Summary

The actuarial valuation prepared at December 31, 2005, shows the State and School Division as separate trust funds. Senate Bill 04-257 provides that the State and School Divisions will be split beginning January 1, 2006. The actuarial information for this report is shown separately for each fund as the actuary looks forward at the future benefit streams of the plans.

Actuarial Statistics—As of December 31, 2005, the Funding Ratio, the Unfunded Actuarial Accrued Liabilities (UAAL) and the amortization periods for each fund are shown below:

Trust Fund	Funding Ratio	UAAL	Amortization Period With Current Funding
State Division Trust Fund	71.5%	$5,004,828	Infinite
School Division Trust Fund	73.9%	6,779,747	Infinite
Municipal Division Trust Fund	78.0%	663,905	Infinite
Judicial Division Trust Fund	86.3%	30,650	Infinite
Health Care Trust Fund	17.1%	925,363	35 Years

See the Required Supplementary Information and the accompanying notes on pages 54–59 for additional information.

Although the current funding is sufficient to pay expected benefit payments for decades, the current contribution rates are not sufficient to support the current benefit structures of the State Division Trust Fund, the School Division Trust Fund, the Municipal Division Trust Fund, and the Judicial Division Trust Fund. Without a continued recovery in the investment markets in the near future, the long-term ability of these Funds to support the benefits will be challenged in the absence of a significant increase from the current contribution rates. For more information on the adequacy of the funding see the Report of the Independent Actuary on pages 76–78.

Title 24, Article 51, Section 211 of the Colorado Revised Statutes (C.R.S.) states that the amortization period of 40 years shall be deemed actuarially sound. At the end of 2005, given the current contribution rates, the State and School Division Trust Fund, the Municipal Division Trust Fund, and the Judicial Division Trust Fund exceeded the 40–year amortization period.

The Board has sought and secured legislation to help address this issue going forward. The table below shows the amortization periods, if the additional contributions were included that are a result of the 2004 legislation which establishes the Amortization Equalization Disbursement (AED), and the 2006 legislation which establishes the Supplemental Amortization Equalization Disbursement (SAED). For more information on the 2004 and 2006 legislation refer to Note 9 of the Financial Statements on page 52.

Based on the current December 31, 2005, valuation, the amortization periods for each fund are shown including all future AED and SAED contributions:

	Amortization Period With AED	Amortization Period With AED and Supplemental AED
State Division Trust Fund	Infinite	Infinite
School Division Trust Fund	Infinite	73 Years
Municipal Division Trust Fund	35 Years	20 Years
Judicial Division Trust Fund	43 Years	22 Years
Health Care Trust Fund	35 Years	35 Years

The amortization period with AED and Supplemental AED does not include the full effect of the 2006 legislation. The legislation includes plan changes that will lower the normal cost for future hires and will allow more of the employer's contribution to be used to amortize past service costs earned. The future AED and Supplemental AED have not been taken into consideration in the calculation of the Annual Required Contribution as defined in GASB Statement 25 or in the amortization period based on the current year funding shown above.

Current Year Actuarial Gains/(Losses)—A summary of the activities that caused gains and losses in the actuarial liability for 2005 are shown below by fund and are in millions of dollars:

	State	School	Municipal	Judicial	HCTF
From differences between assumed and actual experience on liabilities					
Service retirements[1]	($9.1)	($19.6)	($2.8)	($0.9)	($9.9)
Disability retirements[2]	(2.3)	(3.1)	(0.5)	0.1	(1.0)
Deaths[3]	11.1	111.1	8.4	0.1	1.1
Withdrawal[4]	89.5	9.0	3.2	2.4	0.5
New entrants[5]	(59.5)	(53.1)	(15.3)	(1.2)	(4.7)
Salary Increases[6]	(102.2)	(79.5)	(149.3)	(1.1)	—
Claims Experience[7]	—	—	—	—	(17.8)
Other	25.9	40.1	2.5	1.8	(10.0)
Subtotal	(46.6)	4.9	(153.8)	1.2	(41.8)
From differences between assumed and actual experience on assets	34.0	48.7	5.4	1.3	0.6
From service purchases	(23.6)	(44.9)	(4.7)	0.0	6.4
From change in plan assumptions	(112.9)	(23.5)	10.1	0.0	66.9
From change in asset valuation method	613.1	933.2	105.3	9.1	16.2
Total actuarial gains/(losses) on year's activities	$464.0	$918.4	($37.7)	$11.6	$48.3

[1] Service retirements: If members retire at younger ages than assumed there is a loss.
[2] Disability retirements: If disability claims are lower than was assumed, there is a gain. If disability claims are higher than assumed, there is a loss.
[3] Deaths: If survivor claims are lower than was assumed or if retirees die sooner than assumed, there is a gain.
[4] Withdrawals: If more actuarial liabilities are released by terminations than assumed, there is a gain
[5] New Entrants: New members who enter the plan with prior service.
[6] Salary Increases: If there are greater salary increases than assumed, there is a loss.
[7] Claims Experience: If actual costs for members without Medicare Part A are greater than expected, there is a loss.

Actuarial Trend Information

Funding Ratio—The funding ratio for the plan is determined by dividing the actuarial value of assets by the actuarial accrued liability. The actuarial value of assets is not the current market value but a market-related value which smoothes changes in the market value over four years.

The funding ratio for each of the funds at December 31 of the last five years is shown below:

Trust Fund	2001	2002	2003	2004	2005
State Division	—	—	—	—	71.5%
School Division	—	—	—	—	73.9%
State and School Division	98.2%	87.9%	75.2%	70.1%	
Municipal Division	104.3%	93.6%	80.2%	77.2%	78.0%
Judicial Division	109.4%	98.3%	84.0%	81.0%	86.3%
Health Care	17.7%	19.9%	17.9%	15.1%	17.1%

PERA's funding objective is to meet long-term benefit promises through contributions and investment income. The funding ratios listed above give an indication of how well this objective has been met to date. A larger funding ratio indicates that a plan is better funded. As an example, for every dollar of the actuarially determined benefits earned for the State Division Trust Fund, approximately $0.72 of assets are available for payment. These benefits earned will be payable over the life span of our members after their retirement.

Management's Discussion and Analysis
(In Thousands of Dollars)

Unfunded Actuarial Accrued Liabilities—The table below identifies the components that contributed to the Defined Benefit Trust Funds going from an overfunded status in 2001 to an underfunded status in 2005. There are many factors that contribute to this complex issue and this table is included to provide a better understanding.

Defined Benefit Pension Trust Funds Changes in Overfunded/(Unfunded) Actuarial Accrued Liabilities
(Amounts in millions of dollars)

	2001	2002	2003	2004	2005	2001–2005
OAAL/(UAAL) beginning of year	$1,459.7	($431.8)	($4,041.6)	($9,895.4)	**($12,814.9)**	$1,459.7
Experience Gains and Losses						
Age and service retirements	(178.4)	(557.4)	(435.7)	(436.3)	**(32.4)**	(1,640.2)
Disability retirements	0.1	(3.1)	(19.7)	(0.7)	**(5.8)**	(29.2)
Deaths	11.5	5.9	(26.0)	(50.7)	**130.7**	71.4
Withdrawal from employment	0.6	(20.4)	18.1	13.0	**104.1**	115.4
New entrants	(41.0)	(68.6)	(110.7)	(66.3)	**(129.1)**	(415.7)
Pay increases	(495.5)	(182.7)	716.4	97.4	**(332.1)**	(196.5)
Investment income	(780.1)	(2,710.8)	(2,612.1)	(1,697.7)	**89.4**	(7,711.3)
Other	5.7	(323.9)	(753.1)	(23.0)	**70.3**	(1,024.0)
Purchase of noncovered service	0.0	0.0	(1,241.6)	(215.0)	**(73.2)**	(1,529.8)
Experience gain/(loss) during year	(1,477.1)	(3,861.0)	(4,464.4)	(2,379.3)	**(178.1)**	(12,359.9)
Non-recurring Items						
Effect of changes in plan provisions	0.0	0.0	0.0	275.6	**0.0**	275.6
Actuarial assumption changes	(572.6)	0.0	(981.3)	0.0	**(126.3)**	(1,680.2)
Asset valuation method change	0.0	0.0	0.0	0.0	**1,660.7**	1,660.7
Non-recurring items	(572.6)	0.0	(981.3)	275.6	**1,534.4**	256.1
Contribution Deficiency from 40-year Amortization						
Contribution gain/loss excluding gainsharing	172.1	215.8	(99.2)	(392.6)	**(576.8)**	(680.7)
Losses due to gainsharing						
Employer contribution reduction	(60.6)	(75.2)	(68.6)	(64.6)	**0**	(269.0)
MatchMaker contributions	(92.8)	(107.7)	(75.5)	(16.0)	**0**	(292.0)
Additional allocation to HCTF	(18.7)	(32.9)	(3.3)	0.0	**0**	(54.9)
Total Gainsharing loss in year	(172.1)	(215.8)	(147.4)	(80.6)	**0**	(615.9)
40–year amortization contribution deficiency	0.0	0.0	(246.6)	(473.2)	**(576.8)**	(1,296.6)
Expected Change in UAAL with 40-year amortization or less	158.2	251.2	(161.5)	(342.6)	**(443.7)**	(538.4)
Total gain/(loss) for year	(1,891.5)	(3,609.8)	(5,853.8)	(2,919.5)	**335.8**	(13,938.8)
OAAL/(UAAL) end of year	**($431.8)**	**($4,041.6)**	**($9,895.4)**	**($12,814.9)**	**($12,479.1)**	**($12,479.1)**

This schedule shows where losses and gains occurred over the five-year period compared to what was expected or assumed. The largest loss of $6.0 billion ($7.7 billion investment loss plus $1.7 billion asset method gain) came from net investment losses mainly due to the market downturn from 2000 to 2002 using the four-year smoothing methodology which extends losses beyond 2002. Other large losses include $1.6 billion due to increased early retirements beyond those assumed, $1.7 billion due to moving to more conservative actuarial assumptions (2001 and 2005—changes in mortality, withdrawal, retirement, disability and pay assumptions, 2003—decrease in the actuarial investment assumption from 8.75 percent to 8.5 percent), and $1.5 billion due to purchase of noncovered service at a rate lower than the full actuarial cost.

(In Thousands of Dollars)

Contribution Rate Sufficiency—In 2005, the amount received from employers as contributions, defined in statute, was not sufficient to meet the Annual Required Contribution (ARC) rate calculation as required by Governmental Accounting Standards Board (GASB) Statement No. 25, which assumes a 40-year amortization period for all of the funds.

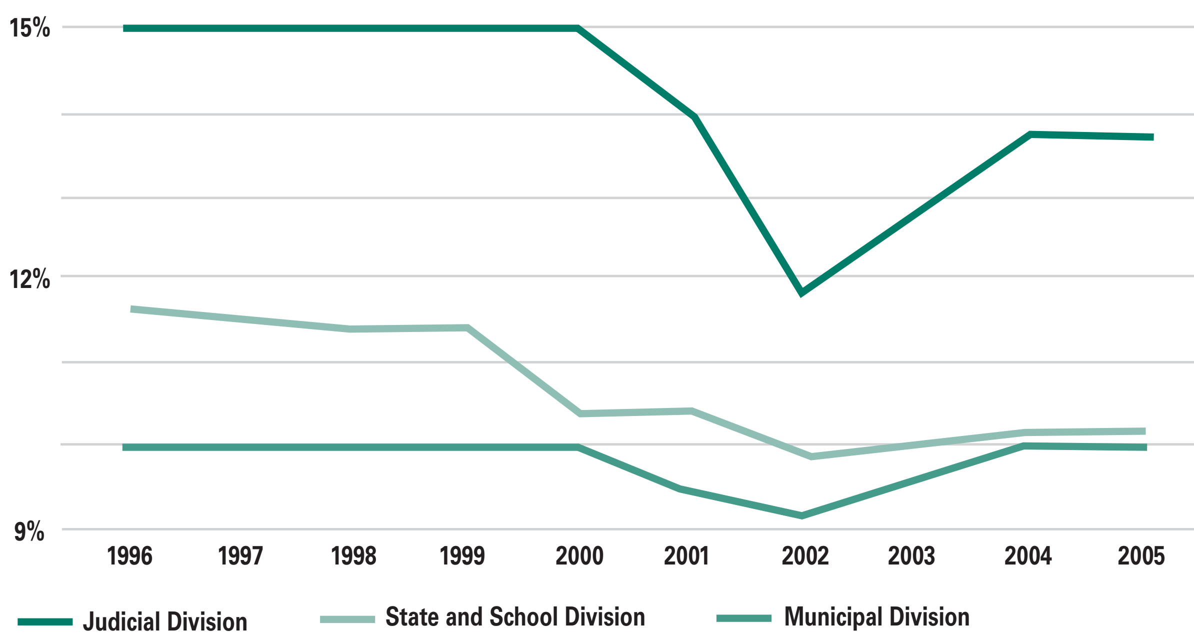
	Employer Rate 2005	
Trust Fund	ARC	Actual
State Division	19.33%	10.15%
State Troopers		12.85%
School Division	19.33%	10.15%
Municipal Division	14.11%	10.00%
Judicial Division	17.21%	13.66%
Health Care	1.13%	1.02%

For more detail on the ARC, see the Required Supplementary Information—Schedule of Employer Contributions on page 56.

Using the Governmental Accounting Standards Board (GASB) Statement No. 25 as a guide, the 2006 State Division Trust Fund employer contribution rate would need to be 17.23 percent, the 2006 School Division Trust Fund employer contribution rate would need to be 16.06 percent, the 2006 Municipal Division Trust Fund employer contribution rate would need to be 11.21 percent, the 2006 Judicial Division Trust Fund employer contribution rate would need to be 15.33 percent and the 2006 Health Care Trust Fund employer contribution rate would need to be to 0.99 percent to amortize the UAAL over the 40–year period called for by GASB.

The graph shown below shows the history of contribution rates for the last 10 years to provide a perspective on the current rate levels compared to those of the past.

Employer Contribution Rates 1996–2005



Board Initiatives to Improve Funding—In 2003, the Board pursued legislation which would stabilize the contribution rates and allow for increases or decreases in the rates when certain funding thresholds are reached. This legislation was passed, but ultimately vetoed.

In 2004, the Board again pursued legislation to improve funding, revise benefits, and move the Funds back toward achieving the 40–year amortization period goal. The Board proposed major legislation (Senate Bill 04-132 and Senate Bill 04-257) that would help to address PERA's funding needs in a cost-effective and equitable manner. Both pieces of legislation were enacted into law.

In 2005, Senate Bill 05-73 was enacted to close a loophole that was used by retirees who work after retirement.

Management's Discussion and Analysis
(In Thousands of Dollars)

During 2005, the PERA Board of Trustees worked on several legislative proposals that were contained in a bill introduced in 2006 by Senator Paula Sandoval as Senate Bill 06-174. SB 06-174 and competing legislation, Senate Bill 06-162 sponsored by Senator Dave Owen, were postponed indefinitely in committee prior to the introduction of compromise legislation, Senate Bill 06-235–Concerning Public Employees' Retirement Benefit Plans sponsored by Senator Paula Sandoval. This legislation improves funding, revises benefits, makes changes to Board governance and expands retirement plan choice to institutions of higher education. For more information on this bill, please refer to Note 9 to the Financial Statements on page 52 regarding the 2006 legislation.

The Board has also acted on issues of funding by raising the cost to purchase service credit effective November 1, 2003, and raised again effective November 1, 2005, to the full actuarial cost.

Service Purchases—In the Division Trust Funds, the level of service purchases increased from $212,802 in 2004 to $307,982 in 2005 due to the rate increase which became effective November 1, 2005.

Purchasing service credit increases the amount of service PERA will use to determine a member's eligibility for retirement and to calculate the benefit. (Purchasing service credit for periods of noncovered employment does not affect the salary amount used in calculating the benefit.) At the beginning of 2005 the costs to purchase service, expressed as a percentage of highest average salary (HAS), were as follows:

	Age at Purchase	
	Under Age 50	Age 50 and Over
State Troopers and CBI Agents	22.85% of HAS	26.85% of HAS
State and School Division	18.10% of HAS	22.10% of HAS
Municipal Division	18.10% of HAS	22.10% of HAS
Judicial Division	21.75% of HAS	25.75% of HAS

In September 2004, the Board voted to increase the rates for service credit purchases to the full actuarial cost which became effective November 1, 2005. With the pending increase in cost a significant number of members applied to purchase service credit before the November 1, 2005, deadline.

Life Insurance Reserve Program Changes

Effective April 1, 2005, Unum Life Insurance Company became the new carrier and administrator for PERA's life insurance program. Unum offers term life/accidental death and dismemberment (AD&D) insurance with a decreasing benefit based on age. The Unum plan replaced two previous life insurance options available to members through Anthem Life Insurance and Prudential. Unum administers all aspects of portability and conversion administration, evidence of insurability administration, beneficiary and assignment management, life insurance claim intake administration, internet administration, individual billing, and member level billing reconciliation. PERA will continue to collect the premiums from PERA-affiliated employers who withhold the premiums from members through payroll deductions. This information is transmitted to Unum monthly so Unum can determine the coverage status of each member. PERA's payment to Unum is based on a flexible funding premium agreement which limits the payments to the lesser of (1) the actual cumulative premiums collected or (2) an administrative fee plus actual claims paid. With the change to Unum, there is the potential for the plan to be exposed to year-to-year risk, although it is limited to the actual cumulative premiums collected. Under GASB Statement 10, the Life Insurance Reserve now accounts for all premiums collected as income and all claims paid as an expense. This caused the expense amount to increase in 2005, although it is offset by an increase in premium revenue as shown in the Statement of Changes in Fiduciary Net Assets. Member premiums collected will fully fund the benefits received and the Life Insurance Reserve Fund will not be used to provide increased life insurance benefits to active or retired members without increasing premiums to them.

Other Changes

Other Additions and Other Deductions—The other additions and other deductions varied during the year mainly due to the effects of Senate Bill 03-98 which requires a portion of the cost to purchase non-covered service credit (1.1 percent of the member's Highest Average Salary), to be transferred to the Health Care Trust Fund at the time of retirement, for each month purchased with interest to the date of transfer. During 2003, members purchased service in record amounts. Many of those members began retiring in 2004, with the overall number retiring decreasing from 5,171 in 2004 to 4,766 in 2005. Thus, the 2004 retirements included a greater amount of purchased service than the 2005 retirements and this resulted in larger transfers to the HCTF for the purchase allocation in 2004 than in 2005. The outflow from the Division Trust Funds is recorded as an other deduction and the inflow is shown in the Health Care Trust Fund as an other addition. A supplementary schedule detailing Other Additions and Other Deductions can be found in the Financial Section on page 62.

Administrative Expenses—Administrative expenses for the fund changed from 2004 to 2005 for two main reasons. The first relates to a 2004 internal review of the previous five years expense allocations which uncovered the need for an adjustment to the allocation for 2001 and 2002 and this was completed in 2004. The adjustment in 2004 for each fund was as follows: State and School Division Trust Fund $139, Municipal Division Trust Fund $13, Judicial Division Trust Fund $0, 401(k) Voluntary Investment Program ($215), Health Care Trust Fund $882, and Life Insurance Reserve ($819). The second reason for the change relates to a change in allocation methodology in 2005. During 2005 an internal team at PERA reviewed the current methodology and other alternatives and developed a more accurate method to allocate costs based on transactions processed at PERA. This new method was implemented and changes are reflected in the amounts allocated for 2005.

401(k) Voluntary Investment Program—For the 401(k) Voluntary Investment Program, total employer contributions to the fund decreased from $13,494 in 2004 to $2,484 in 2005. The decrease of $11,010 was primarily caused by the suspension (for the last seven months) of the gainsharing in the MatchMaker program. This program provided an employer match on members' voluntary contributions to tax-deferred defined contribution plans and ended May 31, 2004. New affiliate transfers decreased from $79,329 in 2004 to $0 in 2005. The amount in 2004 related to the transfer of assets from Boulder County as they merged into PERA's plan; no such transfer occurred in 2005. Refunds increased from $90,618 in 2004 to $187,557 in 2005 as members used their distributions to purchase additional service credit in the Division Trust Funds.

Management's Discussion and Analysis
(In Thousands of Dollars)

Comparative Financial Statements

Defined Benefit Pension Trust Funds. The three defined benefit funds provide retirement, survivor and disability benefits to the employees of affiliated State, School, Municipal and Judicial employers. Benefits are funded by member and employer contributions and by earnings on investments.

Defined Benefit Pension Trust Funds Fiduciary Net Assets

	Dec. 31, 2005	Dec. 31, 2004	% Change
Assets			
Cash and short-term investments	**$544,768**	$913,805	(40.4%)
Securities lending collateral	**5,164,968**	4,493,122	15.0%
Receivables	**306,792**	264,397	16.0%
Investments, at fair value	**33,809,940**	31,154,112	8.5%
Capital assets, net of accumulated depreciation	**19,146**	20,791	(7.9%)
Total assets	**39,845,614**	36,846,227	8.1%
Liabilities			
Security lending obligations	**5,164,968**	4,493,122	15.0%
Investment settlements and other liabilities	**151,848**	66,995	126.7%
Total liabilities	**5,316,816**	4,560,117	16.6%
Net assets available for benefits	**$34,528,798**	$32,286,110	6.9%

Defined Benefit Pension Trust Funds Changes in Fiduciary Net Assets

	Dec. 31, 2005	Dec. 31, 2004	% Change
Additions			
Employer contributions	**$548,796**	$502,778	9.2%
Member contributions	**476,215**	456,943	4.2%
Purchased service	**307,982**	212,802	44.7%
Investment income	**3,050,841**	3,940,926	(22.6%)
Other	**(7)**	30	(123.3%)
Total additions	**4,383,827**	5,113,479	(14.3%)
Deductions			
Benefit payments	**1,973,241**	1,764,717	11.8%
Refunds	**130,201**	121,734	7.0%
Disability insurance premiums	**4,502**	4,639	(3.0%)
Administrative expenses	**20,679**	22,915	(9.8%)
Other	**12,516**	15,049	(16.8%)
Total deductions	**2,141,139**	1,929,054	11.0%
Changes in net assets available for benefits	**$2,242,688**	$3,184,425	(29.6%)

(In Thousands of Dollars)

Defined Contribution Pension Trust Fund. The 401(k) Voluntary Investment Program provides retirement benefits to members of the Defined Benefit Pension Trust Funds who have voluntarily made contributions during their employment.

401(k) Voluntary Investment Program Fiduciary Net Assets

	Dec. 31, 2005	Dec. 31, 2004	% Change
Assets			
Cash and short-term investments	**$103,085**	$113,856	(9.5%)
Receivables	**49,098**	40,827	20.3%
Investments, at fair value	**1,150,384**	1,051,922	9.4%
Total assets	**1,302,567**	1,206,605	8.0%
Liabilities			
Investment settlements and other liabilities	**5,569**	1,880	196.2%
Total liabilities	**5,569**	1,880	196.2%
Net assets available for benefits	**$1,296,998**	$1,204,725	7.7%

401(k) Voluntary Investment Program Changes in Fiduciary Net Assets

	Dec. 31, 2005	Dec. 31, 2004	% Change
Additions			
Employer contributions	**$2,484**	$13,494	(81.6%)
Member contributions	**182,257**	179,909	1.3%
New affiliate transfer	**0**	79,329	(100.0%)
Investment income	**96,423**	110,598	(12.8%)
Other	**2,964**	2,388	24.1%
Total additions	**284,128**	385,718	(26.3%)
Deductions			
Refunds	**187,557**	90,618	107.0%
Administrative expenses	**4,298**	4,390	(2.1%)
Total deductions	**191,855**	95,008	101.9%
Changes in net assets available for benefits	**$92,273**	$290,710	(68.3%)

Management's Discussion and Analysis
(In Thousands of Dollars)

Healthcare Fund. The Health Care Trust Fund provides a health care premium subsidy to participating PERA benefit recipients and their eligible beneficiaries who choose to enroll in the Program. The Health Care Trust Fund is funded by amounts contributed by employers during an employee's working life based on a percentage of pay.

Health Care Trust Fund Fiduciary Net Assets

	Dec. 31, 2005	Dec. 31, 2004	% Change
Assets			
Cash and short-term investments	**$3,203**	$5,435	(41.1%)
Securities lending collateral	**30,369**	26,726	13.6%
Receivables	**13,881**	13,545	2.5%
Investments, at fair value	**198,800**	185,310	7.3%
Total assets	**246,253**	231,016	6.6%
Liabilities			
Security lending obligations	**30,369**	26,726	13.6%
Investment settlements and other liabilities	**22,752**	22,731	0.1%
Total liabilities	**53,121**	49,457	7.4%
Net assets available for benefits	**$193,132**	$181,559	6.4%

Health Care Trust Fund Changes in Fiduciary Net Assets

	Dec. 31, 2005	Dec. 31, 2004	% Change
Additions			
Employer contributions	**$61,193**	$60,465	1.2%
Retiree health care premium payments	**62,872**	59,453	5.8%
Investment income	**17,665**	23,117	(23.6%)
Other	**13,609**	16,116	(15.6%)
Total additions	**155,339**	159,151	(2.4%)
Deductions			
Benefit payments	**135,550**	130,917	3.5%
Administrative expenses	**8,216**	6,634	23.8%
Total deductions	**143,766**	137,551	4.5%
Changes in net assets available for benefits	**$11,573**	$21,600	(46.4%)

(In Thousands of Dollars)

Private Purpose Trust Fund. The Life Insurance Reserve administers a life insurance program for active and retired members. The Life Insurance Reserve was originally funded by dividends received from an insurance company as a return on the premiums paid by those members who have voluntarily enrolled in the life insurance programs. Currently, investment income from the fund is used to pay internal administrative expenses.

Life Insurance Reserve Fiduciary Net Assets

	Dec. 31, 2005	Dec. 31, 2004	% Change
Assets			
Cash and short-term investments	**$245**	$433	(43.4%)
Securities lending collateral	**2,323**	2,131	9.0%
Receivables	**67**	278	(75.9%)
Investments, at fair value	**15,206**	14,778	2.9%
Total assets	**17,841**	17,620	1.3%
Liabilities			
Security lending obligations	**2,323**	2,131	9.0%
Investment settlements and other liabilities	**818**	1,735	(52.9%)
Total liabilities	**3,141**	3,866	(18.8%)
Net assets available for benefits	**$14,700**	$13,754	6.9%

Life Insurance Reserve Changes in Fiduciary Net Assets

	Dec. 31, 2005	Dec. 31, 2004	% Change
Additions			
Retiree life insurance premium payments	**$7,351**	$0	N/A
Investment income	**1,652**	1,932	(14.5%)
Total additions	**9,003**	1,932	366.0%
Deductions			
Life insurance premiums	**5,571**	1,610	246.0%
Administrative expenses	**2,486**	(456)	(645.2%)
Total deductions	**8,057**	1,154	598.2%
Changes in net assets available for benefits	**$946**	$778	21.6%

Statement of Fiduciary Net Assets

As of December 31, 2005, with Comparative Totals for 2004
(In Thousands of Dollars)

	State and School Division Trust Fund	Municipal Division Trust Fund	Judicial Division Trust Fund	Total Defined Benefit Plans
Assets				
Cash and short-term investments				
Cash and short-term investments	$504,255	$37,461	$3,052	$544,768
Securities lending collateral	4,780,863	355,168	28,937	5,164,968
Total cash and short-term investments	5,285,118	392,629	31,989	5,709,736
Receivables				
Benefit	140,547	14,420	2,055	157,022
Interfund	0	0	4	4
Investment settlements and income	138,628	10,299	839	149,766
Total receivables	279,175	24,719	2,898	306,792
Investments, at fair value:				
U.S. government obligations	4,249,023	315,658	25,718	4,590,399
Domestic corporate bonds	2,284,592	169,721	13,828	2,468,141
International fixed income	682,999	50,740	4,134	737,873
Domestic stocks	13,635,078	1,012,942	82,528	14,730,548
International stocks	5,388,254	400,290	32,613	5,821,157
Alternative investments	2,746,049	204,002	16,621	2,966,672
Real estate equity	1,856,279	137,902	11,235	2,005,416
Real estate debt	96,830	7,193	586	104,609
Timber investments	356,484	26,483	2,158	385,125
Total investments, at fair value	31,295,588	2,324,931	189,421	33,809,940
Capital assets, at cost, net of accumulated depreciation of $22,132 and $19,806 at December 31, 2005, and 2004, respectively	17,411	1,716	19	19,146
Total assets	36,877,292	2,743,995	224,327	39,845,614
Liabilities				
Investment settlements and other liabilities	136,896	10,702	725	148,323
Securities lending obligations	4,780,863	355,168	28,937	5,164,968
Interfund	2,871	654	0	3,525
Total liabilities	4,920,630	366,524	29,662	5,316,816
Commitments and contingencies (Note 6)				
Net assets held in trust for pension plan benefits postemployment healthcare plan benefits, and Life Insurance Reserve participants	**$31,956,662**	**$2,377,471**	**$194,665**	**$34,528,798**
Net assets held for:				
Defined benefit pension plan benefits[1]	$31,956,662	$2,377,471	$194,665	$34,528,798
Defined contribution pension plan benefits	0	0	0	0
Postemployment healthcare plan benefits[1]	0	0	0	0
Private purpose trust fund participants	0	0	0	0
Net assets held in trust for pension plan benefits, postemployment healthcare plan benefits, and Life Insurance Reserve participants	**$31,956,662**	**$2,377,471**	**$194,665**	**$34,528,798**

[1] A schedule of funding progress is presented for each plan on pages 54–55.
The accompanying notes are an integral part of these financial statements.

Statement of Fiduciary Net Assets
As of December 31, 2005, with Comparative Totals for 2004
(In Thousands of Dollars)

401(k) Voluntary Investment Program	Total Pension Trust Funds	Health Care Trust Fund	Life Insurance Reserve	Combined Totals 2005	Combined Totals 2004
$103,085	$647,853	$3,203	$245	**$651,301**	$1,033,529
0	5,164,968	30,369	2,323	**5,197,660**	4,521,979
103,085	5,812,821	33,572	2,568	**5,848,961**	5,555,508
47,104	204,126	9,421	0	**213,547**	197,120
0	4	3,579	0	**3,583**	4,889
1,994	151,760	881	67	**152,708**	117,038
49,098	355,890	13,881	67	**369,838**	319,047
0	4,590,399	26,991	2,065	**4,619,455**	3,752,793
202,756	2,670,897	14,513	1,110	**2,686,520**	2,455,670
0	737,873	4,339	332	**742,544**	626,901
833,022	15,563,570	86,614	6,625	**15,656,809**	14,244,207
114,606	5,935,763	34,228	2,618	**5,972,609**	5,375,579
0	2,966,672	17,444	1,334	**2,985,450**	3,301,440
0	2,005,416	11,792	902	**2,018,110**	2,116,637
0	104,609	615	47	**105,271**	202,551
0	385,125	2,264	173	**387,562**	330,344
1,150,384	34,960,324	198,800	15,206	**35,174,330**	32,406,122
0	19,146	0	0	**19,146**	20,791
1,302,567	41,148,181	246,253	17,841	**41,412,275**	38,301,468
5,511	153,834	22,752	818	**177,404**	88,452
0	5,164,968	30,369	2,323	**5,197,660**	4,521,979
58	3,583	0	0	**3,583**	4,889
5,569	5,322,385	53,121	3,141	**5,378,647**	4,615,320
$1,296,998	**$35,825,796**	**$193,132**	**$14,700**	**$36,033,628**	**$33,686,148**
$0	$34,528,798	$0	$0	**$34,528,798**	$32,286,110
1,296,998	1,296,998	0	0	**1,296,998**	1,204,725
0	0	193,132	0	**193,132**	181,559
0	0	0	14,700	**14,700**	13,754
$1,296,998	**$35,825,796**	**$193,132**	**$14,700**	**$36,033,628**	**$33,686,148**

Statement of Changes in Fiduciary Net Assets

For the Year Ended December 31, 2005, With Comparative Combined Totals for 2004
(In Thousands of Dollars)

	State and School Division Trust Fund	Municipal Division Trust Fund	Judicial Division Trust Fund	Total Defined Benefit Plans
Additions				
Contributions				
Employers	$491,031	$54,357	$3,408	$548,796
Members	425,657	48,404	2,154	476,215
New affiliate transfer	0	0	0	0
Purchased service	212,971	92,018	2,993	307,982
Retiree health care premiums	0	0	0	0
Total contributions	1,129,659	194,779	8,555	1,332,993
Investment income				
Net appreciation in fair value of investments	2,086,857	152,825	12,528	2,252,210
Interest	321,134	23,052	1,917	346,103
Dividends	298,410	21,421	1,782	321,613
Real Estate, Alternative Investment, and Timber net operating income	235,739	16,922	1,408	254,069
Less investment expense	(124,292)	(8,922)	(742)	(133,956)
Net income from investing activities	2,817,848	205,298	16,893	3,040,039
Securities lending income	147,578	10,593	881	159,052
Less securities lending borrower rebates	(135,473)	(9,725)	(809)	(146,007)
Less securities lending agent fees	(2,082)	(149)	(12)	(2,243)
Net income from securities lending	10,023	719	60	10,802
Net investment income	2,827,871	206,017	16,953	3,050,841
Other additions	(9)	2	0	(7)
Total additions	3,957,521	400,798	25,508	4,383,827
Deductions				
Benefits				
Benefits paid to retirees/cobeneficiaries	1,850,377	89,278	9,527	1,949,182
Benefits paid to survivors	22,188	1,530	341	24,059
Benefits paid to health care participants	0	0	0	0
Total benefits	1,872,565	90,808	9,868	1,973,241
Refunds of contribution accounts, including match and interest	114,968	15,052	181	130,201
Disability and life insurance premiums	4,038	444	20	4,502
Administrative expenses	18,811	1,848	20	20,679
Other deductions/(transfers)	10,373	2,885	(742)	12,516
Total deductions	2,020,755	111,037	9,347	2,141,139
Net increase in assets available	**1,936,766**	**289,761**	**16,161**	**2,242,688**
Net assets available for pension plan benefits, postemployment healthcare plan benefits and Insurance Dividend Reserve participants				
Beginning of year	**30,019,896**	**2,087,710**	**178,504**	**32,286,110**
End of year	**$31,956,662**	**$2,377,471**	**$194,665**	**$34,528,798**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Fiduciary Net Assets

For the Year Ended December 31, 2005, With Comparative Combined Totals for 2004
(In Thousands of Dollars)

401(k) Voluntary Investment Program	Total Pension Trust Funds	Health Care Trust Fund	Life Insurance Reserve	Combined Totals 2005	Combined Totals 2004
$2,484	$551,280	$61,193	$0	**$612,473**	$576,737
182,257	658,472	0	0	**658,472**	636,852
0	0	0	0	**0**	79,329
0	307,982	0	0	**307,982**	212,802
0	0	62,872	7,351	**70,223**	59,453
184,741	1,517,734	124,065	7,351	**1,649,150**	1,565,173
72,930	2,325,140	12,990	1,046	**2,339,176**	3,261,230
7,834	353,937	2,026	158	**356,121**	344,923
15,628	337,241	1,883	388	**339,512**	360,732
0	254,069	1,487	116	**255,672**	225,319
0	(133,956)	(784)	(61)	**(134,801)**	(126,320)
96,392	3,136,431	17,602	1,647	**3,155,680**	4,065,884
323	159,375	931	73	**160,379**	52,381
(286)	(146,293)	(855)	(67)	**(147,215)**	(39,097)
(6)	(2,249)	(13)	(1)	**(2,263)**	(2,595)
31	10,833	63	5	**10,901**	10,689
96,423	3,147,264	17,665	1,652	**3,166,581**	4,076,573
2,964	2,957	13,609	0	**16,566**	18,534
284,128	4,667,955	155,339	9,003	**4,832,297**	5,660,280
0	1,949,182	0	0	**1,949,182**	1,741,245
0	24,059	0	0	**24,059**	23,472
0	0	135,550	0	**135,550**	130,917
0	1,973,241	135,550	0	**2,108,791**	1,895,634
187,557	317,758	0	0	**317,758**	212,352
0	4,502	0	5,571	**10,073**	6,249
4,298	24,977	8,216	2,486	**35,679**	33,483
0	12,516	0	0	**12,516**	15,049
191,855	2,332,994	143,766	8,057	**2,484,817**	2,162,767
92,273	**2,334,961**	**11,573**	**946**	**2,347,480**	**3,497,513**
1,204,725	**33,490,835**	**181,559**	**13,754**	**33,686,148**	**30,188,635**
$1,296,998	**$35,825,796**	**$193,132**	**$14,700**	**$36,033,628**	**$33,686,148**

Notes to the Financial Statements
(In Thousands of Dollars)

Note 1—Plan Description

Organization

Colorado PERA (PERA) was established in 1931; the statute relating to PERA is Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.). PERA administers cost-sharing multiple-employer defined benefit plans for the State and School Division Trust Fund, Municipal Division Trust Fund, and Judicial Division Trust Fund (Division Trust Funds). PERA also administers a cost-sharing multiple-employer defined benefit healthcare plan (Health Care Trust Fund, see Note 8), a private purpose trust fund (Life Insurance Reserve), and a multiple-employer Internal Revenue Code (IRC) Section 401(k) defined contribution plan (Voluntary Investment Program, see Note 7). The purpose of the Division Trust Funds is to provide benefits to members at retirement or disability, or to their beneficiaries in the event of death. Members of PERA are employed by public employers (most of whom do not participate under Social Security) located in the state of Colorado and affiliated with PERA.

Responsibility for the organization and administration of the Division Trust Funds, Health Care Trust Fund (HCTF), Voluntary Investment Program, and Life Insurance Reserve is placed with the Board of Trustees (the Board) of PERA. The State Division Trust Fund was established in 1931, the School and Municipal Division Trust Funds in 1944, and the Judicial Division Trust Fund in 1949. The State and School Division Trust Funds were combined in 1997.

The number of active affiliated employers for the three Divisions is as follows:

	As of December 31	
	2005	2004
State and School	286[1]	265[1]
Municipal	133	128
Judicial	6	6
Total employers	**425**	**399**

[1] In addition to the 177 School Districts affiliated with PERA, there are 28 Institutions of Higher Education, 61 (41 in 2004) Agencies and Instrumentalities of the State, 18 (17 in 2004) Boards of Cooperative Services (BOCS)/Boards of Cooperative Educational Services (BOCES), and 2 Vocational Schools for a total number of affiliated employers in the State and School Division of 286 (265 in 2004).

Membership

Division Trust Funds-Defined Benefit Pension Plans

Benefit recipients and members of PERA consisted of the following as of December 31, 2005, and with comparative combined totals for 2004:

	State and School	Municipal	Judicial	2005	2004
Retirees and beneficiaries currently receiving benefits	67,588	3,562	251	71,401	67,900
Terminated members entitled to benefits, but not yet receiving them	12,332	942	15	13,289	12,548
Non-vested inactive members	101,452	11,079	3	112,534	103,770
Active members:					
Vested					
General employees	84,066	6,865	221	91,152	95,976
State troopers	563			563	566
Non-vested					
General employees	79,959	8,690	54	88,703	80,124
State troopers	212			212	174
Total active members	164,800	15,555	275	180,630	176,840
Totals	**346,172**	**31,138**	**544**	**377,854**	**361,058**

Voluntary Investment Program

See Note 7.

Health Care Trust Fund

See Note 8.

(In Thousands of Dollars)

Benefit Provisions

Division Trust Funds-Defined Benefit Pension Plans

Benefit provisions for the Colorado PERA defined benefit plans are specified in Title 24, Article 51 of Colorado Revised Statutes. These provisions may be amended by the Colorado General Assembly.

Service Retirement Benefits

The age and service requirements to be eligible for a service retirement benefit or a reduced service retirement benefit are listed below:

Service Retirement Benefits (Other Than Troopers)*

Minimum Service Credit	Minimum Age
30 Years**	50
Age and Service = 80 years or more	55
5 Years	65
Less than 5 years	65

Reduced Service Retirement Benefits (Other Than Troopers)*

Minimum Service Credit	Minimum Age
25 Years	50
20 Years	55
5 Years	60

* State troopers, as defined in C.R.S. §24-51-101(46) have slightly earlier age and service requirements to be eligible for service retirement benefits as specified in C.R.S. §24-51-602(1)(b).

** Members hired on or after July 1, 2005, are eligible for service retirement benefits at age 55 with 30 years of service, and are eligible at any age with 35 years of service.

A service retirement benefit is determined by the higher of (1) the defined benefit calculation or (2) the money purchase benefit calculation. The defined benefit calculation is as follows:

Defined Benefit Calculation = (Years of Service Credit Multiplied by 2.5%) Multiplied by Highest Average Salary (HAS).

The money purchase benefit calculation is determined by the member's life expectancy and the value of the member's contribution account plus a matching amount as of the date of retirement. The matching amount is 100 percent of the member's contributions and accrued interest at the time of retirement.

HAS, for all members except judges, is one-twelfth of the average of the highest annual salaries on which PERA contributions were paid that are associated with three periods of 12 consecutive months of service credit. The three 12–month periods do not have to be consecutive nor do they have to be the last three years of employment. A 15 percent annual limit in salary increases applies if any salary used in the HAS calculation is from the three years prior to retirement.

HAS for members in the Judicial Division (judges) is the highest salary associated with one period of 12 consecutive months of service credit.

A service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit amount allowed by federal law.

Reduced service retirement benefits are calculated as a service retirement benefit and then are reduced for each month prior to the member's first eligible service retirement date based upon the reduction factors specified in C.R.S. § 24-51-605.

Members of the Judicial Division who were on the bench on or before July 1, 1973, have a slightly different service retirement benefit calculation.

Members who have less than five years of service, but who have 60 months on the payroll may receive the greater of (1) the defined benefit calculation or (2) the money purchase benefit calculation at age 65. Members who have less than five years of service and who do not have 60 months on the payroll may receive a money purchase benefit only.

Retirees may elect to receive their retirement benefits in the form of single or joint-life monthly payments.

Disability Program

PERA provides members a two-tier Disability Program consisting of short-term disability (STD) insurance and a disability retirement benefit. Members are not charged a premium. PERA's Disability Program requires that members have five or more years of earned service credit, with at least six months of this credit earned since the most recent period of membership in order to be

Notes to the Financial Statements
(In Thousands of Dollars)

eligible to apply for program benefits. Applicants, based upon the disabling condition, may be eligible to receive disability retirement benefits, short term disability payments or no benefits, if found not disabled.

Disability retirement benefits are provided to members who are totally and permanently mentally or physically incapacitated from regular and substantial gainful employment. The amount of the disability retirement benefit is based on the member's HAS and earned, purchased, and in some circumstances, projected service credit. Disability retirees may elect to receive their benefits in the form of single or joint-life monthly payments.

Short-term disability (STD) payments are provided to members who are mentally or physically incapacitated from performance of essential job duties after reasonable accommodation, but who are not totally and permanently incapacitated from regular and substantial gainful employment. STD payments are an insurance product that provide reasonable income replacement and rehabilitation or retraining services. The maximum period for short-term disability payments is 22 months, and the maximum income replacement is 60 percent of the member's pre-disability PERA-includable salary as defined in C.R.S. § 24-51-101(42).

Survivor Benefits Program
Monthly survivor benefits may be paid to the qualified survivors of deceased members who have at least one year of earned service credit at the time of death. Qualified survivors generally include minor children, a surviving spouse, dependent parents, and for deceased members who were eligible for retirement at the time of death, a cobeneficiary.

Benefits are specified in statute and vary based upon the deceased's HAS, years of service credit, the qualified survivor to whom benefits are paid, and the number of qualified survivors receiving benefits.

The one-year requirement is waived if the death is job related.

If a member dies with less than one year of service credit or with no qualified survivors, the deceased's named beneficiary or the estate receives a lump-sum payment of the member's contribution account plus a matching amount equal to 100 percent of the member's contributions and interest.

Post-Retirement Annual Increases in Benefits
Service retirement, disability retirement and survivor benefits are increased by 3.5 percent, compounded annually, each March. The first annual increase occurs in the March that immediately follows the calendar year in which the benefit recipient began receiving benefits. If benefits have been payable for less than a full year, a prorata annual increase is made.

Annual increases for members hired on or after July 1, 2005, will equal 3 percent or the actual change in the Consumer Price Index, whichever is lower.

Account Withdrawals
Upon termination of PERA-covered employment, members may opt to withdraw or refund their account in lieu of future monthly benefits. Such a withdrawal cancels any service credit and benefit entitlement the member may have had.

Members who withdraw their accounts before reaching retirement eligibility, as noted above, or before reaching age 65 receive a refund of their member account plus a 50 percent match. Members who withdraw their accounts upon reaching retirement eligibility or age 65 receive their member account plus a 100 percent match. State law specifies those amounts credited to a member account upon which the match is determined.

State law authorizes the PERA Board to determine the interest to be credited to member accounts. Beginning July 1, 2004, the Board set the interest rate at 5 percent compounded annually. In no event shall the Board specify a rate that exceeds 5 percent.

Service Credit
Members earn service credit for each month of work and salary (as defined in state law) for a PERA-affiliated employer. A full month of service credit is earned for each month of work and salary equal to 80 multiplied by the federal minimum wage in effect for that month. Salary earned which is less than this amount results in a partial month of service credit.

Eligible members may purchase additional service credit subject to limitations in state law. Service credit which was forfeited as a result of a withdrawal of a member's account may also be purchased upon resumption of membership and upon earning one year of service credit. In either case, the purchase may be funded with tax-paid money or the rollover or transfer of certain tax-deferred money as allowed by federal law.

Voluntary Investment Program
See Note 7.

Health Care Trust Fund
See Note 8.

Pension Plan Disclosure Statements for PERA Employees

All employees of PERA, an affiliated employer, are members of the State and School Division Trust Fund and earn and accrue benefits as would any other member as described above. As an affiliated employer of the State and School Division Trust Fund, PERA also contributes to the Health Care Trust Fund (see Note 8) and employees are able to voluntarily participate in the Voluntary Investment Program (see Note 7).

PERA's contributions to the State and School Division Trust Fund for the years ending December 31, 2005, 2004, and 2003, were $1,578, $1,258, and $1,086, respectively, equal to its required contributions for each year. PERA's contributions to the Health Care Trust Fund for the years ending December 31, 2005, 2004, and 2003, were $175, $154, and $168, respectively, equal to its required contributions for each year. The 401(k) Plan member contributions from PERA for the years ended December 31, 2005, 2004, and 2003, were $1,526, $1,295, and $1,028, respectively. The PERA MatchMaker contributions to the 401(k) Plan for the years ended December 31, 2005, 2004, and 2003, were $0, $60, and $283, respectively. In addition to the MatchMaker program, PERA also provides its employees with an employer match to their contributions to the 401(k) Plan, and the totals for the years ended December 31, 2005, 2004, and 2003 were $274, $256, and $250, respectively.

Life Insurance Reserve

The Life Insurance Reserve (LIR) is an accumulation of dividends received from an insurance company as a return on the premiums paid by those members who have voluntarily enrolled in life insurance programs, adjusted for actual historical experience. The proceeds from LIR received are used to pay the internal administrative costs of the plan.

Termination of Colorado PERA

If PERA is partially or fully terminated for any reason, state law (C.R.S. § 24-51-217) provides that the rights of all members and benefit recipients to all benefits on the date of termination, to the extent then funded, will become nonforfeitable.

Note 2—Summary of Significant Accounting Policies

Reporting Entity

The Board oversees all funds included in the financial statements of PERA and has the ability to influence operations. The Board's responsibilities include designation of management, membership eligibility, investment of funds, and accountability for fiscal matters.

PERA is an instrumentality of the state; it is not an agency of state government. Also, it is not subject to administrative direction by any department, commission, board, bureau, or agency of the state. Accordingly, PERA's financial statements are not included in the financial statements of any other organization.

Basis of Presentation

The accompanying financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statements numbers 25, 26, 28, 34, and 37, as well as generally accepted accounting principles that apply to governmental accounting for fiduciary funds.

In March 2003, the GASB issued Statement No. 40, "Deposit and Investment Risk Disclosures an Amendment of GASB Statement No. 3." The objective of this Statement is to update the custodial credit risk disclosure requirements of GASB Statement No. 3 and to establish more comprehensive disclosure requirements addressing other common deposit and investment risks. PERA adopted the provisions of this standard for the year ended December 31 2005, and the additional note disclosures can be found in Note 4.

In April 2004, the GASB issued Statement No. 43, "Financial Reporting for Postemployment Benefits Other Than Pensions." The Statement will be effective for periods beginning after December 15, 2005. PERA has chosen not to adopt this Statement early. Accordingly, the effect of implementing the Statement has not been determined for these financial statements and disclosures.

In May 2004, the GASB issued Statement No. 44, "Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1." The Statement will be effective for statistical sections prepared for periods beginning after June 15, 2005. PERA has chosen not to adopt this Statement early. Accordingly, the effect of implementing the Statement has not been determined for these financial statements and disclosures.

Basis of Accounting

The accompanying financial statements for the pension trust funds, the private purpose trust fund, and the healthcare plan are prepared using the economic resources measurement focus and the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires PERA to use estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from those estimates. Member and employer contributions are recognized as revenues in the period in which the employer pays compensation to the member and the employer is statutorily committed to pay these contributions to the pension trust funds and the HCTF. Benefits and refunds are recognized when due and payable.

(In Thousands of Dollars)

Fund Accounting

The financial activities of the State and School Division Trust Fund, the Municipal Division Trust Fund, the Judicial Division Trust Fund, the HCTF, the LIR, and the Voluntary Investment Program are recorded in separate funds. The State and School, Municipal, and Judicial Divisions maintain separate accounts, and all actuarial determinations are made using separate Division-based information.

The Division Trust Funds, the HCTF, and the LIR pool their investments into a combined investment portfolio. Investment value and earnings of the investment pool are allocated among the funds based on each fund's percentage ownership. As of December 31, 2005, and 2004, the ownership percentages of each fund were as follows:

	Ownership Percentage As of December 31	
	2005	**2004**
State and School	91.98%	92.39%
Municipal	6.83	6.42
Judicial	0.56	0.55
HCTF	0.58	0.59
LIR	0.05	0.05
Total	**100.00%**	**100.00%**

The administrative activities and operating assets and liabilities are pooled and recorded in a common operating fund. Expenses incurred and net operating assets are allocated from the common operating fund to the Division Trust Funds based on the ratio of the number of members and benefit recipients at the beginning of the year in each Division to the total for all the Division Trust Funds. Expenses are allocated to the HCTF, the LIR, and the Voluntary Investment Program based on transactional volumes and resources devoted to these Funds.

Fair Value of Investments

Plan investments are presented at fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate and timber investments are based on periodic independent appraisals. Other investments that do not have an established market (including venture capital, leveraged buyout funds, and special situation funds within the alternative investment category; see Note 4) are recorded at estimated fair value. Short-term investments are carried at cost, which approximates fair value.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is calculated using the straight-line method, with estimated lives ranging from three to forty years in the following major classes: vehicles, five years; computer and office equipment, three years to five years; office furniture and leasehold improvements, ten years; and building and building additions, forty years.

Note 3—Contributions

Division Trust Funds-Defined Benefit Pension Plans

Members and employers are required to contribute to PERA at a rate set by statute. The contribution requirements of plan members and affiliated employers are established under C.R.S. §§ 24-51-401 *et seq.*

Members are required to contribute 8 percent of their PERA-includable salary, except for State Troopers and Colorado Bureau of Investigation officers, who contribute 10 percent. These contributions are placed in individual member accounts. Member contributions are tax-deferred for federal and state income tax purposes, effective July 1, 1984, and January 1, 1987, respectively. Prior to those dates, contributions were made on an after-tax basis.

(In Thousands of Dollars)

PERA-affiliated employers also contribute a percentage of payroll. The contribution rates for the combined retirement benefits and health care benefits from January 1, 2005, through December 31, 2005, were as follows:

Employer Contributions as a Percent of Members' Salaries
January 1, 2005, Through December 31, 2005

Division	Membership	Contributions
State and School	All members (except State Troopers)	10.15%
State and School	State Troopers	12.85%
Municipal	All members	10.00%
Judicial	All members	13.66%

Beginning July 1, 2005, employers that rehire a PERA retiree as an employee or under any other work arrangement, are required to report and pay employer contributions on the amounts paid for the retiree.

PERA-affiliated employers forward the contributions to PERA for deposit. A portion of these contributions, which are for health care benefits, are transferred to the HCTF with the remainder of these contributions being transferred to a trust fund established for each Division for the purpose of creating actuarial reserves for future benefits.

Replacement Benefit Arrangements

IRC §415 limits the amount of the benefit payable to a retiree in a defined benefit plan. For some, the IRC limit is lower than the benefit that would normally be calculated under the plan provisions. IRC §415(m) allows a government plan to set up a "qualified governmental excess benefit arrangement" to pay the difference to those retirees. To accomplish this, Colorado PERA has entered into agreements with the employers who last employed the affected retirees. Under the agreement, a portion of current employer contributions are used by employers to pay the retiree to make up the benefit difference. In 2005, employers under these agreements used the following current employer contributions to pay retirees: $152 in the State and School Division; $70 in the Municipal Division; $0 in the Judicial Division.

Voluntary Investment Program

See Note 7.

Health Care Trust Fund

See Note 8.

Note 4—Investments

Investment Authority

Under C.R.S. § 24-51-206, the Board has responsibility for the investment of PERA's funds, with the following investment limitations:

- The aggregate amount of monies invested in corporate stocks or corporate bonds, notes, or debentures that are convertible into stock or in investment trust shares cannot exceed 65 percent of the then book value of the fund.
- No investment of the fund in common or preferred stock (or both) of any single corporation can exceed 5 percent of the then book value of the fund.
- The fund cannot acquire more than 12 percent of the outstanding stocks or bonds of any single corporation.

Cash

PERA has no formal policy regarding custodial credit risk for deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, PERA would not be able to recover deposits or would not be able to recover collateral securities that are in the possession of an outside party. All of PERA's deposits are insured and/or collateralized by securities held by PERA's agent in PERA's name. Therefore, at December 31, 2005, PERA had no cash deposits that were exposed to custodial credit risk.

Cash balances represent both operating cash accounts held by the banks and investment cash on deposit with the investment custodian. To maximize investment income, the float caused by outstanding checks is invested, thus causing a possible negative book balance. Negative book balances are reflected in the liabilities section of the Statement of Fiduciary Net Assets.

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The carrying value of cash and short-term investments at December 31, 2005, on the Statement of Fiduciary Net Assets includes short-term fixed income of $125,363 and deposit and money market funds of $525,938 for a total of $651,301. PERA considers fixed income and real estate debt investments purchased with a maturity of 12 months or less to be short-term investments.

The table below presents the PERA combined total deposits and money market funds as of December 31, 2005.

	Carrying Value	Bank Balance
Deposits with banks *(fully insured by federal depository insurance)*	$293	$293
Deposits held at bank *(fully collateralized by underlying securities, held by PERA's agent in PERA's name)*	22,171	22,171
Money market funds held at bank *(fully collateralized by underlying securities, held by PERA's agent in PERA's name)*	503,474	503,474
Total deposits and money market funds	**$525,938**	**$525,938**

Securities Lending Transactions

C.R.S. § 24-51-206 and Board policies permit PERA to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. PERA's custodian, The Northern Trust Company, lends securities of the type on loan at year-end for collateral in the form of U.S. and non-U.S. currencies, Organization for Economic Cooperation and Development (OECD) government securities, equities, and irrevocable letters of credit. When the loaned securities and the collateral are denominated in the same currency, the initial collateralization is not less than 102 percent. When the loaned securities and the collateral are in different currencies, the initial collateralization is not less than 105 percent. Collateral is marked to market daily if price movements exceed certain minimal thresholds. There are no restrictions on the amount of securities that can be lent at one time.

The following table represents the balances relating to the securities lending transactions at December 31, 2005. (Amounts are reported at fair value.)

Securities Lent	Underlying Securities	Securities Collateral Value	Cash Collateral Investment Value
Lent for cash collateral:			
U.S. government obligations	$2,613,657	$—	$2,675,227
Domestic corporate bonds	277,347	—	284,887
Domestic stocks	1,784,899	—	1,833,258
International government fixed income	36,597	—	38,312
International corporate fixed income	3,104	—	3,246
International stocks	342,435	—	362,730
Subtotal	5,058,039	—	5,197,660
Lent for securities collateral:			
U.S. government obligations	224,718	230,100	—
Domestic corporate bonds	36,372	37,242	—
Domestic stocks	51,017	52,375	—
International government fixed income	35,646	37,506	—
International stocks	601,136	635,252	—
Subtotal	948,889	992,475	—
Grand Total	**$6,006,928**	**$992,475**	**$5,197,660**

(In Thousands of Dollars)

As of December 31, 2005, PERA had no credit risk exposure to borrowers because the market value of the collateral held exceeds the market value of the securities amount borrowed. The contract with PERA's lending agent provides that the lending agent will indemnify PERA if loaned securities are not returned and PERA suffers direct losses due to a borrower's default or the lending agent's noncompliance with the contract. PERA had no losses on securities lending transactions resulting from the default of a borrower or the lending agent for the year ended December 31, 2005.

PERA or the borrower can terminate any security loan on demand. Though every loaned security can be sold and reclaimed at any time from the borrower, the weighted average loan life of overall loans was 92 days as of December 31, 2005. Cash collateral is invested in a custom collateral account made up of a combination of The Northern Trust Company's Collective Short-Term Extendible Portfolio (54.1 percent), The Northern Trust Company's Short-Term Advantage Fund (1.5 percent), and The Northern Trust Company's Global Core Collateral Section (44.4 percent). The weighted average maturities of these funds as of December 31, 2005, were 78, 87, and 39 days, respectively. The Northern Trust Company manages withdrawals daily. Cash collateral may also be invested separately in term loans, in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower. PERA cannot pledge or sell non-cash collateral unless the borrower defaults.

The following table represents the balances relating to the securities lending transactions as of December 31, 2005, and December 31, 2004.

	Carrying Amount (Fair Value) of Underlying Securities 12/31/2005	Carrying Amount (Fair Value) of Underlying Securities 12/31/2004
U.S. government obligations	$2,838,375	$2,257,414
Domestic corporate bonds	313,719	376,939
International fixed income	75,347	38,108
Domestic stocks	1,835,916	1,682,232
International stocks	943,571	1,176,472
Total	**$6,006,928**	**$5,531,165**

As of December 31, 2005, the fair value of lent securities was $6,006,928. The fair value of associated collateral was $6,190,135. Of this amount, $5,197,660 represents the fair value of cash collateral and $992,475 represents the fair value of the non-cash collateral. Non-cash collateral, which PERA does not have the ability to pledge or sell unless the borrower defaults, is not reported in the balance sheet. PERA's income net of expenses from securities lending was $10,901 for the year ended December 31, 2005. Included in net securities lending income is $509 from commingled funds. As of December 31, 2004, the fair value of lent securities was $5,531,165. The fair value of associated collateral was $5,681,175. Of this amount, $4,521,979 represents the fair value of cash collateral and $1,159,176 represents the fair value of the non-cash collateral. PERA's income net of expenses from securities lending was $10,689 for the year ended December 31, 2004. Included in net securities lending income is $284 from commingled funds.

For December 31, 2005, PERA has implemented the Governmental Accounting Standards Board Statement 40. In accordance with GASB 40, PERA discloses investments that are subject to custodial credit risk, concentration of credit risk, credit risk, interest rate risk and foreign currency risk. The GASB 40 disclosures replace the investments risk categories table included in the December 31, 2004, *Comprehensive Annual Financial Report.*

Custodial Credit Risk

PERA has no formal policy for custodial credit risk for investments. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, PERA would not be able to recover the value of investment or collateral securities that are in possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in PERA's name and are held by either a counter party or the counter party's trust department or agent but not in PERA's name. Northern Trust Company is the master custodian for the majority of PERA's securities. At December 31, 2005, there were no investments or collateral securities subject to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of PERA's investment in a single issuer. C.R.S. § 24-51-206 (3) requires that no investment of the fund in common or preferred stock, or both, of any single corporation shall be of an amount which exceeds 5 percent of the then book value of the fund, nor shall the fund acquire more than 12 percent of the outstanding stock or bonds of any single corporation. The 12 percent requirement does not apply to governmental securities (U.S. Treasuries, sovereigns, etc.), GSE securities (agencies including FNMA, FHLMC, etc.), mortgage-backed securities (agency or non-agency), commercial mortgage-backed securities (CMBS), asset-backed securities, or municipal securities. There is no single

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issuer exposure that comprises 5 percent of the then book value of the fund and no holdings greater than 12 percent of the outstanding stock or bonds of any single corporation at December 31, 2005.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. PERA's credit risk policy is as follows:

PERA has established policies and guidelines for each fixed income portfolio specifying (1) the types of securities that can be acquired and (2) the appropriate ratings for securities that are acquired. In addition, portfolios have limits on the amount of securities that can be held below certain specified ratings.

The following table provides PERA's Standard & Poor's (S&P) credit quality ratings at December 31, 2005:

Credit Quality Rating Dispersion Schedule

Quality Rating S & P	Grand Total	U.S. Govt Mortgage Backed Securities	U.S. Corporate Bonds	Implicit U.S. Govt Agencies	Non-U.S. Corporate Bonds	Non-U.S. Govt Bonds	Non-U.S. Govt Agencies	Non-Agency MBS	U.S. Municipal Bonds	Real Estate Debt
AGENCY	$2,352,047	$2,065,484	$–	$286,563	$—	$—	$—	$—	$—	$—
AAA	697,947	—	49,879	455,693	73,966	6,943	55,397	56,069	—	—
AA+	19,209	—	–	—	14,334	—	4,875	—	—	—
AA	25,919	—	19,535	—	6,384	—	—	—	—	—
AA-	153,073	—	88,504	10,561	2,576	41,545	9,887	—	—	—
A+	224,499	—	189,267	—	20,597	14,635	—	—	—	—
A	320,730	—	286,469	—	26,770	5,041	2,450	—	—	—
A-	135,227	—	85,551	—	39,954	9,722	—	—	—	—
BBB+	172,445	—	145,334	—	27,111	—	—	—	—	—
BBB	259,055	—	143,290	—	47,448	68,317	—	—	—	—
BBB-	110,016	—	107,066	—	2,950	—	—	—	—	—
BB+	78,540	—	60,754	—	14,496	3,290	—	—	—	—
BB	129,317	—	51,163	—	3,493	74,661	—	—	—	—
BB-	151,144	—	89,034	—	1,274	60,836	—	—	—	—
B+	54,175	—	46,085	—	6,085	2,005	—	—	—	—
B	70,869	—	60,409	—	6,674	3,786	—	—	—	—
B-	43,827	—	36,160	—	4,083	3,584	—	—	—	—
CCC+	1,291	—	1,291	—	—	—	—	—	—	—
CCC	1,591	—	1,591	—	—	—	—	—	—	—
NR[1]	264,686	—	58,036	—	26,420	—	8,191	23,960	42,808	105,271
Subtotal	$5,265,607	$2,065,484	$1,519,418	$752,817	$324,615	$294,365	$80,800	$80,029	$42,808	$105,271
U.S. Govts	981,526									
Explicit U.S. Govt Agencies	206,290									
U.S. Lehman Aggregate Pooled Investment	1,622,974									
Total	**$8,076,397**									

[1] Not rated by S&P.

(In Thousands of Dollars)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. PERA utilizes effective duration as the primary measure of interest rate risk within its fixed income investments. Duration estimates the sensitivity of a bond's price to interest rate changes. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds, mortgage-backed securities and variable-rate debt. PERA, as specified in its investment policies, manages its exposure to fair value losses arising from changes in interest rates by requiring that the duration of individual portfolios stay within defined bands of the duration of each portfolio's benchmark.

Effective duration for PERA fixed income holdings as of December 31, 2005, is disclosed in the following table:

Interest Risk—Effective Duration

	Fair Value Total	Duration Not Available	Fair Value Net	Effective Weighted Duration
U.S. government mortgage backed securities	$2,271,774	$—	$2,271,774	3.79
U.S. Lehman aggregate pooled investment	1,622,974	—	1,622,974	4.47
U.S. corporate bonds	1,519,418	47,399	1,472,019	5.00
U.S. governments	981,526	—	981,526	5.29
U.S. government agencies	752,817	24,997	727,820	2.88
Non-U.S. corporate bonds	324,615	—	324,615	5.75
Non-U.S. government bonds	294,365	3,541	290,824	6.25
Non-U.S. government agencies	80,800	—	80,800	8.00
Non-agency MBS	80,029	—	80,029	2.46
U.S. municipal bonds	42,808	42,808	0	N/A
Real estate debt	105,271	105,271	0	N/A
Total	**$8,076,397**	**$224,016**	**$7,852,381**	**4.46**

Reconciliation of Credit and Interest Rate Risk Disclosures to Financial Statements

U.S. government obligations	$4,619,455
Domestic corporate bonds	2,686,520
International fixed income	742,544
Real estate debt	105,271
Fixed-income securities classified as short-term	125,363
Less 401(k) domestic corporate bonds	(202,756)
Total fixed income securities	**$8,076,397**

Note: All 401(k) domestic corporate bonds are held in commingled mutual fund investment vehicles.

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Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment or a deposit. PERA's currency risk exposures reside primarily within the externally managed international equity holdings. PERA has no formal policy regarding foreign currency risk, but has set the following guidelines. Currency exposure is managed actively in the international equity portfolios. PERA's external managers may buy and sell futures, forwards and options contracts and enter into swap transactions and non-deliverable forwards to hedge PERA's investments against currency fluctuations. In addition, there is currency risk exposure in the alternative and real estate investments that are non-U.S. dollar denominated.

PERA's exposure to foreign currency risk in U.S. dollars as of December 31, 2005, is disclosed in the following table:

Foreign Currency Risk

Currency	Total	Intl Stocks	Cash and Short-Term Investments	Domestic Stocks	Alternative Investments	Real Estate Equity	Intl Stock Pending Trades
Euro	$1,071,057	$937,391	$4,357	$–	$184,723	$20,366	($75,780)
Japanese yen	687,021	644,669	453	–	–	5,208	36,691
British pound sterling	487,254	560,259	1,910	–	13,869	–	(88,784)
Swiss franc	277,276	270,935	1,198	1,437	–	–	3,706
Australian dollar	119,730	139,082	56	–	–	–	(19,408)
South Korean won	99,766	99,766	3,090	–	–	–	(3,090)
Hong Kong dollar	99,223	104,686	534	–	–	–	(5,997)
Swedish krona	89,029	42,168	115	–	–	–	46,746
South African rand	67,887	55,676	2	–	–	–	12,209
Mexican peso	36,878	19,808	–	–	–	11,367	5,703
Singapore dollar	34,515	11,888	162	–	–	–	22,465
Thai baht	31,691	13,489	1,939	–	–	–	16,263
Norwegian krone	23,610	23,599	11	–	–	–	–
Brazilian real	18,695	18,695	–	–	–	–	–
New Zealand dollar	15,073	15,057	16	–	–	–	–
Malaysian ringgit	12,717	12,717	–	–	–	–	–
Taiwan dollar	11,414	9,532	1,882	–	–	–	–
Turkish Lira	10,673	10,805	2,037	–	–	–	(2,169)
Danish krone	8,318	3,423	2	–	–	–	4,893
Indonesian rupiah	8,189	8,189	–	–	–	–	–
Polish zloty	8,004	8,004	–	–	–	–	–
Canadian dollar	6,881	30,802	25	–	4,356	–	(28,302)
Hungarian forint	6,822	6,822	–	–	–	–	–
Israeli new shekel	2,959	2,959	–	–	–	–	–
Egyptian pound	1,917	1,884	33	–	–	–	–
Czech koruna	1,520	1,520	–	–	–	–	–
Total	**$3,238,119**	**$3,053,825**	**$17,822**	**$1,437**	**$202,948**	**$36,941**	**($74,854)**

(In Thousands of Dollars)

Alternative Investments

The following table presents the categories of investments within the alternative investment asset class at December 31, 2005.

	Fair Value at December 31, 2005
Leveraged buyout funds	$1,927,340
Venture capital	812,165
Special situations	245,945
Total alternative investments	**$2,985,450**

Note 5—Financial Instruments with Off-Balance Sheet Risk

Forward Foreign Exchange Contracts

A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. No losses occurred in 2005. Forwards are usually traded over-the-counter. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuation and to facilitate trade settlement of foreign security transactions. Forwards carry market risk resulting from adverse fluctuations in foreign exchange rates. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorably or unfavorably to the contract holder upon termination of the contract. Prior to termination of the contract, PERA records the unrealized currency translation gain or loss based on the applicable forward exchange rates.

At December 31, 2005, PERA had outstanding forward foreign exchange contracts to purchase foreign currencies with a fair value of $429,980 and outstanding contracts to sell foreign currencies with a fair value of ($425,687).

Total Return Swap

Total return swaps represent an agreement between counterparties to exchange cash flows by reference to specified indexes on a notional principal amount for a specified period. PERA had one CMBS total return swap contract open at year-end held within the fixed income holdings. Pursuant to the swap agreement, PERA agreed to pay a floating rate of interest based on the United States Dollar-LIBOR-BBA which resets monthly and PERA receives the total return of the Lehman CMBS Index. PERA entered into this contract because it is an efficient way to gain exposure to the CMBS asset class.

PERA is exposed to credit risk in the event of nonperformance by the counterparty to the financial instrument. The risk that the counterparty will fail to meet its obligation is low. Interest rate swaps carry market risk, which results from adverse market changes and changes in interest rates.

The fair value of this contract was $249 as of December 31, 2005.

The financial instruments discussed above involve, to varying degrees, elements of market risk to the extent of future market movements in excess of the amounts recognized in the Statement of Fiduciary Net Assets. Market risk arises from the potential unfavorable change in the value of the underlying instruments. The following contract or notional amounts of these instruments reflect the extent of PERA's involvement in each class of financial instrument as of December 31, 2005. The contract or notional amounts do not represent the exposure to market loss.

Contracts	Description	Contract or Notional Value
41	Long forward foreign exchange contracts	$427,244
41	Short forward foreign exchange contracts	(427,244)
1	Interest rate swap	$50,000

Notes to the Financial Statements
(In Thousands of Dollars)

Mortgage-Backed Securities

A mortgage-backed security depends on the underlying pool of mortgage loans to provide the cash flow to make principal and interest payments on the security. A decline in interest rates can result in prepayments, which reduces the fair value of the security. Alternatively, an increase in interest rates results in decreased prepayments which may cause the return on a mortgage investment to be higher than anticipated. A collateralized mortgage obligation (CMO), is a mortgage-backed security that is comprised of classes of bonds created by prioritizing the cash flows of the underlying mortgage pool. This redistributes prepayment risk among the various bond classes in the CMO structure.

PERA invests in mortgage-backed securities for diversification and to enhance fixed income returns. Mortgage-backed securities are subject to credit risk, the risk that the borrower will be unable to meet its obligations. These securities are also subject to prepayment risk, which is the risk that a payment will be made in excess of the regularly scheduled principal payment. Prepayment risk is comprised of two risks: call risk, the risk that prepayments will occur when interest rates have declined, and extension risk, the risk that prepayments will not be made when interest rates have increased.

As of December 31, 2005, the fair value of government mortgage-backed securities was $2,271,774 and the fair value of asset-backed securities was $151. The fair value of CMOs as of December 31, 2005, was $80,029.

Note 6—Commitments and Contingencies

As of December 31, 2005, PERA had commitments for the future purchase of investments in alternative investments of $1,518,781, and real estate of $765,466.

As of December 31, 2005, PERA had an open letter of credit in connection with the December 2002 sale of a real estate interest in a pooled fund investment, Lazard France. This letter of credit has been extended one year and is to terminate December 31, 2006. PERA executed a warranty agreement at the onset of its investment in the fund which became exercisable at the sale of this investment to the guaranteed purchaser of investors' interests in the fund. As a condition of the warranty agreement, PERA was required to provide a bank guarantee to secure fulfillment of PERA's potential obligations to the purchaser. PERA's guarantee has been reduced from 1,826 Euros ($2,475 in U.S. dollars) at the end of December 31, 2004, to 691 Euros ($819 in U.S. dollars), for a pending tax liability. PERA is awaiting a hearing with the French tax consulate for final determination which is expected to occur in 2006.

Note 7—Voluntary Investment Program-PERA's 401(k) Defined Contribution Pension Plan Description

The Voluntary Investment Program is an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA to provide benefits at retirement to PERA members in the State and School, Municipal, and Judicial Division Trust Funds. Plan participation is voluntary to all PERA members (described in Note 1), and contributions are separate from the defined benefit contributions made to PERA. At December 31, 2005, there were 72,867 participants with account balances.

In 2005, participants could contribute the lesser of $14,000, or 100 percent of compensation less PERA contributions and employer 401(k) contributions. Catch-up contributions up to $4,000 in 2005 were allowed for participants who had attained age 50 before the close of the Plan Year, subject to the limitations of IRC Section 414(v). Employer contributions are allowable in the plan with total participant and employer contributions limited to $42,000 per participant in 2005. The contribution requirements for the program are established under C.R.S. § 24-51-1402.

Participants of the Voluntary Investment Program are allowed to transfer account balances among 17 investment funds, or change the contribution percentages designated to each fund on a daily basis. The 17 investment funds are: Northern Trust Short Term Fund, PIMCO Low Duration Fund, PIMCO Total Return Fund, Dodge & Cox Balanced Fund, Vanguard Institutional Index Fund, Dodge & Cox Stock Fund, PERA Growth & Income Stock Fund, Fidelity Contrafund, GMO US Growth Fund, American Funds EuroPacific Growth Fund, Vanguard Small Cap Index Fund, Fidelity Freedom Income Fund, Fidelity Freedom 2000 Fund, Fidelity Freedom 2010 Fund, Fidelity Freedom 2020 Fund, Fidelity Freedom 2030 Fund, and Fidelity Freedom 2040 Fund. Participants may access their funds through loans, in-service withdrawals, and distributions as allowed under the Internal Revenue Code. Plan provisions are established or are authorized to be established by the Board under C.R.S. §§ 24-51-1401 *et seq.*

Significant Accounting Policies-401(k) Voluntary Investment Program

Basis of Accounting

The Voluntary Investment Program financial statements are prepared using the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires PERA to use estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from those estimates. Employer and participant contributions are recognized as revenues in the period in which the employer pays compensation to the participant and the employer is statutorily committed to pay these contributions. Benefit receivables are not allocated to investment funds.

Method Used to Value Investments
Plan investments are presented at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Investment Concentrations
No investments represent 5 or more percent of the Voluntary Investment Program plan net assets at December 31, 2005.

Note 8—Health Care Trust Fund-PERA's Cost-Sharing Multiple-Employer Defined Benefit Healthcare Plan

Plan Description and Benefit Provisions

The Health Care Trust Fund (HCTF) provides a health care premium subsidy to participating PERA benefit recipients who choose to enroll in one of PERA's health care plans. C.R.S. §§ 24-51-1201 *et seq.* specifies the eligibility for enrollment and the amount of the premium subsidy. The maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the subsidy is $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is for benefit recipients whose retirement benefits are based on 20 years or more of service credit. For those with less service credit, the subsidy is reduced by 5 percent for each year less than 20 years. The benefit recipient pays the remaining portion of the premium if the subsidy does not cover the entire amount. An additional subsidy exists for retirees who have not participated in Social Security and are not otherwise eligible for Medicare Part A for hospital-related services. C.R.S. § 24-51-1206(4) states that the HCTF cannot charge premiums to retirees without Part A that are greater than premiums charged to retirees with Part A for the same plan option, coverage level, and service credit. Currently for each individual retiree, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Parts A and B. Implicit in this process, an additional subsidy is paid by the HCTF on behalf of retirees who are not covered by Medicare Part A. As of December 31, 2005, the HCTF had 41,080 enrollees of whom 15,001 were under age 65 and 26,619 who were age 65 or older.

The HCTF offers two general types of health plans—fully insured plans offered through healthcare organizations and self-insured plans administered for PERA by third party vendors. The plan designs offered include HMO, PPO, Medicare Supplement, Medicare Advantage, and Medicare Cost plans.

In addition, all of the fully insured pre-Medicare health plans are available to any PERA employer who voluntarily elects to provide health care coverage through the Health Care Program for its employees who are PERA members. PERA acts as a purchaser of private insurance to obtain economies of scale for the employers that elect to join in the joint purchasing arrangement. The insurance companies who provide coverage through the program set rates based on employer size and geographic region. For larger employers (those with more than 250 eligible employees), the insurance companies provide custom rates. In all cases, there is no transfer of risk to the HCTF, to PERA, or between the participating employers. The insurance companies providing the benefits bear the risk for the plan. The employers and/or participants pay the premiums for the coverage. PERA collects the premiums and deposits them into the HCTF and then pays these premiums to the insurance companies who provide the coverage. As of December 31, 2005, PERA had 25 employers in the program with 332 active members enrolled.

Dental and vision plans are also available to participants. These plans are all fully insured; the risk is borne by the insurance companies that are contracted to provide the coverage. The participants and/or employers pay the premiums for the coverage. PERA collects the premiums and deposits them into the HCTF and then pays these premiums to the insurance companies who provide the coverage. There is no PERA subsidy provided for the dental and vision plans. As of December 31, 2005, there were 18,379 members and retirees enrolled in the dental plans and 16,648 members and retirees enrolled in the vision plans.

The Board has the authority to contract, self-insure, and make disbursements necessary to carry out the purposes of the Program. PERA contracts with a major national insurance carrier to administer claims for the self-insured plans, with a national prescription benefit manager to administer a pharmacy benefit for the self-insured plans, and with health insurance companies to provide fully insured health plans providing services within Colorado.

Membership

Enrollment in the Health Care Program is voluntary and available to the following eligible individuals:

- PERA benefit recipients and their dependents.
- Guardians of children receiving PERA survivor benefits if the children are enrolled in the Program.
- Surviving spouses of deceased retirees who are not receiving PERA benefits, but were enrolled in the Program when death occurred.

Notes to the Financial Statements
(In Thousands of Dollars)

- Divorced spouses of retirees who are not receiving PERA benefits, but were enrolled in the Program when the divorce occurred.
- Members while receiving short-term disability program payments.
- Members whose employers have elected to provide coverage through the Health Care Program and such members' dependents.

Contributions

The HCTF is funded by affiliated employer contributions for all PERA members equal to 1.02 percent of covered salaries in 2005. Funding is also provided from a portion of the amount paid by members to purchase service credit; premium receipts for participating benefit recipients, members, and dependents; interest; and a proportional share of investment income. The contribution requirements for the affiliated employers are established under C.R.S. § 24-51-208.

Note 9—Subsequent Events

During the 2006 legislative session, a bill that impacts PERA was passed by the Legislature and signed into law by Governor Owens on May 25, 2006. The features of the bill that could potentially impact the financial statements to the greatest extent are listed below:

Senate Bill 06-235. Concerning Public Employees' Retirement Benefit Plans

Provisions of SB 06-235 include:

- The addition of a Supplemental Amortization Equalization Disbursement (SAED) that will begin in January of 2008 at 0.5 percent per year until an additional 3 percent is implemented. The SAED will be discontinued when each division trust fund reaches 100 percent funding. The SAED is noted in statute as foregone compensation increases from employees.
- The statutorily prescribed amortization period will be reduced from 40 years to 30 years.
- The General Assembly must contract for an independent actuarial study before any future benefit enhancements can occur.
- The Board of Trustees will be reduced to 15 members as follows: 11 member-elected members (4 from the School Division, 3 from the State Division, 1 from the Local Government Division, 1 from the Judicial Division, and 2 retirees), the State Treasurer, and three members appointed by the Governor with Senate confirmation. These appointees would be required to have specific relevant professional experience. The State Auditor position on the Board will be eliminated.
- For members hired on or after January 1, 2007, a 3-year HAS with an 8 percent cap will be used to calculate the retirement benefit; these members will be subject to a Rule of 85, where age and service must equal 85 with a minimum retirement age of 55; and a new Annual Increase Reserve fund will be established to provide cost of living adjustments (COLAs) equal to the lower of 3 percent or the CPI for retirees with one full year in retirement and age 60, or if the years of service plus age equals 85, and limited to available funds.
- The expansion of Defined Contribution Choice to institutions of higher education effective January 1, 2008. New employees in higher education would be eligible to select the PERA DB Plan, the PERA DC Plan, or the State DC Plan, in addition to existing Optional Retirement Plans (ORPs) at institutions that have ORPs. This includes faculty and administrators who have not previously had access to the PERA DB, PERA DC, or the State DC Plan. It also includes classified staff who have not been eligible for DC Choice. Current members of ORPs could not elect to participate in PERA DB, PERA DC, or the State DC Plan.

During the 2005 legislative session, several bills that impact PERA were passed by the Legislature and were signed into law. The features of the bills that impact the financial statements to the greatest extent are listed below:

Senate Bill 05-73. Work After Retirement by PERA Retirees for PERA Employers

This bill will close a loophole some PERA retirees are using to circumvent the 110-day limit on work after retirement. The bill has one provision that will be implemented after December 31, 2005:

- Apply the Amortization Equalization Disbursement (AED) on contributions paid by PERA employers on salaries paid to PERA retirees.

This bill was signed into law by Governor Owens on June 2, 2005.

House Bill 05-1231. Technical Changes to SB 04-257

This bill corrects some technical issues related to SB 257 regarding the DC plan option available for new hire state employees in 2006. This bill was signed into law by Governor Owens on April 7, 2005.

During the 2004 legislative session, the following bill that impacted PERA and its financial statements to the greatest extent was passed by the Legislature and signed into law:

Senate Bill 04-257. Public Employee Retirement Plans

This bill will provide additional employer funding for PERA and will expand the defined contribution plan option beyond elected officials to new hire state government employees. Major provisions of this bill that will be implemented after the year ended December 31, 2005, includes the following:

- An "Amortization Equalization Disbursement" (AED) will be established and will require each PERA employer to pay 0.5 percent of salary to PERA each year, beginning January 1, 2006, increasing by 0.5 percent of salary in 2007 and by 0.4 percent of salary each subsequent year, reaching a maximum of 3 percent of salary in 2012 and thereafter. This payment will be used to help amortize PERA's unfunded liability. The current contribution rates to PERA are not adequate to amortize PERA's unfunded liability within a 40-year period. If at some point in the future the AED reduces the amortization period below 40 years, the AED payment will be scaled back below 3 percent of salary. If PERA approached 100 percent funded status, the AED would be repealed.
- Separation of the State and School Divisions beginning January 1, 2006. The School Division will not have the DC (defined contribution) plan option and creating a separate division protects the School Division from any funding deterioration the DC option could cause in the State Division.
- Increase in School employer rates. The actuarial normal cost of PERA benefits for school members is about 0.4 percent of salary higher than for state members. To reflect this cost in School Division rates, the School employer contribution rate to PERA will increase by 0.4 percent of salary, beginning January 1, 2013.
- Provide that new state employees hired on or after January 1, 2006, will have the option to be covered by PERA DB or DC Plan or the State DC Plan. This decision will be made in the first 60 days of employment and will be irrevocable. If the member chooses PERA, he or she may elect into the PERA DC plan if they wish. If no election is made within 60 days, the new employee will be covered by the PERA Defined Benefit (DB) plan. The AED will be paid by employers on the payroll of PERA members as well as on the payroll of new hire state employees who elect the State DC Plan instead of PERA.
- Employees in higher education would not have the options added by SB 257.
- Renames the Municipal Division the PERA Local Government Division beginning January 1, 2006.

This bill was signed into law by Governor Owens on June 4, 2004.

Required Supplementary Information—Schedule of Funding Progress

For the Years Ended December 31
(In Thousands of Dollars)

State Division[1]

	2005
Actuarial value of assets (a)	**$12,536,916**
Actuarial accrued liability (b)	**17,541,744**
Total unfunded (overfunded) actuarial accrued liability (UAAL/OAAL) (b-a)	**5,004,828**
Funded ratio (a/b)	**71.5%**
Covered payroll	**2,064,764**
UAAL/OAAL as a percentage of covered payroll	**242.4%**

[1] The State and School Divisions were merged on July 1, 1997, and separated on January 1, 2006.

School Division[1]

	2005
Actuarial value of assets (a)	**$19,184,225**
Actuarial accrued liability (b)	**25,963,972**
Total unfunded (overfunded) actuarial accrued liability (UAAL/OAAL) (b-a)	**6,779,747**
Funded ratio (a/b)	**73.9%**
Covered payroll	**3,241,214**
UAAL/OAAL as a percentage of covered payroll	**209.2%**

[1] The State and School Divisions were merged on July 1, 1997, and separated on January 1, 2006.

State and School Division[1]

	2004	2003	2002	2001	2000
Actuarial value of assets (a)	$28,594,699	$28,522,222	$28,551,607	$28,947,935	$27,749,435
Actuarial accrued liability (b)	40,783,531	37,914,502	32,463,918	29,469,608	26,492,574
Total unfunded (overfunded) actuarial accrued liability (UAAL/OAAL) (b-a)	12,188,832	9,392,280	3,912,311	521,673	(1,256,861)
Funded ratio (a/b)	70.1%	75.2%	87.9%	98.2%	104.7%
Covered payroll	5,303,439	5,140,918	5,278,586	4,954,605	4,561,133
UAAL/OAAL as a percentage of covered payroll	229.8%	182.7%	74.1%	10.5%	(27.6)%

[1] The State and School Divisions were merged on July 1, 1997, and separated on January 1, 2006.

The accompanying notes are an integral part of the Required Supplementary Information.

Required Supplementary Information—Schedule of Funding Progress

For the Years Ended December 31
(In Thousands of Dollars)

Municipal Division

	2005	2004	2003	2002	2001	2000
Actuarial value of assets (a)	**$2,358,719**	$1,990,652	$1,907,786	$1,839,632	$1,822,413	$1,717,017
Actuarial accrued liability (b)	**3,022,624**	2,576,988	2,379,229	1,966,143	1,746,761	1,541,014
Total unfunded (overfunded) actuarial accrued liability (UAAL/OAAL) (b-a)	**663,905**	586,336	471,443	126,511	(75,652)	(176,003)
Funded ratio (a/b)	**78.0%**	77.2%	80.2%	93.6%	104.3%	111.4%
Covered payroll	**607,217**	549,607	479,098	474,760	436,582	399,737
UAAL/OAAL as a percentage of covered payroll	**109.3%**	106.7%	98.4%	26.6%	(17.3)%	(44.0)%

Judicial Division

	2005	2004	2003	2002	2001	2000
Actuarial value of assets (a)	**$193,305**	$170,111	$166,654	$162,901	$165,130	$159,426
Actuarial accrued liability (b)	**223,955**	209,954	198,377	165,672	150,943	132,653
Total unfunded (overfunded) actuarial accrued liability (UAAL/OAAL) (b-a)	**30,650**	39,843	31,723	2,771	(14,187)	(26,773)
Funded ratio (a/b)	**86.3%**	81.0%	84.0%	98.3%	109.4%	120.2%
Covered payroll	**26,937**	26,309	25,452	26,357	24,140	21,673
UAAL/OAAL as a percentage of covered payroll	**113.8%**	151.4%	124.6%	10.5%	(58.8)%	(123.5)%

Health Care Trust Fund

	2005	2004	2003	2002	2001	2000
Actuarial value of assets (a)	**$191,264**	$166,619	$160,416	$161,700	$138,198	$116,034
Actuarial accrued liability (b)	**1,116,627**	1,102,597	897,461	813,211	782,961	809,709
Total unfunded actuarial accrued liability (UAAL) (b-a)	**925,363**	935,978	737,045	651,511	644,763	693,675
Funded ratio (a/b)	**17.1%**	15.1%	17.9%	19.9%	17.7%	14.3%
Covered payroll	**5,940,132**	5,879,355	5,645,468	5,779,703	5,415,327	4,982,543
UAAL as a percentage of covered payroll	**15.6%**	15.9%	13.1%	11.3%	11.9%	13.9%

The accompanying notes are an integral part of the Required Supplementary Information.

Required Supplementary Information—Schedule of Employer Contributions

For the Years Ended December 31
(In Thousands of Dollars)

State Division[2]

	2005
Dollar amount of annual required contribution (ARC)	**$398,919**
ARC[1]	**19.33%**
% ARC contributed	**48%**

[1] As a percent of covered payroll. ARC based on prior year-end actuarial study.
[2] The State and School Divisions were merged on July 1, 1997, and separated on January 1, 2006.

School Division[2]

	2005
Dollar amount of annual required contribution (ARC)	**$627,082**
ARC[1]	**19.33%**
% ARC contributed	**48%**

[1] As a percent of covered payroll. ARC based on prior year-end actuarial study.
[2] The State and School Divisions were merged on July 1, 1997, and separated on January 1, 2006.

State and School Division[2]

	2004	2003	2002	2001	2000
Dollar amount of annual required contribution (ARC)	$918,025	$571,156	$315,825	$314,649	$420,031
ARC[1]	17.31%	11.11%	6.37%	6.84%	9.82%
% ARC contributed	51%	69%	100%	100%	100%

[1] As a percent of covered payroll. ARC based on prior year-end actuarial study.
[2] The State and School Divisions were merged on July 1, 1997, and separated on January 1, 2006.

Municipal Division

	2005	2004	2003	2002	2001	2000
Dollar amount of annual required contribution (ARC)	**$85,372**	$76,835	$45,658	$21,972	$25,435	$32,639
ARC[1]	**14.11%**	13.98%	9.53%	5.02%	6.26%	8.90%
% ARC contributed	**64%**	62%	69%	100%	100%	100%

[1] As a percent of covered payroll. ARC based on prior year-end actuarial study.

Judicial Division

	2005	2004	2003	2002	2001	2000
Dollar amount of annual required contribution (ARC)	**$4,634**	$4,267	$1,013	$383	$637	$2,726
ARC[1]	**17.21%**	16.22%	3.98%	1.55%	1.79%	13.40%
% ARC contributed	**74%**	64%	100%	100%	100%	100%

[1] As a percent of covered payroll. ARC based on prior year-end actuarial study.

Health Care Trust Fund

	2005	2004	2003	2002	2001	2000
Dollar amount of annual required contribution (ARC)	**$67,793**	$59,969	$65,487	$92,562	$74,324	$51,351
ARC[1]	**1.13%**	1.02%	1.16%	1.71%	1.48%	1.10%
% ARC contributed	**90%**	100%	100%	100%	100%	100%

[1] As a percent of covered payroll. ARC based on prior year-end actuarial study.

The accompanying notes are an integral part of the Required Supplementary Information.

Note 1—Description

The historical trend information about the State and School Division Trust Fund, Municipal Division Trust Fund, Judicial Division Trust Fund, and the Health Care Trust Fund is presented as required supplementary information. This information is intended to help users assess the funding status on a going-concern basis and to assess progress made in accumulating assets to pay benefits when due.

Note 2—Actuarial Assumptions and Methods

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	State Division Trust Fund	School Division Trust Fund	Municipal Division Trust Fund	Judicial Division Trust Fund	Health Care Trust Fund
Valuation date	12/31/05	12/31/05	12/31/05	12/31/05	12/31/05
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent, Open	Level percent, Open	Level percent, Open	Level percent, Open	Level percent, Open
Amortization period used in ARC calculation	40	40	40	40	40
Remaining amortization period with current funding	Infinite[1]	Infinite[1]	Infinite[1]	Infinite[1]	35
Asset valuation method	4–year smoothed market	4–year smoothed market	4–year smoothed market	4–year smoothed market	4–year smoothed market
Actuarial assumptions					
Investment rate of return[2]	8.50%	8.50%	8.50%	8.50%	8.50%
Projected salary increases[2]	4.5–10.17%	4.5–10.7%	4.5–11.47%	5.0–6.0%	Not applicable
Cost-of-living adjustments	3.50% compounded annually	3.50% compounded annually	3.50% compounded annually	3.50% compounded annually	None
Health care inflation factor	Not applicable	Not applicable	Not applicable	Not applicable	5.50% per annum applicable to Medicare Part A costs

[1] See Management's Discussion and Analysis on unfunded actuarial accrued liabilities on page 24.
[2] Includes inflation at 3.75 percent.

Note 3—Significant Factors Affecting Trends in Actuarial Information

Pension Plans

2005 Changes in Plan Provisions Since Prior Year—State, School, Municipal, and Judicial Division Trust Funds:

- Senate Bill 04-257 provides that the State and School Divisions will be split beginning January 1, 2006, and the 2005 actuarial information has been shown separately.
- Fully recognized the transitional amount of unrealized gains from the 1992 actuarial change from cost value to smoothed market value.
- Changed the method of calculating the actuarial value of assets such that the expected rate of investment return going forward will be based on the beginning of year market value, with annual differences between the actual and expected market value of assets smoothed over a four-year period.
- Reset the actuarial value of assets to be equal to the market value of assets as of December 31, 2004.
- Mortality, withdrawal, retirement, disability, and salary increase assumptions were changed based on the actuarial experience study performed in 2005.

Notes to the Required Supplementary Information

2004 Changes in Plan Provisions Since Prior Year—Combined State and School, Municipal, and Judicial Division Trust Funds:

- Suspension of MatchMaker contributions on June 1, 2004.
- Reduction in the interest rate credited to member contribution accounts from 80 percent of the actuarial valuation interest rate to a rate determined by the PERA Board, such rate not to exceed 5 percent per annum beginning July 1, 2004.
- A reduction in the allocation of the employer contribution rate to the Health Care Trust Fund from 1.10 percent to 1.02 percent of salary on or after July 1, 2004, with the difference increasing pension funding.
- Gradual increases in payments toward PERA's unfunded liability starting January 1, 2006, at 0.5 percent of salary, increasing 0.5 percent in 2007 and by 0.4 percent of salary each subsequent year, reaching a maximum of 3 percent of salary by 2012 and thereafter known as the Amortization Equalization Disbursement (AED). If at some point in the future the amortization period reduces below 40 years, the AED will be scaled back below 3 percent of salary. If PERA approached 100 percent of funded status, the AED would be repealed.
- School Division employer contribution rate is increased from 10.15 percent to 10.55 percent in 2013.

2003 Changes in Plan Provisions Since Prior Year—Combined State and School, Municipal, and Judicial Division Trust Funds:

- The actuarial investment assumption rate was changed from 8.75 percent to 8.50 percent, the rate of inflation assumption was changed from 4.50 percent to 3.75 percent, the real rate of return assumption was changed from 4.25 percent to 4.75 percent, and the payroll growth rate assumption was changed from 5.50 percent to 4.50 percent.

2002 Changes in Plan Provisions Since Prior Year—Combined State and School, Municipal, and Judicial Division Trust Funds:

- No material changes.

2001 Changes in Plan Provisions Since Prior Year—Combined State and School, Municipal, and Judicial Division Trust Funds:

- Mortality, withdrawal, retirement, disability, and pay increase assumptions were changed based on the actuarial experience study performed in 2001.

2000 Changes in Plan Provisions Since Prior Year—Combined State and School, Municipal, and Judicial Division Trust Funds:

- A Modified Rule of 80 provision was added. Members whose age plus years of service total 80 or more will retire without reduction for early retirement, if they are at least age 55 and have a minimum of five years of service.
- The annual increase for PERA benefit recipients was fixed at 3.5 percent compounded annually.
- If the actuarial valuation determines that either the State and School or Judicial Division is overfunded, then for the following year:
  - The employer contribution rate will be reduced by 20 percent of the ten-year amortization of the overfunding, with statutory minimum reductions. In addition, a portion of the employer contribution will be made available for MatchMaker, the defined contribution plan matching program. The maximum amount available for MatchMaker will be 2 percent of covered salaries plus 50 percent of the ten-year amortization of the overfunding. The level of the matching contributions will be determined by the Board for each calendar year based on the amount available. In addition, a portion of the employer contribution equal to 30 percent of the ten-year amortization of the overfunding will be allocated to the Health Care Trust Fund.
- If the actuarial valuation determines that the Municipal Division is overfunded, then for the following year:
  - The employer contribution rate will be temporarily reduced by 20 percent of the ten-year amortization of the overfunding. In addition, a portion of the employer contribution will be made available for MatchMaker, the defined contribution plan matching program. The maximum amount available for MatchMaker will be 0.5 percent of covered salaries plus 50 percent of the ten-year amortization of the overfunding. The level of the matching contributions will be determined by the Board for each calendar year based on the amount available. In addition, a portion of the employer contribution equal to 30 percent of the ten-year amortization of the overfunding will be allocated to the Health Care Trust Fund.

Health Care Trust Fund

2005 Changes in Plan Provisions Since Prior Actuarial Valuation—Health Care Trust Fund:

- Changed the method of calculating the actuarial value of assets such that the expected rate of investment return going forward will be based on the beginning of year market value, with annual differences between the actual and expected market value of assets smoothed over a four-year period.
- Reset the actuarial value of assets to be equal to the market value of assets as of December 31, 2004.

- Mortality, withdrawal, retirement, disability, and expected rates of participation in the Health Care Trust Fund programs were changed based on the actuarial experience study performed in 2005.

2004 Changes in Plan Provisions Since Prior Actuarial Valuation—Health Care Trust Fund:

- A reduction in the allocation of the employer contribution rate to the Health Care Trust Fund from 1.10 percent to 1.02 percent of salary on or after July 1, 2004, with the difference increasing pension funding.
- The valuation considers the implicit subsidy provided to retired members over age 65 who are not fully covered by Medicare Part A.

2003 Changes in Plan Provisions Since Prior Actuarial Valuation—Health Care Trust Fund:

- The actuarial investment assumption rate was changed from 8.75 percent to 8.50 percent, the rate of inflation assumption was changed from 4.50 percent to 3.75 percent, the real rate of return assumption was changed from 4.25 percent to 4.75 percent, and the payroll growth rate assumption was changed from 5.50 percent to 4.50 percent.

2002 Changes in Plan Provisions Since Prior Actuarial Valuation—Health Care Trust Fund:

- No material changes.

2001 Changes in Plan Provisions Since Prior Actuarial Valuation—Health Care Trust Fund:

- Mortality and rate of Health Care Program participation assumptions were changed based on the actuarial experience study performed in 2001.

2000 Changes in Plan Provisions Since Prior Actuarial Valuation—Health Care Trust Fund:

- If the actuarial valuation for the State and School, Municipal, or Judicial Division Trust Fund determines that any Division is overfunded, then for the following year a portion of that Division's employer contribution, equal to 30 percent of the ten-year amortization of the overfunding, will be allocated to the Health Care Trust Fund.

Schedule of Administrative Expenses

For the Year Ended December 31
(In Thousands of Dollars)

	2005	2004
Personnel services		
Salaries	$16,865	$16,220
Employee benefits	4,628	4,698
Total personnel services	**21,493**	**20,918**
Professional contracts		
Actuarial contracts	631	374
Audits	189	148
Investment counsel	997	627
Legal and legislative counsel	1,906	1,059
Computer services and consulting	767	621
Management consulting	1,195	336
Health care consultants	97	77
Other	125	160
Total professional contracts	**5,907**	**3,402**
Miscellaneous		
Equipment rental and services	570	644
Memberships	149	156
Publications and subscriptions	72	62
Travel and local expense	538	617
Auto expense	13	27
Telephone	271	313
Postage	879	1,122
Insurance	250	251
Printing	541	479
Office supplies	233	305
Building rent, supplies, and utilities	704	735
Total miscellaneous	**4,220**	**4,711**
Total budgeted expense	**31,620**	**29,031**
Depreciation expense	1,354	1,337
Life Insurance Reserve direct expenses	1,986	0
Health Care Trust Fund direct expenses	4,725	4,709
401(k) Voluntary Investment Program direct expenses	3,964	3,340
Total expense	**43,649**	**38,417**
Interfund–tenant and other expense	638	870
Interfund–internal investment manager expenses	(8,608)	(5,804)
Total administrative expense	**$35,679**	**$33,483**
Allocation of administrative expense		
State and School Division Trust Fund	$18,811	$20,949
Municipal Division Trust Fund	1,848	1,943
Judicial Division Trust Fund	20	23
401(k) Voluntary Investment Program	4,298	4,390
Health Care Trust Fund	8,216	6,634
Life Insurance Reserve	2,486	(456)
Total allocation	**$35,679**	**$33,483**

Note: After an internal review of the previous five year expense allocations, an adjustment was needed for 2001 and 2002 and was made in 2004. The adjustments for each fund were as follows: State and School Division Trust Fund $139, Municipal Division Trust Fund $13, Judicial Division Trust Fund $0, 401(k) Voluntary Investment Program ($215), Health Care Trust Fund $882, and Life Insurance Reserve ($819). During 2005 an internal team at PERA reviewed the current methodology and other alternatives and developed a more accurate method to allocate costs based on transactions processed.

Schedule of Investment Expenses

For the Year Ended December 31
(In Thousands of Dollars)

	2005	2004
External manager expenses		
Domestic fixed income	**$3,010**	$2,929
Domestic equity	**2,515**	2,588
International equity	**14,030**	13,970
International fixed income	**7**	557
Alternative investments	**50,664**	54,405
Real estate debt and equity	**51,547**	39,420
Timber investments	**3,071**	3,083
Total external manager expenses	**124,844**	**116,952**
Internal manager expenses	**8,608**	5,804
Other investment expenses and custody fees	**1,349**	3,564
Total investment expenses	**$134,801**	**$126,320**

Schedule of Payments to Consultants

For the Year Ended December 31
(In Thousands of Dollars)

	2005	2004
Professional contracts		
Actuarial contracts	**$631**	$374
Audits	**189**	148
Legal and legislative counsel	**1,906**	1,059
Computer services and consulting	**767**	621
Management consulting	**1,195**	336
Healthcare consulting	**97**	77
Other	**125**	160
Total payments to consultants[1]	**$4,910**	**$2,775**

[1] Excludes investment advisers.

Schedule of Other Additions

For the Year Ended December 31
(In Thousands of Dollars)

	State and School Division Trust Fund	Municipal Division Trust Fund	Judicial Division Trust Fund	Total Defined Benefit Plans	401(k) Voluntary Investment Program	Total Pension Trust Funds	Health Care Trust Fund	Life Insurance Reserve	Total 2005	Total 2004
Administrative fee income	$0	$0	$0	$0	$0	$0	$1,189	$0	**$1,189**	$1,151
Alliance fees	0	0	0	0	1,185	1,185	0	0	**1,185**	840
401(k) participant loan interest	0	0	0	0	1,752	1,752	0	0	**1,752**	1,377
Purchase service transfer to HCTF	0	0	0	0	0	0	12,420	0	**12,420**	14,965
Miscellaneous	(9)	2	0	(7)	27	20	0	0	**20**	201
Total other additions	**($9)**	**$2**	**$0**	**($7)**	**$2,964**	**$2,957**	**$13,609**	**$0**	**$16,566**	**$18,534**

Schedule of Other Deductions/(Transfers)

For the Year Ended December 31
(In Thousands of Dollars)

	State and School Division Trust Fund	Municipal Division Trust Fund	Judicial Division Trust Fund	Total Defined Benefit Plans	401(k) Voluntary Investment Program	Total Pension Trust Funds	Health Care Trust Fund	Life Insurance Reserve	Total 2005	Total 2004
Interfund transfers at retirement	($938)	$1,742	($804)	$0	$0	$0	$0	$0	**$0**	$0
Purchase service transfer to HCTF	11,217	1,141	62	12,420	0	12,420	0	0	**12,420**	14,965
Miscellaneous	94	2	0	96	0	96	0	0	**96**	84
Total other deductions	**$10,373**	**$2,885**	**($742)**	**$12,516**	**$0**	**$12,516**	**$0**	**$0**	**$12,516**	**$15,049**

Investment Section

Integrity

honesty *dedication* *integrity* *accountable* *vital*

PERA Report on Investment Activity

Does not include the 401(k) Voluntary Investment Program

State Law

State law gives complete responsibility for the investment of PERA's funds to the Board of Trustees, with some stipulations including:

- The aggregate amount of monies invested in corporate stocks or corporate bonds, notes, or debentures, which are convertible into stock or in investment trust shares cannot exceed 65 percent of the then book value of the fund.
- No investment of the fund in common or preferred stock (or both) of any single corporation can exceed 5 percent of the then book value of the fund.
- The fund cannot acquire more than 12 percent of the outstanding stock or bonds of any single corporation.

Board of Trustees' Statutory Fiduciary Responsibility

By state law, the management of PERA's retirement fund is vested in the PERA Board of Trustees who are held to the standard of conduct of fiduciaries in discharging their responsibilities. According to C.R.S. § 24-51-207(2), PERA's trustees, as fiduciaries, must carry out their functions solely in the interest of PERA members and benefit recipients and for the exclusive purpose of providing benefits.

Goal

The function of the Association is to provide present and future retirement or survivor benefits for its members. The investment function is managed in a manner to promote long-term financial security for our membership while maintaining the stability of the fund.

Outline of Investment Policy

PERA's investment policy delineates the investment philosophy and guidelines within which the fund's investments will be managed.

The investment philosophy of Colorado PERA includes the following:

- Strategic asset allocation is the most significant factor influencing long-term investment performance and asset volatility.
- The fund's liabilities are long-term and the investment strategy will therefore be long-term in nature.
- The asset allocation policy will be periodically re-examined to ensure its appropriateness to the then prevailing liability considerations.
- As a long-term investor, Colorado PERA will invest across a wide spectrum of investments in a prudent manner.
- Active management may be expected to add value over passive investment alternatives under appropriate conditions.

The Board of Trustees determines the strategic asset allocation policy for the fund. The Board's policy specifies the desired target allocation for each asset class as well as the ranges within which each asset class may operate. The targeted asset allocation mix and the specified ranges for each asset class effective January 1, 2006, are as follows:

Asset Class	Target Allocation	Permissible Range
Domestic Equity	45%	42%—48%
International Equity	15%	12%—18%
Fixed Income	25%	22%—28%
Alternative Investments	7%	4%—10%
Real Estate	7%	4%—10%
Timber	1%	0%—2%
Total	**100%**	

The asset allocation policy is determined by an intensive asset/liability analysis. Expected investment returns, risks, and correlations of returns are considered. The characteristics of the fund's liabilities are analyzed in conjunction with expected investment risks and returns. The targeted strategic asset allocation is designed to provide appropriate diversification and balance expected total rate of return with the volatility of expected returns. The asset allocation targets are adhered to through the implementation of a rebalancing policy.

Investments are managed and monitored in a manner which seeks to balance return and risk within the asset/liability framework. The Chief Investment Officer is authorized to execute investment transactions on behalf of the Board. Assets are managed both internally and externally. In making investment decisions, the Board and staff utilize external experts in various fields including risk and performance analysis, portfolio construction, rebalancing techniques, and other important investment functions and issues.

Corporate Governance

General Policy

Although PERA is not generally subject to the Employee Retirement Income Security Act of 1974 (ERISA), the PERA Board complies with the position taken by the U.S. Department of Labor (DOL) in February 1988. The DOL has stated that the right to vote shares of stock owned by a pension plan is, in itself, an asset of the plan, and therefore the fiduciary's responsibility to manage the assets includes proxy voting.

Board of Trustees Shareholder Responsibility Committee

To assist the Board of Trustees in carrying out its fiduciary responsibilities in voting proxies, the Board established a Shareholder Responsibility Committee. The PERA General Counsel serves as an adviser to the Committee. The Board and the Shareholder Responsibility Committee have delegated to the Legal Department the authority to execute and vote all domestic proxies according to the Board Proxy Voting Policy. All proxy issues are reviewed by staff on a case-by-case basis and then voted according to guidelines established by the Policy. PERA retains corporate governance consultants to assist in the proxy voting process.

Proxy Voting Policy

The Board's Proxy Voting Policy sets forth directives on the following nine issues: Board of Directors, Proxy Contests and Corporate Defenses, Tender Offers and Corporate Defenses, Corporate Restructurings, State of Incorporation, Proxy System, Executive Compensation, Corporate Governance, and Social Issues. The Proxy Voting Policy on Social Issues states that "PERA will abstain on all social issues, and will only vote on financial issues." The voting of proxy ballots for international stocks is delegated to PERA's external international equity managers consistent with certain requirements established by the Board.

(PERA's Report on Investment Activity was prepared by internal staff.)

Investment Brokers/Advisers

A.G. Edwards
Alignment Capital Group LLC
Banc of America Securities LLC
Bank of New York
Barclays Capital Inc.
Bear Stearns & Co. Inc.
BNP Paribas Securities Services
Branch Banking & Trust Company
B-Trade Services LLC
Cantor, Fitzgerald & Co.
Charles Schwab & Co. Inc.
CIBC World Markets
Citigroup Global
Credit Suisse First Boston Corporation
D.A. Davidson & Co.
Descap Securities Inc.
Deutsche Bank Alex Brown Inc.
Donaldson, Lufkin & Jenrette
Ennis Knupp & Associates
Friedman Billings & Ramsey
Goldman, Sachs & Co.
Heitman Capital Management Corp.
HSBC Securities
INVESCO Realty Advisors
J.P. Morgan Securities
Jefferies & Co.
Jones Lang LaSalle
Keefe, Bruyette & Woods
Knight Securities L.P.
La Branche & Co. Inc.
Lehman Brothers Inc.
Liquidnet, Inc.
Merrill Lynch, Pierce, Fenner & Smith Inc.
Morgan Stanley & Co. Incorporated
Prudential Securities
Putnam Lovell NBF Securities
RBC Dain Rauscher
RBS Greenwich Capital Markets
Robert W. Baird & Co. Inc.
RREEF Real Estate Investment Managers
Sanford C. Bernstein & Co. LLC
SG Cowen Securities Corporation
Sidoti & Co. Inc.
Stifel Nicolaus & Company, Inc.
UBS Warburg LLC
US Bancorp Piper Jaffray
Wachovia Securities
William Blair & Company LLC

Certain broker agreements include provisions for commission recapture.

Investment Summary

Does not include the 401(k) Voluntary Investment Program
(In Thousands of Dollars)

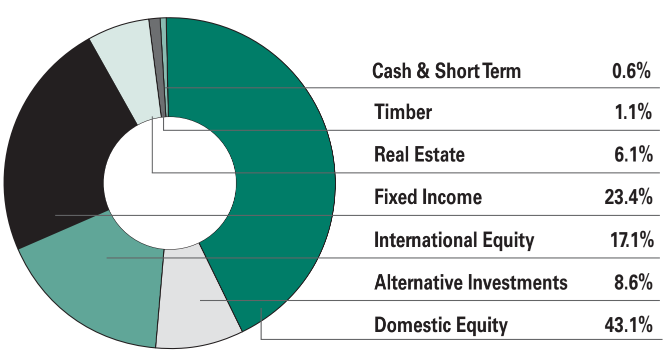
	Market Value Per Financial Statement December 31, 2005	Reallocation[1]	Market Value Per Investment Portfolio December 31, 2005	Target[2]	Percent of Total Market Value 2005	2004	2003
Domestic Equity	$14,823,787	$91,119	$14,914,906	45.0%	**43.1%**	42.2%	44.4%
Fixed Income	7,845,763	243,447	8,089,210	25.0%	**23.4%**	21.7%	19.1%
International Equity	5,858,003	81,336	5,939,339	15.0%	**17.1%**	16.6%	15.1%
Alternative Investments	2,985,450	(7,181)	2,978,269	7.0%	**8.6%**	10.2%	11.1%
Real Estate	2,123,381	(4,253)	2,119,128	7.0%	**6.1%**	7.2%	8.4%
Timber Investments	387,562	0	387,562	1.0%	**1.1%**	1.0%	1.0%
Cash and Short-Term Investments							
Operating Cash	3	(3)					
Investment Cash and Short-Term	548,213	(339,435)	208,778	0.0%	**0.6%**	1.1%	0.9%
Investment Receivables and Payables	65,033	(65,033)					
Total Investments	**$34,637,195**	**($3)**	**$34,637,192**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

[1] Investment receivables, payables, accruals and cash and short-term have been reallocated back to the investment portfolios that hold them.
[2] An Asset/Liability Study was undertaken in 2002 and in 2005 with the objective of determining the optimal strategic asset allocation policy. In 2002 the Board approved a multi-year implementation plan to progress to the new targets and ranges. The 2005 Study refined these targets and ranges and are effective January 1, 2006. At December 31, 2005, all asset classes were within their specified ranges.

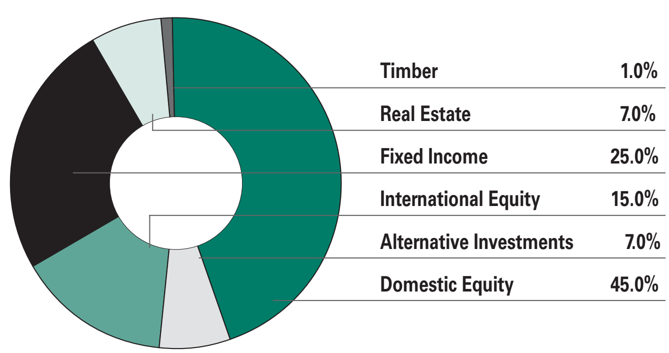
Asset Allocation at Market Value

Does not include the 401(k) Voluntary Investment Program
Year End December 31, 2005

Asset Allocation at Market Value



Target Allocations



Evaluation

Ennis Knupp & Associates and The Northern Trust Company are retained by Colorado PERA to evaluate fund performance. Ennis Knupp & Associates is also used for the real estate portfolio performance evaluation and industry comparisons. In their analysis, Ennis Knupp and The Northern Trust include all investments within the portfolio, including cash and accrued income. They also compute the annual rates of return. In order to provide fund returns inclusive of all asset classes, performance calculations were prepared using time-weighted rates of return.

Asset Allocation

Colorado PERA's long-term strategic asset allocation policy sets forth specific portfolio targets. Asset allocation targets were approved by the PERA Board of Trustees in 2005. These percentages are effective January 1, 2006, and are as follows: domestic equity 45 percent, international equity 15 percent, fixed income 25 percent, alternative investments 7 percent, real estate investments 7 percent, and timber investments 1 percent.

Total Portfolio Results

For the year ended December 31, 2005, Colorado PERA's total fund returned 9.8 percent, compared to the Russell/Mellon Median Public Fund return of 7.9 percent. The Russell/Mellon Median Public Fund measure is comprised of 62 public pension funds with assets of approximately $600 billion. Colorado PERA's total fund returned 15.8 percent and 4.7 percent on a three- and five-year annualized basis, compared with Russell/Mellon Median Public Fund returns of 14.3 percent and 5.5 percent, respectively, for these periods. PERA's 10-year annualized rate of return was 9.0 percent compared to the Russell/Mellon Median Public Fund return of 8.5 percent.

Colorado PERA adopted a policy benchmark, which is a passive representation of the asset allocation policy, as of April 1, 2004. For the year ended December 31, 2005, the total fund returned 9.8 percent compared to the policy benchmark return of 7.8 percent.

Domestic Stock

The domestic stock market ended 2005 in positive territory for the third straight year as most major U.S. indexes had moderate investment returns. After spending a good part of the year with negative returns, the equity markets surged in November and looked primed for a very strong yearly performance. However, a sell-off in late December left the U.S. equity markets with modest gains. The first half of the year was characterized by volatile oil prices, mixed economic data, and a worsening credit environment. The second half of 2005 saw the market recover, buoyed by stronger-than-expected earnings releases and falling oil prices. This occurred despite renewed terrorism concerns and a stronger-than-expected hurricane season.

Energy was the best-performing major industry group for the second year in a row. The S&P 500 Energy sector was up more than 30 percent in 2005 as oil prices reached new record levels. Consumer Discretionary stocks, and in particular Media and Auto companies were the worst-performing industry groups. On a size basis, small capitalization stocks outpaced large capitalization stocks. This was the latest in a long streak of years that small-cap stocks have outperformed large-cap stocks. On a style basis, growth stocks outperformed value during the second half of the year despite value equities outperforming their growth counterparts for the calendar year.

In 2005, Colorado PERA's total domestic equity portfolio returned 7.0 percent, compared to its benchmark's total return of 6.3 percent. PERA's three–year annualized domestic equity portfolio total return was 15.7 percent, slightly ahead of the benchmark's return of 15.6 percent. The five–year annualized total return for PERA's domestic portfolio was 2.5 percent, compared to the benchmark's total return of 1.7 percent.

International Stock

Foreign stock markets rose strongly in 2005 as global economic and corporate-earnings growth remained strong. Inflation stayed relatively subdued despite a steep run-up in energy prices. International stocks beat their U.S. counterparts for a third straight year while attracting record sums of U.S. capital. Global conditions in 2005 were close to ideal for foreign stocks. Low interest rates worldwide generated a wave of borrowing and investment. European and Japanese companies continued to restructure, profits increased, and share prices rose. Emerging markets in Asia benefited from strong economic growth, while Latin American commodity producers capitalized on rising prices for natural resources. Unlike 2002 to 2004, when a weakening dollar made most foreign stock returns higher when converted into the U.S. currency, in 2005 the strengthening dollar partially offset some of the gains in international stocks.

In 2005, emerging market stocks returned 34.0 percent, while developed market stocks returned 13.5 percent. The benchmark for the international equity asset class is the MSCI All-Country World Ex-U.S. Index. This index is a capitalization-weighted index of stocks representing 22 developed stock markets (approximately 87 percent of index weighting) and 26 emerging stock markets (approximately 13 percent of index weighting) around the world. Energy, material, industrial, and utility stocks led the year's rally, driven by the sharp increase in oil prices and continued strong demand for raw materials, especially from emerging economies like China and India.

PERA's international equity return in 2005 was 16.6 percent and the benchmark return was 16.6 percent. PERA's three–year annualized international equity portfolio total return figure was 25.5 percent, ahead of the benchmark's return of 25.0 percent. The five–year annualized total return for PERA's international portfolio was 7.6 percent, compared to the benchmark's total return of 5.4 percent.

Fund Performance Evaluation

Does not include the 401(k) Voluntary Investment Program

Fixed Income

During 2005, the U.S. economy continued to exhibit solid growth and, for the most part, modest core inflation. As a result, the fixed income market was relatively benign during much of the year. Despite higher gasoline prices, heating bills and interest rates, consumer spending remained steady and business investment improved. For most of the year, the housing sector was also strong. The Federal Reserve Board (the Fed) raised the Federal Funds rate eight times during the year to 4.25 percent and concluded 2005 by indicating that interest rates could continue to be increased at a "measured pace." On October 24, President Bush appointed Ben Bernanke to succeed Alan Greenspan as Federal Reserve Chairman beginning February 1, 2006.

One of the more noteworthy events for the fixed income markets was the continued convergence of short-term yields and long-term yields. Fed rate hikes caused short-term yields to increase and a combination of good inflation news and demand for long duration assets kept long-term yields contained. By late December, two-year yields slightly exceeded ten-year yields. Emerging market debt was easily the top performing asset class during the year returning 13.0 percent with High Yield a distant second at 3.0 percent. Both investment grade and high-yield corporate bonds produced positive returns during 2005, as corporate balance sheets generally remained strong. The rating agencies' downgrade of Ford and General Motors credit ratings to below investment grade and the bankruptcy filings by Delphi Corporation and Refco Inc. resulted in return volatility for corporate bonds during the year.

PERA's fixed income portfolio returned 2.8 percent during 2005 compared to the benchmark return of 2.7 percent. PERA's three–year and five–year returns for fixed income were 5.0 percent and 6.4 percent, exceeding the benchmark returns of 3.9 percent and 6.1 percent, respectively.

Alternative Investments

The global private equity markets performed well in 2005, showing strong gains for the third consecutive year. Much of the success and liquidity in the private equity industry can be attributable to the low interest rate environment seen in the United States and Europe since the 2002–2003 timeframe. Low interest rates have fueled the appetite of investors looking for debt to fund acquisitions, recapitalize corporate balance sheets, and fund growth opportunities in a global marketplace. In 2005, PERA's alternative investment portfolio witnessed a record year in terms of capital returned from investments. The portfolio funded $0.6 billion in capital calls and received cash distributions totaling more than $1.4 billion.

Private equity has become more commonplace among institutional investors seeking to achieve returns in excess of the public equity markets. This is evidenced by near record levels of private equity fundraising in 2005. Private equity is increasingly viewed by many companies as an alternative source of financing versus the public markets.

In 2005, Colorado PERA approved 12 commitments in alternative investments—five in venture capital, five in leveraged buyouts, and two in special situations—totaling $677 million.

PERA's alternative investment portfolio returned 18.9 percent in 2005 compared with the custom alternatives benchmark return of 9.3 percent. PERA's alternative investment portfolio returned 23.0 percent and 5.2 percent, respectively, for the three– and five–year annualized periods compared with the annualized custom benchmark returns of 19.4 percent and 5.1 percent, respectively, for the same periods. The alternative investment program's net, since inception internal rate of return as of December 31, 2005, is 10.8 percent compared to the custom benchmark's since inception internal rate of return of 10.2 percent.

Real Estate

Property fundamentals in the U.S. real estate markets continued to improve in 2005. Demand for space has increased as the domestic economy continued to expand and add jobs. Sustained investment capital flows increased property values throughout the year. The trends in the economy and real estate markets continue to support a favorable outlook for private real estate investments in 2006, even with forecasts for rising long-term interest rates. The European and Asian real estate markets have similarly encouraging outlooks with Europe being a stable performer and Asia providing investors with growth opportunities.

In 2005, the real estate portfolio had a total return of 28.2 percent, compared to its custom benchmark return of 13.6 percent. The real estate portfolio returned 22.6 percent and 17.5 percent for the three– and five–year annualized periods, which compared favorably to the custom benchmark returns of 16.5 percent and 12.6 percent, respectively. In 2005, the Custom Real Estate Benchmark was comprised of four indices that are weighted according to the real estate asset sector targets prescribed by the Board.

Timber

PERA's external timber manager made two investments in 2005, one in Pennsylvania/New York and the other in Washington, and disposed of $4.8 million of various investments. PERA's timber portfolio produced one–, three–, and five–year annualized returns of 11.9 percent, 16.3 percent, and 9.7 percent, respectively, compared with the NCREIF Timberland Index returns of 19.4 percent, 12.6 percent, and 6.6 percent, respectively, for these periods.

Schedule of Investment Results

Does not include 401(k) Voluntary Investment Program
As of December 31, 2005

Ennis Knupp & Associates, the Board's Investment Performance consultant, provides the investment returns for the fund based on data made available by the fund's custodian, The Northern Trust Company. Listed below are the one–, three–, five–, and ten–year time-weighted rates of return for each asset class and their respective benchmarks.

	2005	3–Year	5–Year	10–Year
PERA Total Portfolio	**9.8%**	15.8%	4.7%	9.0%
Total Fund Policy Benchmark	**7.8%**	–	–	–
Median Plan (Russell/Mellon's Median Public Fund Universe)	**7.9%**	14.3%	5.5%	8.5%
Domestic Stocks	**7.0%**	15.7%	2.5%	9.6%
DJ Wilshire 5000[1]	**6.3%**	15.6%	1.7%	9.6%
International Stocks	**16.6%**	25.5%	7.6%	7.8%
MSCI ACWI Ex-U.S.[1]	**16.6%**	25.0%	5.4%	7.2%
Fixed Income	**2.8%**	5.0%	6.4%	4.6%
Lehman Brothers Universal[1]	**2.7%**	3.9%	6.1%	6.3%
Lehman Brothers Aggregate	**2.4%**	3.6%	5.9%	6.2%
Alternative Investments	**18.9%**	23.0%	5.2%	13.5%
Custom Alternative Benchmark[2]	**9.3%**	19.4%	5.1%	12.2%
Real Estate	**28.2%**	22.6%	17.5%	15.0%
Custom Real Estate Benchmark[3]	**13.6%**	16.5%	12.6%	10.8%
NCREIF Property Index	**20.1%**	14.4%	11.4%	12.1%
PERA Timber Investments	**11.9%**	16.3%	9.7%	10.0%
NCREIF Timberland Property Index	**19.4%**	12.6%	6.6%	8.3%

Note: Performance calculations were prepared using time-weighted rates of return.

[1] The Colorado PERA Board of Trustees adopted new benchmarks for domestic stock, international stock, and fixed income as of April 1, 2004. Accordingly, the benchmark returns presented represent a blend, as follows:

- The Total Fund benchmark is a combination of 45 percent of the DJ Wilshire 5000 Stock Index, 14 percent of the Morgan Stanley Capital International All Country World Ex-U.S. Index, 25 percent of the Lehman Brothers Universal Bond Index, 7 percent of the Colorado PERA Real Estate Index, 8 percent of the Colorado PERA Alternatives Index, and 1 percent of the NCREIF Timber Index.
- Domestic Stocks—S&P 1500 prior to April 1, 2004; DJ Wilshire 5000 beginning April 1, 2004.
- International Stocks-EAFE Custom Index (75 percent MSCI EAFE Index and 25 percent MSCI EAFE excluding Japan) prior to April 1, 2004; MSCI ACWI excluding U.S. beginning April 1, 2004.
- Fixed Income—Lehman Aggregate prior to April 1, 2004; Lehman Universal beginning April 1, 2004.

[2] DJ Wilshire 5000 plus 300 basis points.

[3] 15 percent NAREIT, 45 percent NCREIF Property, 20 percent CITI Mortgage, and 20 percent Global Property Research.

Profile of Investments in Colorado

Does not include 401(k) Voluntary Investment Program
As of December 31, 2005
(In Thousands of Dollars)

	Market Value
Common stock of companies headquartered in Colorado	$146,043
Funds under management of Colorado companies[1]	100,889
Real estate equity	71,324
Committed to future funding	50,644
PERA portion of general partnerships investing in Colorado companies[2]	47,193
Bonds and notes of companies headquartered in Colorado	63,987
Commercial mortgages	5,205
Total	**$485,285**

[1] Venture capital partnerships and private placements domiciled in Colorado.
[2] General Partners based outside of Colorado.

Largest Stock Holdings (Market Value)

As of December 31, 2005
(In Thousands of Dollars)

	Shares	Market Value
General Electric Co	9,503,200	$333,087
Exxon Mobil Corp	5,574,300	313,108
Citigroup Inc	5,172,900	251,041
Microsoft Corp	8,778,700	229,563
Proctor & Gamble Co	3,262,647	188,842
American International Group Inc	2,758,500	188,212
Bank of America Corp	4,064,800	187,591
Johnson & Johnson Co	2,608,300	156,759
Pfizer Inc	6,711,800	156,519
Altria Group Inc	2,070,500	$154,708

The top ten holdings do not include commingled funds.
A complete list of holdings is available upon request.

Largest Bond Holdings (Market Value)

As of December 31, 2005
(In Thousands of Dollars)

	Par Value	Income Rate	Maturity Date	Market Value
U.S. Treasury Bonds	$55,000	6.250%	8/15/2023	$65,678
U.S. Treasury Notes	60,000	6.500%	2/15/2010	64,723
U.S. Treasury Notes	60,000	4.875%	2/15/2012	61,601
U.S. Treasury Notes	50,000	5.000%	2/15/2011	51,498
U.S. Treasury Notes	50,000	3.875%	9/15/2010	48,959
FNMA Pool #725705	42,616	5.000%	8/1/2034	41,376
FNMA Pool #725314	42,457	5.000%	4/1/2034	41,286
U.S. Treasury Notes	40,000	4.750%	5/15/2014	40,973
U.S. Treasury Notes	41,800	4.000%	2/15/2015	40,526
FNMA Pool #725423	$39,879	5.500%	5/1/2034	$39,586

The top ten holdings do not include commingled funds.
A complete list of holdings is available upon request.

PERA's 401(k) Voluntary Investment Program Report on Investment Activity

(In Thousands of Dollars)

The Colorado PERA 401(k) Voluntary Investment Program (401(k) Plan) was established on July 1, 1985, under Section 401(k) of the Internal Revenue Code. Plan participation is voluntary and contributions are entirely separate from those that members make to the defined benefit plan each month. This section includes information about the 401(k) Plan; however, a separate 401(k) Plan Annual Report is published and mailed to all Plan participants.

In 2005, participants were able to make tax-deferred contributions of up to 100 percent of their annual gross salary less the PERA 8 percent deduction, up to a maximum of $14,000 (actual dollars). Participants age 50 or older in 2005 could contribute an additional $4,000 (actual dollars) as catch-up contributions. Contributions to the 401(k) Plan are deducted from the participant's salary, and earnings on 401(k) Plan investments are also tax-deferred.

An administrative fee pays for recordkeeping, communications, education, consulting, staff, and other overhead expenses. In 2005, the fees (in actual dollars) were as follows:

Account Balance	Monthly Fee	Total Fee per Year
$0–$25,000	$2.00	$24.00
$25,000.01–$50,000	$2.25	$27.00
$50,000.01–$75,000	$2.50	$30.00
$75,000.01–$100,000	$2.75	$33.00
$100,000.01–$125,000	$3.00	$36.00
$125,000.01 or greater	$3.25	$39.00

Expenses are offset by a partial return of investment fees by some funds.

On December 31, 2005, the 401(k) Plan had net assets of $1,296,998 and 72,867 accounts, a net increase of 7.4 percent in the total Plan value in one year, and 1.04 percent decrease in membership. During the year, $187,557 was withdrawn from plan accounts of which $140,156 was transferred to purchase PERA service credit.

During 2005, participant contributions totaled $182,257 with $23,456 received as rollovers. In addition, PERA-affiliated employers contributed $2,484 consisting of $1,144 in employer matching contributions funded by the employer, and $1,339 in employer discretionary contributions.

As a result of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the 401(k) Plan has accepted tax-paid and tax-deferred rollovers from 403(b) Deferred Compensation plans in addition to money from 401(a) and 401(k) plans. Tax-deferred rollovers from IRAs are also accepted in the Plan. There was $19,179 loaned from the 401(k) Plan in 2005 in 3,307 loan agreements.

Year-End Statistics

	Assets	Number of Accounts
1996	$186,541	13,064
1997	272,053	16,391
1998	362,874	20,112
1999	514,115	24,224
2000	557,670	35,162
2001	674,618	64,632
2002	737,849	70,664
2003	914,015	72,185
2004	1,204,725	73,634
2005	**$1,296,998**	**72,867**

2005 Activities

In March 2005, the Board of Trustees approved the addition of the Vanguard Small-Cap Index to the 401(k) Plan. The fund was available beginning July 1, 2005.

The GMO Growth Fund was purchased, along with its investment history, by John Hancock. On September 16, 2005, all shares of the GMO Growth Fund Class M were exchanged for shares of the new GMO U.S. Growth Fund, a newly created series of the GMO Trust. Colorado PERA 401(k) Plan participants who previously were invested in the GMO Growth Fund were automatically transferred to the new GMO U.S. Growth Fund.

The 401(k) Plan offered investments in the American Funds EuroPacific Growth Fund in the R5 share class. Previously, the Plan invested in A shares.

Investment Options

The Plan assets are invested in one or more of the following types of investments. Among the specific investment funds designated by the Board, some variety is provided with respect to the expected risk and the expected potential for earnings and appreciation.

Northern Trust Short Term Fund: Primarily invests in high-grade money market instruments with short maturities such as U.S. government obligations, commercial paper, and certificates of deposit. Managed by The Northern Trust Company.

PIMCO Low Duration Fund: Primarily invests in domestic corporate and government fixed income securities of varying maturities with a portfolio duration ranging between one and three years, and some foreign securities. Managed by PIMCO.

PIMCO Total Return Fund: Primarily invests in U.S. government and corporate securities based on an analysis of major changes in the direction of long-term interest rates. Managed by PIMCO.

Dodge & Cox Balanced Fund: The fund is a combination of common stocks and fixed income securities (primarily high quality bonds), with no more than 75 percent of the assets in stocks. Managed by Dodge & Cox.

PERA's 401(k) Voluntary Investment Program Report on Investment Activity
(In Thousands of Dollars)

Vanguard Institutional Index Fund: The fund employs a passive management strategy designed to track the performance of the Standard & Poor's 500 Index, which is dominated by the stocks of large U.S. companies. The fund attempts to replicate the target index by investing all or substantially all of its assets in the stocks that make up the index. Managed by Vanguard.

Dodge & Cox Stock Fund: The fund seeks long-term growth of principal and income. A secondary objective is to achieve a reasonable current income. Managed by Dodge & Cox.

PERA Growth & Income Stock Fund: Primarily invests in common stocks of high-quality companies with a broad range of capitalization. Managed by PERA investment staff.

Fidelity Contrafund: Primarily invests in common stocks and securities convertible into common stocks of companies with high growth potential. Managed by Fidelity Investments.

GMO U.S. Growth Fund: Seeks long-term growth of capital by investing in a diversified portfolio of stocks from the 1,000 largest U.S. companies. This fund replaced the GMO Growth Fund on September 16, 2005. Both funds have the same investment philosophy and are managed by Grantham, Mayo, Van Otterloo & Co.

American Funds EuroPacific Growth Fund: Primarily invests in equity securities of issuers domiciled in Europe or the Pacific Basin. This fund may also invest in securities through depository receipts, securities convertible into common stocks, straight debt securities, government securities, or non-convertible preferred stocks. Managed by The American Funds Group.

Vanguard Small-Cap Index Fund: The fund seeks to track the performance of a benchmark index that measures the investment return of small capitalization stocks. It holds all 1,750 stocks that make up the MSCI U.S. Small Cap 1,750 Index in proportion to their weighting in the index. Managed by Vanguard.

Fidelity Freedom Funds: Six funds with varying asset and risk levels based on the retirement dates of participants that are designed for those who do not wish to actively manage their portfolios. Managed by Fidelity Investments.

The following fund was eliminated from the PERA 401(k) Plan in September 2005:

GMO Growth Fund: Seeks long-term growth of capital by investing in a diversified portfolio of stocks from the 1,000 largest U.S. companies. This fund was replaced by the GMO U.S. Growth Fund on September 16, 2005, when the GMO Growth Fund was purchased, along with its investment history, by John Hancock. Managed by Grantham, Mayo, Van Otterloo & Co.

401(k) Voluntary Investment Program Schedule of Investment Results

	2005	3–Year	5–Year
Northern Trust Short Term Fund	**3.2%**	1.9%	2.3%
Merrill Lynch 90 Day T-Bills	**3.1%**	1.8%	2.3%
PIMCO Low Duration Fund	**1.5%**	2.3%	4.4%
Merrill Lynch Treasury 1-3 year	**1.7%**	1.5%	3.7%
PIMCO Total Return Fund	**2.9%**	4.5%	6.6%
Lehman Aggregate	**2.4%**	3.6%	5.9%
Dodge & Cox Balanced Fund	**6.6%**	14.5%	9.9%
60% S&P 500/40% Lehman Aggregate	**4.0%**	10.1%	3.0%
Vanguard Institutional Index Fund	**4.9%**	14.4%	0.5%
S&P 500	**4.9%**	14.4%	0.5%
Dodge & Cox Stock Fund	**9.4%**	19.9%	11.0%
Russell 1000 Value	**7.1%**	17.5%	5.3%
PERA Growth & Income Fund	**7.0%**	15.8%	1.4%
S&P 500	**4.9%**	14.4%	0.5%
Fidelity Contrafund	**16.2%**	19.6%	6.1%
S&P 500	**4.9%**	14.4%	0.5%
GMO U.S.Growth Fund[1]	**4.0%**	N/A	N/A
Russell 1000 Growth	**5.3%**	N/A	N/A
American Funds EuroPacific Growth Fund	**21.3%**	24.7%	8.1%
MSCI ACW Ex USA	**17.1%**	26.2%	6.7%
Vanguard Small Cap Index Fund[2]	**7.5%**	N/A	N/A
MSCI US 1750	**7.5%**	N/A	N/A
Fidelity Freedom Income Fund	**3.8%**	5.0%	3.3%
FID Freedom Income Custom Index	**3.5%**	5.4%	3.9%
Fidelity Freedom 2000 Fund	**4.0%**	5.9%	3.1%
FID Freedom 2000 Custom Index	**3.7%**	6.0%	3.7%
Fidelity Freedom 2010 Fund	**5.9%**	10.0%	3.5%
FID Freedom 2010 Custom Index	**4.9%**	10.1%	4.2%
Fidelity Freedom 2020 Fund	**7.8%**	13.8%	3.0%
FID Freedom 2020 Custom Index	**6.1%**	14.0%	3.8%
Fidelity Freedom 2030 Fund	**8.8%**	15.5%	2.4%
FID Freedom 2030 Custom Index	**6.8%**	15.8%	3.4%
Fidelity Freedom 2040 Fund	**9.1%**	16.7%	2.0%
FID Freedom 2040 Custom Index	**7.0%**	17.1%	3.2%

R.V. Kuhns & Associates provides the returns for the 401(k) Voluntary Investment Program; performance is net of management fees.

N/A—Fund not in PERA's 401(k) Voluntary Investment Program.
[1] This fund joined PERA's 401(k) Voluntary Investment Program in March 2004.
[2] This fund joined PERA's 401(k) Voluntary Investment Program in July 2005.

401(k) Voluntary Investment Program Summary

(In Thousands of Dollars)

	Market Value December 31, 2005	Percent of Total Market Value 2005	2004	2003
Northern Trust Short Term Fund	**$86,269**	**6.7%**	7.7%	7.0%
PIMCO Low Duration Fund	**33,925**	**2.6%**	3.0%	4.0%
PIMCO Total Return Fund	**88,072**	**6.8%**	7.7%	9.1%
Dodge & Cox Balanced Fund	**211,515**	**16.4%**	15.9%	15.6%
Vanguard Institutional Index Fund	**57,762**	**4.5%**	4.9%	4.2%
Dodge & Cox Stock Fund	**118,702**	**9.2%**	8.3%	4.9%
PERA Growth & Income Fund	**280,955**	**21.9%**	22.7%	25.3%
Fidelity Contrafund	**180,941**	**14.0%**	12.7%	13.6%
GMO U.S.Growth Fund[1]	**68,387**	**5.3%**	6.1%	N/A
American Funds EuroPacific Growth Fund	**87,857**	**6.8%**	5.5%	4.1%
Vanguard Small-Cap Index Fund[2]	**3,541**	**0.3%**	N/A	N/A
Fidelity Freedom Income Fund	**2,059**	**0.2%**	0.2%	0.2%
Fidelity Freedom 2000 Fund	**4,949**	**0.4%**	0.4%	0.3%
Fidelity Freedom 2010 Fund	**7,964**	**0.6%**	0.6%	0.5%
Fidelity Freedom 2020 Fund	**8,004**	**0.6%**	0.6%	0.4%
Fidelity Freedom 2030 Fund	**5,056**	**0.4%**	0.5%	0.2%
Fidelity Freedom 2040 Fund	**3,136**	**0.2%**	0.2%	0.1%
Janus Fund[3]	**0**	**N/A**	N/A	7.3%
Member Loans	**$40,239**	**3.1%**	3.0%	3.2%

N/A—Fund not in PERA's 401(k) Voluntary Investment Program.

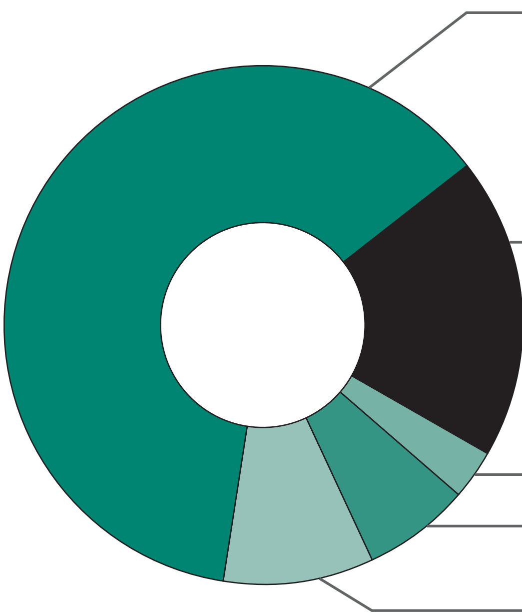
[1] This fund joined PERA's 401(k) Voluntary Investment Program in March 2004.

[2] This fund joined PERA's 401(k) Voluntary Investment Program in July 2005.

[3] This fund was removed from PERA's 401(k) Voluntary Investment Program in March 2004.

Asset Allocation by 401(k) Voluntary Investment Program Investment Funds

As of December 31, 2005



Stock Funds:	**62.0%**
Vanguard Institutional Index Fund	4.5%
Dodge & Cox Stock Fund	9.2%
PERA Growth & Income Stock Fund	21.9%
Fidelity Contrafund	14.0%
GMO U.S. Growth Fund	5.3%
American Funds EuroPacific Growth Fund	6.8%
Vanguard Small-Cap Index Fund	0.3%
Balanced and Lifestyle Funds:	**18.8%**
Dodge & Cox Balanced Fund	16.4%
Fidelity Freedom Income Fund	0.2%
Fidelity Freedom 2000 Fund	0.4%
Fidelity Freedom 2010 Fund	0.6%
Fidelity Freedom 2020 Fund	0.6%
Fidelity Freedom 2030 Fund	0.4%
Fidelity Freedom 2040 Fund	0.2%
Member Loans:	**3.1%**
Short-Term Funds:	**6.7%**
Northern Trust Short Term Fund	6.7%
Bond Funds:	**9.4%**
PIMCO Low Duration Fund	2.6%
PIMCO Total Return Fund	6.8%

Actuarial Section

Accountable

honesty dedication integrity accountable vital

buckconsultants
an ACS company

June 5, 2006

Board of Trustees
Public Employees' Retirement Association of Colorado
1300 Logan Street
Denver, CO 80203

RE: Actuarial Certification of Defined Benefit Plans

Dear Members of the Board:

PERA's basic financial goal is to establish contributions which, as a percentage of payroll, remain level for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

The most recent valuations are based on the plan provisions and assumptions in effect on December 31, 2005. PERA provided the participant data and the asset information. Buck reviewed the data for reasonableness. No material changes in the plan provisions have occurred since the prior valuation.

No change in the economic actuarial assumptions used in the valuations occurred since the prior valuation. The demographic assumptions were changed since the last actuarial valuation to more accurately reflect expected experience. These assumptions are based on an experience investigation performed over the four-year period ending December 31, 2004. The new demographic assumptions were adopted by the Board in July 2005.

The actuarial asset valuation method was also changed since the last actuarial valuation. The Actuarial Value of Assets was reset to Market Value as of December 31, 2004, and a four-year smoothing method is being phased-in. The new method fully recognizes the transitional amount of unrealized gains from the 1992 actuarial asset method change, and smoothes annual differences between actual and expected return on Market Value over a four-year period beginning January 1, 2005. The Board adopted this new asset valuation method in August 2005 to be effective December 31, 2005.

In our opinion, the assumptions are internally consistent and produce results which are reasonable in the aggregate. We also believe the assumptions and actuarial methods meet the requirements of Governmental Accounting Standards Board Statement No. 25.

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Public Employees' Retirement Association of Colorado
June 5, 2006
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Buck updated the following schedules for the December 31, 2005 CAFR:

FINANCIAL SECTION

- Unfunded Actuarial Accrued Liability
- Current Year Actuarial Gains / (Losses)
- Funding Ratios
- Changes in Overfunded / (Unfunded) Actuarial Accrued Liabilities
- Schedule of Funding Progress for the Years Ended December 31
- Schedule of Employer Contributions for the Years Ended December 31 (Annual Required Contribution and % ARC Contributed Only)
- Notes to Required Supplementary Information

ACTUARIAL SECTION

- Separations from Employment Before Retirement and Individual Pay Increase Assumption
- Single Life Retirement Value Assumptions
- Percent of Eligible Members Retiring Next Year
- Schedule of Retirees and Beneficiaries Added to and Removed from Benefit Payroll
- Member—Retiree Comparison
- Schedule of Members in Valuation
- Total Actuarial Liabilities
- Unfunded / Overfunded Actuarial Accrued Liabilities
- Schedule of Gains and Losses in Accrued Liabilities
- Schedule of Computed Employer Contribution Rates
- Schedule of Contribution Rate History
- Schedule of Active Member Valuation Data

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June 5, 2006
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STATISTICAL SECTION

- Member and Benefit Recipient Statistics
- Schedule of Average Retirement Benefits Payable
- Schedule of Benefit Disbursements by Type
- Current Average Monthly Benefit by Year of Retirement
- Schedule of Retirees and Survivors by Type of Benefit
- Schedule of Average Benefit Payments

We certify that this valuation was performed in accordance with standards of practice and by qualified actuaries as prescribed by the Actuarial Standards Board. Both of the consultants listed below have experience in performing valuations for large statewide public retirement systems.

PERA has a funded ratio of 73% based on the Actuarial Value of Assets. The funded ratio on Market Value of Assets is higher, at 74%. It is our opinion that the current funding is sufficient to pay benefit payments through the projected actuarial period of 30 years. Recent contribution changes under SB 06-235 are expected to stabilize the funding levels of the Local Government and Judicial Division trust funds by attaining a 30-year amortization period within the projected actuarial period of 30 years. The recent contribution changes combined with the benefit changes of SB 06-235 are expected to stabilize the State and School Division trust funds by attaining a 30-year amortization within the projected actuarial period.

Sincerely,

David H. Slishinsky

Michelle DeLange

David H. Slishinsky, ASA, EA, MAAA
Principal and Consulting Actuary

Michelle DeLange, FSA, EA, MAAA
Senior Consultant, Actuary

/kr

The Colorado Public Employees' Retirement Association was established in 1931 by the Colorado General Assembly as an instrumentality of the state. It initially covered only state employees, but membership has expanded to include all school districts except Denver, numerous municipalities, special districts, public health departments and other local government entities, as well as the State's judicial system.

The Plan's purpose is to provide benefits to members and their dependents at retirement or in the event of death or disability. The Plan is funded on an actuarial reserve basis, with money being set aside for benefits while the benefits are being earned and before they are paid.

Administration of the Plan

The Plan operates by the authority of the Colorado General Assembly, with benefits and administration defined under Title 24, Article 51, of the Colorado Revised Statutes. Colorado PERA is governed by a 16-member Board of Trustees, 14 of whom are elected by the membership to four–year terms and serve without compensation except for necessary expenses. The State Auditor and the State Treasurer serve as ex-officio members.

The Board appoints an Executive Director who is responsible for the daily administration of the Association. The Board retains an actuary to make annual valuations of the funding adequacy of the liabilities accrued under the Plan. The Board also retains other consultants as necessary.

Member Contributions

All members except State Troopers contribute 8 percent of their gross salary to a member contribution account. State Troopers contribute 10 percent of salary. Generally, salary is compensation for services rendered and is specifically defined in state law.

Member contributions have been tax-deferred for federal income tax purposes since July 1, 1984, and for state income tax purposes since January 1, 1987. Therefore, contributions are not considered as income for federal or state income tax purposes until they are withdrawn through a refund or a benefit.

Employer Contributions

PERA-affiliated employers contribute a percentage of their total payroll to the Fund. Respective employer contribution rates are shown on the Schedule of Contribution Rate History on pages 96–97.

The Schedule of Computed Employer Contribution Rates on page 95 shows a detailed explanation of how the employer contributions are determined. These contributions are credited to the respective Division for the purpose of creating actuarial reserves, so each member's benefits are fully provided for at retirement. PERA is exempt from federal income taxes under the Internal Revenue Code.

Termination

A member who terminates PERA-covered employment may request a member contribution account refund or leave the account with PERA; a refund cancels a former PERA member's rights to future PERA benefits.

A member who has not attained age 65 or is not eligible to retire receives, in addition to his or her account, a matching amount equal to 50 percent of the member contributions and interest. A member who withdraws his or her account upon or after reaching age 65 or retirement eligibility receives a 100 percent matching amount.

State law authorizes the PERA Board to determine the interest to be credited to member accounts. Beginning July 1, 2004, the Board set the interest rate at 5 percent compounded annually. In no event shall the Board specify a rate that exceeds 5 percent.

Any member who leaves a member account with PERA until reaching age 65 or meeting PERA's age and service requirements may apply for lifetime monthly benefits instead of withdrawing their account.

Retirement Benefits

Members are eligible to receive monthly retirement benefits when they reach age 65 or meet PERA's age and service retirement eligibility requirements. Retirement benefits are equal to the higher of a defined service retirement benefit or a money purchase retirement benefit. However, members who apply for a monthly retirement benefit at age 65 with less than five years of service or 60 months on the payroll are eligible for a money purchase retirement benefit only.

Defined Retirement Benefits

Defined service retirement benefits are based on the member's years of service, age, and Highest Average Salary (HAS). HAS is one-twelfth of the average of highest annual salaries on which PERA contributions were paid that are associated with three periods of 12 consecutive months of service credit. A 15 percent annual limit in salary increases applies if any salary used in the HAS calculation is from the three years prior to retirement. A one-year HAS applies for judges.

Defined retirement benefits equal 2.5 percent of HAS for each year of service credit up to a maximum of 100 percent of HAS.

Unreduced service retirement benefits are available to members whose age plus years of service total 80 or more, if the members are at least age 55 with a minimum of five years of service credit. Service retirement benefits are also available at age 50 with 30 years of service or at age 65 with five years of service. Members hired on or after July 1, 2005, will be eligible for service retirement benefits at any age with 35 years of service, rather than at age 50 with 30 years of service.

Reduced defined service retirement benefits available to members at age 60 with five years of service are reduced 4 percent per year (0.333 percent per month) before the eligible date for service retirement. Members who retire at age 55 with 20 years of service receive reduced defined service retirement benefits; the reduction factor equals 3 percent per year (0.25 percent per month).

Members also are eligible for reduced service retirement benefits at age 50 with 25 years of service. Benefits for these members are reduced 6 percent for each year that members retire before they would have become eligible for service retirement benefits.

Retirement benefits for State Troopers and members of the Judicial Division differ slightly.

Money Purchase Retirement Benefit

A money purchase benefit is also calculated and paid to the retiree if it is higher than the defined service retirement benefit. This benefit is determined by the member's life expectancy and the value of the member's contribution account, plus the matching amount equal to 100 percent of the member's contributions and interest.

Survivor Benefits

The benefit amount that qualified survivors receive is determined by which survivors are eligible to receive benefits and the member's HAS.

If a member dies with less than one year of PERA service credit, or with no survivors qualified to receive a monthly benefit, the named beneficiary or the estate will receive a lump-sum payment of the member's contribution account plus a matching amount equal to 100 percent of the member's contributions and earned interest.

If a member had more than one year of service and qualified survivors at the time of death, a monthly benefit may be payable to qualified survivors. If the member is not eligible for retirement, children receive a benefit first, but if the member is eligible for retirement, the cobeneficiary receives the benefit first.

Children are eligible to receive survivor benefits if under age 18, or if enrolled full-time in an accredited school within six months of the member's death, until they reach age 23. If there are no eligible children, or after benefits to children have ceased, the member's surviving spouse receives a monthly benefit at age 60 if the member had less than 10 years of service credit or immediately if the member had more than 10 years of service at the time of death. If there is no eligible spouse, financially dependent parents will receive a survivor benefit.

Disability Benefits

PERA provides a two-tiered disability program. Short-term disability payments are provided to members who are mentally or physically incapacitated from performance of essential job duties with reasonable accommodation, but who are not totally and permanently incapacitated from regular and substantial gainful employment. PERA provides reasonable income replacement, or rehabilitation or retraining services. Disability retirement benefits are provided to members who are totally and permanently mentally or physically incapacitated from regular and substantial gainful employment.

Annual Benefit Increases

Each March, benefits are increased 3.5 percent, compounded annually. The first annual increase occurs in the March that immediately follows the calendar year in which the member retired. If the member has not been retired for a full year, the benefit is increased proportionately. Annual benefit increases for members hired on or after July 1, 2005, will equal 3 percent or the actual change in the Consumer Price Index, whichever is lower.

Actuarial Methods

The cost that a retirement plan such as Colorado PERA incurs equals benefits paid plus administration and financing expenses. These costs are paid through contributions to the Plan and investment earnings on the Plan's assets.

Using the Plan's schedule of benefits, the member data, and a carefully selected set of actuarial assumptions, the Plan's actuary estimates the cost of the benefits that will be paid. Then, using a particular actuarial funding method, the actuary allocates these costs and determines a systematic manner to fund for future plan benefits. For PERA (as well as most public sector plans), the objective is to fund in a manner that keeps contribution rates approximately level from generation to generation. The funding method best designed to keep annual costs level as a percent of pay is the "Entry Age Actuarial Cost Method." This method is described below.

Entry Age Actuarial Cost Method

Under the Entry Age Actuarial Cost Method, projected service retirement, termination, disability, and death benefits are determined for all active members. Cost factors, which are developed to produce level annual costs in each year from the age at hire (entry age) to the assumed retirement age, are applied to the projected benefits to determine the "normal cost." The normal cost is the portion of the total cost of the Plan allocated to the current year. The normal cost for contribution refunds is assumed to end in the last year of assumed eligibility, and is spread over all years of service.

The "actuarial accrued liability" for active members is then calculated as the portion of the total cost of the Plan allocated to prior years. The actuarial accrued liability for members currently receiving benefits, for active members beyond the assumed retirement age, and for inactive members entitled to future benefits, is equal to the present value of the benefits expected to be paid. No normal costs are now payable for these participants.

The excess of the total actuarial accrued liability over the value of the Plan assets is called the "unfunded actuarial accrued liability." Funding requirements under the Entry Age Actuarial Cost Method are determined by adding the normal cost and the cost to amortize the unfunded liability.

The actuarial assumptions are used to determine the projected benefits and cost factors. The effect of differences between these assumptions and the actual experience of the Plan is calculated each year when the annual actuarial valuation is performed. These differences produce either actuarial gains or losses that result in an adjustment of the unfunded liability.

Asset Valuation Method

In 1992, the PERA Board of Trustees adopted a method for valuing assets that recognizes a "smoothed" market value of those assets. The smoothed value of assets recognizes the difference between actual and expected asset performance for each year in equal amounts over a four–year period. The actuarial value of assets was reinitialized at market value as of December 31, 2004. There will be one year of smoothing in the December 31, 2005, valuation as the method is phased in.

Actuarial Assumptions

Colorado PERA's actuarial assumptions are used to project the Plan's future experience. At least every five years, the actuarial assumptions are studied and an actuarial audit is performed by an external actuarial consulting firm to verify the following:

- Accuracy of membership data, financial data, actuarial and benefit calculations, and employer contributions.
- Consistency of calculations with respect to statutory requirements.
- Consistency and reasonableness of assumptions and methods.
- Valuation of all significant benefits.
- A review of the valuation report content.

In January 2005, the Board voted to have an actuarial audit performed in 2005, rather than in 2006, to confirm that PERA's funding status is being evaluated appropriately. Mercer Human Resource Consulting conducted the actuarial audit of PERA's actuarial valuation and processes; the actuarial audit completed the following:

- Conducted a valuation of liabilities for the pension trust funds and the Health Care Trust Fund based on the same year-end 2004 data, funding method, and assumptions used by the retained actuary.
- Examined and commented on the 2001–2004 experience study conducted by the retained actuary.
- Provided an opinion on specific issues, including the PERA trust funds' current and projected funded status, and what steps are needed to maintain actuarial soundness over the long term.

Based upon Mercer's review of the December 31, 2004, actuarial valuation, they believe that the results as presented in the valuation report were reasonable and performed by fully qualified actuaries in accordance with generally accepted actuarial principles and practices.

Economic Assumptions

In 2005, based on the actuary's recommendation, the Board continued to use an assumed investment rate of return of 8.5 percent per year, compounded annually, net after administrative expenses, with the December 31, 2005, valuation.

The inflation assumption is 3.75 percent per year. The real rate of return is the portion of the total investment return in excess of the inflation rate. Considering other financial assumptions, the 8.5

Summary of Actuarial Methods and Assumptions

percent investment return translates into an assumed real rate of return of 4.75 percent.

The overall member payroll was assumed to increase 4.5 percent annually in 2005. Pay increase assumptions for individual members in 2005 are shown for sample ages in Exhibits A, B, and C. Judicial Division pay increases (Exhibit D) are determined by the State Legislature. Benefits are assumed to increase at a rate of 3.5 percent after payments begin.

Non-Economic Assumptions

The mortality table is based on Colorado PERA experience and used to estimate the value of benefits expected to be paid. Related values are shown in Exhibit F. For disability retirement, impaired longevity is recognized by basing benefit values on an adjusted age midway between attained age and normal retirement age.

The probabilities of age and service retirement are shown in Exhibits G and H. The probabilities of withdrawal from service, disability, and death-in-service are shown for sample ages in Exhibits A, B, C, and D. It is assumed that 35 percent of the vested members who terminate will elect to withdraw their accounts while the remaining 65 percent will elect to leave their accounts in the Plan to be eligible for a benefit at their retirement date.

Separations from Employment Before Retirement and Individual Pay Increase Assumptions

Exhibit A—State Division

Sample Ages	Percent of Members Separating Within the Next Year: Ultimate Withdrawal[1] Men	Women	Death Men	Women	Disability Men	Women	Pay Increase Assumptions for an Individual Member: Merit and Seniority	Inflation and Productivity	Increase (Next Year)
State Members (Other Than State Troopers)									
20	21.00%	18.00%	0.025%	0.015%	0.01%	0.01%	5.67%	4.50%	10.17%
25	7.20%	7.60%	0.030%	0.015%	0.04%	0.03%	3.75%	4.50%	8.25%
30	6.30%	6.90%	0.040%	0.025%	0.05%	0.05%	2.80%	4.50%	7.30%
35	5.40%	6.20%	0.055%	0.035%	0.18%	0.16%	2.05%	4.50%	6.55%
40	4.40%	5.60%	0.095%	0.058%	0.24%	0.22%	1.50%	4.50%	6.00%
45	4.30%	5.00%	0.200%	0.097%	0.39%	0.34%	0.85%	4.50%	5.35%
50	4.20%	5.00%	0.383%	0.158%	0.55%	0.50%	0.50%	4.50%	5.00%
55	4.20%	5.00%	0.538%	0.227%	0.90%	0.84%	0.10%	4.50%	4.60%
60	4.20%	5.00%	0.680%	0.345%	1.06%	0.94%	0.00%	4.50%	4.50%
65	4.20%	5.00%	1.061%	0.603%	1.08%	0.96%	0.00%	4.50%	4.50%
State Troopers									
20	5.00%	5.00%	0.025%	0.015%	0.02%	0.02%	5.50%	4.50%	10.00%
25	5.00%	5.00%	0.030%	0.015%	0.08%	0.08%	3.75%	4.50%	8.25%
30	3.80%	3.80%	0.040%	0.025%	0.12%	0.12%	2.80%	4.50%	7.30%
35	2.50%	2.50%	0.055%	0.035%	0.40%	0.40%	2.05%	4.50%	6.55%
40	1.60%	1.60%	0.095%	0.058%	0.54%	0.54%	1.50%	4.50%	6.00%
45	1.10%	1.10%	0.200%	0.097%	0.86%	0.86%	1.20%	4.50%	5.70%
50	1.00%	1.00%	0.383%	0.158%	1.28%	1.28%	0.80%	4.50%	5.30%
55	1.00%	1.00%	0.538%	0.227%	1.85%	1.85%	0.40%	4.50%	4.90%
60	1.00%	1.00%	0.680%	0.345%	2.00%	2.00%	0.00%	4.50%	4.50%
65	1.00%	1.00%	1.061%	0.603%	2.00%	2.00%	0.00%	4.50%	4.50%

[1] There are no select withdrawal assumptions for State Troopers.

Exhibit B—School Division

Sample Ages	Percent of Members Separating Within the Next Year: Ultimate Withdrawal Men	Women	Death Men	Women	Disability Men	Women	Pay Increase Assumptions for an Individual Member: Merit and Seniority	Inflation and Productivity	Increase (Next Year)
20	21.00%	18.00%	0.025%	0.015%	0.01%	0.01%	6.20%	4.50%	10.70%
25	7.63%	8.99%	0.030%	0.015%	0.01%	0.02%	4.10%	4.50%	8.60%
30	5.24%	7.79%	0.040%	0.025%	0.01%	0.03%	2.95%	4.50%	7.45%
35	4.36%	6.80%	0.055%	0.035%	0.04%	0.05%	2.50%	4.50%	7.00%
40	3.59%	5.40%	0.095%	0.058%	0.11%	0.08%	1.95%	4.50%	6.45%
45	3.27%	5.00%	0.200%	0.097%	0.18%	0.11%	1.35%	4.50%	5.85%
50	3.90%	4.60%	0.383%	0.158%	0.30%	0.20%	0.80%	4.50%	5.30%
55	3.90%	4.60%	0.538%	0.227%	0.55%	0.36%	0.35%	4.50%	4.85%
60	3.90%	4.60%	0.680%	0.345%	0.70%	0.40%	0.00%	4.50%	4.50%
65	3.90%	4.60%	1.061%	0.603%	0.70%	0.40%	0.00%	4.50%	4.50%

Separations from Employment Before Retirement and Individual Pay Increase Assumptions

Exhibit C—Municipal Division

	Percent of Members Separating Within the Next Year						Pay Increase Assumptions for an Individual Member		
	Ultimate Withdrawal		Death		Disability		Merit and Seniority	Inflation and Productivity	Increase (Next Year)
Sample Ages	Men	Women	Men	Women	Men	Women			
20	12.00%	15.00%	0.025%	0.015%	0.01%	0.01%	6.97%	4.50%	11.47%
25	9.50%	12.35%	0.030%	0.015%	0.04%	0.04%	4.31%	4.50%	8.81%
30	7.20%	9.58%	0.040%	0.025%	0.07%	0.07%	2.65%	4.50%	7.15%
35	4.40%	8.00%	0.055%	0.035%	0.18%	0.18%	1.72%	4.50%	6.22%
40	3.90%	7.10%	0.095%	0.058%	0.27%	0.24%	1.23%	4.50%	5.73%
45	3.40%	6.30%	0.200%	0.097%	0.41%	0.39%	0.99%	4.50%	5.49%
50	3.40%	6.30%	0.383%	0.158%	0.61%	0.65%	0.79%	4.50%	5.29%
55	3.40%	6.30%	0.538%	0.227%	1.02%	0.90%	0.60%	4.50%	5.10%
60	3.40%	6.30%	0.680%	0.345%	1.10%	1.03%	0.25%	4.50%	4.75%
65	3.40%	6.30%	1.061%	0.603%	1.10%	1.03%	0.00%	4.50%	4.50%

Exhibit D—Judicial Division

	Percent of Members Separating Within the Next Year						Pay Increase Assumptions for an Individual Member		
	Ultimate Withdrawal[1]		Death		Disability		Merit and Seniority[2]	Inflation and Productivity	Increase (Next Year)
Sample Ages	Men	Women	Men	Women	Men	Women			
30	2.70%	2.70%	0.040%	0.025%	0.06%	0.06%	1.50%	4.50%	6.00%
35	2.70%	2.70%	0.055%	0.035%	0.07%	0.07%	1.50%	4.50%	6.00%
40	2.70%	2.70%	0.095%	0.058%	0.10%	0.10%	0.67%	4.50%	5.17%
45	2.70%	2.70%	0.200%	0.097%	0.17%	0.17%	0.50%	4.50%	5.00%
50	2.70%	2.70%	0.383%	0.158%	0.31%	0.31%	0.50%	4.50%	5.00%
55	2.70%	2.70%	0.538%	0.227%	0.63%	0.63%	0.50%	4.50%	5.00%
60	2.70%	2.70%	0.680%	0.345%	1.22%	1.22%	0.50%	4.50%	5.00%
65	2.70%	2.70%	1.061%	0.603%	1.48%	1.48%	0.50%	4.50%	5.00%

[1] There are no select withdrawal assumptions for the Judicial Division.

[2] Pay raises are subject to legislative approval. Percentages shown are based on prior experience.

Exhibit E

Percent of Members With Less Than Five Years of Service Withdrawing from Employment Next Year[1]

	State Division (Non-State Troopers)		School Division		Municipal Division	
Completed Years of Service	Men	Women	Men	Women	Men	Women
0	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
1	18.0%	20.0%	16.0%	16.5%	16.0%	18.0%
2	12.0%	14.0%	12.0%	12.5%	12.0%	12.0%
3	9.0%	11.0%	9.0%	10.5%	9.0%	9.0%
4	8.0%	10.0%	8.0%	10.0%	7.0%	7.0%

[1] There are no select withdrawal assumptions for State Troopers.

Single Life Retirement Value Assumptions

Exhibit F—State, School, Municipal, and Judicial Divisions

Sample Attained Ages	Present Value of $1 Monthly for Life Men	Present Value of $1 Monthly for Life Women	Present Value of $1 Monthly Increasing 3.5% Annually Men	Present Value of $1 Monthly Increasing 3.5% Annually Women	Future Life Expectancy In Years Men	Future Life Expectancy In Years Women
40	$138.39	$141.51	$206.81	$214.96	41.93	45.71
45	134.80	139.02	197.32	207.10	37.19	40.86
50	130.42	135.64	186.57	197.55	32.65	36.09
55	125.29	131.12	174.65	186.07	28.35	31.41
60	118.37	124.79	160.31	171.98	24.11	26.78
65	109.07	116.45	143.22	155.38	19.98	22.32
70	98.28	105.86	125.02	136.43	16.22	18.08
75	86.47	93.08	106.56	115.73	12.91	14.19
80	74.16	79.29	88.65	95.06	10.08	10.82
85	$62.15	$63.82	$72.23	$73.84	7.76	7.84

Percent of Members Eligible for Reduced Retirement

Exhibit G

Retirement Ages	State Division Men	State Division Women	State Troopers	School Division Men	School Division Women	Municipal Division Men	Municipal Division Women	Judicial Division
50	10%	10%	20%	10%	12%	12%	15%	10%
51	10%	10%	20%	10%	12%	12%	15%	10%
52	10%	10%	20%	10%	12%	12%	15%	10%
53	10%	10%	20%	10%	12%	12%	15%	10%
54	15%	15%	20%	18%	20%	12%	15%	10%
55	15%	15%	10%	18%	20%	12%	15%	10%
56	15%	15%	10%	18%	20%	15%	15%	10%
57	15%	15%	10%	18%	20%	15%	15%	10%
58	15%	15%	10%	18%	20%	15%	15%	10%
59	15%	15%	10%	18%	20%	15%	15%	10%
60	12%	15%	25%	14%	15%	15%	10%	10%
61	12%	12%	25%	14%	15%	15%	10%	10%
62	15%	18%	25%	14%	15%	15%	12%	10%
63	25%	12%	25%	14%	15%	15%	12%	10%
64	25%	12%	25%	14%	15%	15%	12%	10%
65	0%	0%	0%	0%	0%	0%	0%	10%
66	0%	0%	0%	0%	0%	0%	0%	10%
67	0%	0%	0%	0%	0%	0%	0%	10%
68	0%	0%	0%	0%	0%	0%	0%	15%
69	0%	0%	0%	0%	0%	0%	0%	20%
70	0%	0%	0%	0%	0%	0%	0%	40%
71	0%	0%	0%	0%	0%	0%	0%	40%
72	0%	0%	0%	0%	0%	0%	0%	100%
73	0%	0%	0%	0%	0%	0%	0%	100%
74	0%	0%	0%	0%	0%	0%	0%	100%
75	0%	0%	0%	0%	0%	0%	0%	100%

Percent of Members Eligible for Unreduced Benefits Retiring Next Year

Exhibit H

	State Division			School Division		Municipal Division		
Retirement Ages	Men	Women	State Troopers	Men	Women	Men	Women	Judicial Division
50	40%	40%	30%	40%	40%	15%	15%	10%
51	35%	35%	30%	40%	40%	15%	15%	10%
52	30%	30%	30%	35%	35%	15%	15%	10%
53	30%	25%	30%	35%	35%	15%	15%	10%
54	30%	25%	25%	35%	35%	15%	25%	10%
55	20%	25%	25%	25%	25%	15%	25%	10%
56	20%	20%	15%	25%	25%	25%	25%	10%
57	20%	20%	15%	25%	22%	25%	25%	10%
58	20%	20%	35%	25%	22%	25%	25%	10%
59	20%	20%	35%	25%	22%	25%	25%	10%
60	20%	20%	35%	25%	22%	20%	12%	10%
61	18%	16%	35%	22%	17%	20%	12%	10%
62	20%	20%	50%	22%	17%	20%	15%	10%
63	17%	16%	50%	22%	17%	20%	15%	10%
64	17%	16%	50%	22%	17%	20%	15%	10%
65	30%	25%	100%	30%	25%	25%	30%	10%
66	25%	22%	100%	19%	17%	30%	25%	10%
67	25%	22%	100%	19%	17%	30%	25%	10%
68	25%	22%	100%	19%	17%	30%	25%	15%
69	25%	22%	100%	19%	17%	30%	25%	20%
70	100%	100%	100%	100%	100%	100%	100%	40%

Schedule of Retirees and Beneficiaries Added to and Removed from Benefit Payroll[1]

(In Actual Dollars)

Year Ended	Added to Payroll No.	Added to Payroll Annual Benefits	Removed from Payroll No.	Removed from Payroll Annual Benefits	Payroll—End of Year No.[2]	Payroll—End of Year Annual Benefits	Average Annual Benefits	Increase in Average Benefits
12/31/96	3,074	$53,056,140	1,390	$15,449,340	45,716	$726,848,793	$15,899	6.5%
12/31/97	3,411	71,578,344	1,477	18,628,140	47,621	863,077,468	18,124	14.0%
12/31/98	3,139	78,278,484	1,694	13,692,660	49,808	926,962,944	18,611	2.7%
12/31/99	4,212	115,746,756	1,562	22,867,068	52,458	1,026,797,016	19,574	5.2%
12/31/00	4,369	123,249,792	1,680	28,151,484	55,147	1,142,638,708	20,720	5.9%
12/31/01	4,016	118,919,172	1,247	16,325,628	57,860	1,281,834,264	22,154	6.9%
12/31/02	4,064	123,812,748	1,376	19,675,356	60,548	1,427,278,692	23,573	6.4%
12/31/03	5,145	172,028,340	1,508	23,550,024	63,988	1,620,754,488	25,329	7.4%
12/31/04	5,522	191,924,148	1,610	28,105,056	67,900	1,839,310,356	27,089	6.9%
12/31/05	**5,320**	**$175,538,520**	**1,805**	**$22,298,928**	**69,416**	**$2,048,977,536**	**$29,517**	**9.0%**

[1] Numbers derived on an accrual basis.

[2] The number includes retirees and beneficiaries not being paid at the end of the year (e.g., future spousal benefits).

Member-Retiree Comparison[1]

(In Actual Dollars)

The number of persons receiving monthly retirement benefits has grown steadily in relation to membership. This trend will continue for many years into the future. The retirement benefit disbursements shown in the right-hand column include cost-of-living increases paid in years since 1970. Prior to 1981, figures are for years ended June 30.

Year	Number of Retiree Accounts on 12/31	Number of Member Accounts on 12/31[2]	Retiree Accounts as % of Members on 12/31	Total Benefits Paid–Year Ended 12/31
1940	93	3,715	2.5%	$72,588
1945	171	5,585	3.1%	137,442
1950	280	11,853	2.4%	237,866
1955	747	21,185	3.5%	745,679
1960	1,775	33,068	5.4%	2,055,139
1965	3,631	49,701	7.3%	5,486,225
1970	6,308	65,586	9.6%	13,115,234
1975	11,650	84,781	13.7%	32,820,433
1980	17,301	96,473	17.9%	71,289,456
1985	24,842	101,409	24.5%	192,456,029
1990	32,955	115,350	27.4%	350,398,094
1995	41,909	203,102	20.6%	639,501,796
1996	43,611	210,893	20.7%	694,349,889
1997	45,525	220,860	20.6%	787,128,075
1998	47,735	221,978	21.5%	893,810,708
1999	50,344	238,111	21.1%	989,536,328
2000	53,015	248,104	21.4%	1,093,779,068
2001	55,733	263,712	21.1%	1,228,730,063
2002	58,357	271,989	21.5%	1,372,219,187
2003	62,029	278,841	22.2%	1,545,267,772
2004	65,943	292,861	22.5%	1,764,716,331
2005	**69,416**	**306,139**	**22.7%**	**$1,973,240,491**

[1] Numbers derived on a cash basis.

[2] Includes inactive member accounts.

Schedule of Members in Valuation

By Attained Age and Years of Service As of December 31, 2005

State Division

Members included in the State Division valuation totaled 53,351 and involved annual salaries totaling $2,064,764,171 (in actual dollars). The average age for these members (excluding State Troopers) was 45.0 years, and the average service was 9.1 years. The average age for State Troopers was 39.2 years, and the average service was 10.9 years.

	Years of Service to Valuation Date							Totals	
Attained Age	**0–4**	**5–9**	**10–14**	**15–19**	**20–24**	**25–29**	**30+**	**No.**	**Valuation Payroll**
Up to 20	556	0	0	0	0	0	0	556	$5,704,229
20–24	2,014	33	0	0	0	0	0	2,047	36,052,352
25–29	3,288	512	9	0	0	0	0	3,809	103,164,097
30–34	3,194	1,513	280	13	0	0	0	5,000	167,400,136
35–39	2,908	1,715	1,005	331	28	1	0	5,988	229,634,537
40–44	2,730	1,658	1,098	853	500	74	0	6,913	281,116,503
45–49	3,959	1,613	1,177	1,072	986	843	120	9,770	398,776,457
50–54	2,403	1,455	1,204	1,143	1,012	990	507	8,714	394,465,327
55–59	1,731	1,088	837	871	774	673	498	6,472	287,477,098
60	210	144	85	95	100	95	66	795	35,767,167
61	181	100	94	95	76	48	60	654	28,982,787
62	152	100	77	71	65	45	53	563	24,516,105
63	142	71	84	62	47	39	47	492	20,282,457
64	98	49	35	53	42	30	33	340	14,857,170
65	73	59	31	39	16	23	22	263	10,112,820
66	79	30	25	15	18	20	14	201	6,995,378
67	76	30	17	14	9	12	12	170	5,154,332
68	66	22	15	21	7	4	6	141	3,946,497
69	42	23	13	8	4	6	4	100	2,342,867
70+	164	77	42	24	22	21	13	363	8,015,855
Totals	**24,066**	**10,292**	**6,128**	**4,780**	**3,706**	**2,924**	**1,455**	**53,351**	**$2,064,764,171**

School Division

Members included in the School Division valuation totaled 111,449 and involved annual salaries totaling $3,241,213,817 (in actual dollars). The average age for these members was 43.7 years, and the average service was 8.0 years.

	Years of Service to Valuation Date							Totals	
Attained Age	**0–4**	**5–9**	**10–14**	**15–19**	**20–24**	**25–29**	**30+**	**No.**	**Valuation Payroll**
Up to 20	1,255	2	0	0	0	0	0	1,257	$9,292,011
20–24	4,677	98	0	0	0	0	0	4,775	75,696,910
25–29	9,049	1,302	32	0	0	0	0	10,383	264,260,866
30–34	6,625	3,784	561	15	0	0	0	10,985	317,173,758
35–39	6,933	3,351	2,262	392	15	0	0	12,953	368,599,917
40–44	9,390	3,682	2,127	1,667	657	53	0	17,576	473,991,008
45–49	6,816	4,010	2,437	1,669	1,828	1,055	98	17,913	548,737,416
50–54	4,751	2,864	2,520	1,921	1,826	2,081	718	16,681	591,626,628
55–59	3,357	1,796	1,531	1,514	1,474	1,230	763	11,665	413,977,185
60	404	209	166	155	143	124	61	1,262	40,710,568
61	400	157	126	119	135	95	55	1,087	32,865,854
62	338	156	123	103	100	71	62	953	27,599,148
63	273	152	102	50	67	47	42	733	20,203,760
64	256	105	87	49	60	37	25	619	14,504,150
65	189	72	61	39	48	29	19	457	10,111,698
66	179	76	38	24	25	16	14	372	7,172,362
67	188	56	34	25	13	22	11	349	5,948,943
68	131	47	30	13	14	11	7	253	4,081,553
69	113	41	24	10	12	4	7	211	3,089,976
70+	544	216	99	34	25	23	24	965	11,570,106
Totals	**55,868**	**22,176**	**12,360**	**7,799**	**6,442**	**4,898**	**1,906**	**111,449**	**$3,241,213,817**

Schedule of Members in Valuation

By Attained Age and Years of Service As of December 31, 2005

Municipal Division

Members included in the Municipal Division valuation totaled 15,555 and involved annual salaries totaling $607,216,796 (in actual dollars). The average age for these members was 43.1 years, and the average service was 7.4 years.

	Years of Service to Valuation Date							Totals	
Attained Age	0–4	5–9	10–14	15–19	20–24	25–29	30+	No.	Valuation Payroll
Up to 20	495	1	0	0	0	0	0	496	$3,981,365
20–24	832	33	0	0	0	0	0	865	15,620,513
25–29	1,067	174	9	0	0	0	0	1,250	36,956,209
30–34	1,101	352	78	2	0	0	0	1,533	54,985,006
35–39	1,053	414	191	60	12	0	0	1,730	69,471,264
40–44	1,305	469	284	197	142	26	0	2,423	99,906,933
45–49	932	466	312	252	250	228	38	2,478	118,085,714
50–54	785	356	269	238	200	189	133	2,170	103,918,210
55–59	544	240	175	160	163	135	97	1,514	70,119,013
60	75	23	29	16	17	9	12	181	7,601,212
61	68	31	14	12	14	13	14	166	6,392,400
62	64	24	20	14	10	12	3	147	5,793,001
63	43	10	10	9	18	6	7	103	3,707,673
64	33	7	8	9	2	5	2	66	1,908,420
65	28	13	12	5	6	3	1	68	2,142,569
66	32	9	6	3	2	3	2	57	1,304,476
67	28	5	3	3	0	0	2	41	894,497
68	16	4	4	0	0	0	1	25	467,830
69	28	3	4	1	1	2	1	40	731,295
70+	143	29	15	6	4	2	3	202	3,229,196
Totals	**8,672**	**2,663**	**1,443**	**987**	**841**	**633**	**316**	**15,555**	**$607,216,796**

Judicial Division

Members included in the Judicial Division valuation totaled 275 and involved annual salaries totaling $26,937,252 (in actual dollars). The average age for Judicial Division members was 54.7 years, and the average service was 15.1 years.

	Years of Service to Valuation Date							Totals	
Attained Age	0–4	5–9	10–14	15–19	20–24	25–29	30+	No.	Valuation Payroll
Up to 20	0	0	0	0	0	0	0	0	$—
20–24	0	0	0	0	0	0	0	0	—
25–29	0	0	0	0	0	0	0	0	—
30–34	1	0	0	0	0	0	0	1	25,034
35–39	4	1	1	0	0	0	0	6	576,403
40–44	7	6	2	1	1	0	0	17	1,511,107
45–49	12	9	8	6	2	2	0	39	3,806,485
50–54	13	11	11	9	4	8	4	60	5,911,661
55–59	14	12	12	17	20	18	5	98	9,522,064
60	0	2	1	2	5	1	2	13	1,405,208
61	0	4	0	1	1	0	1	7	646,672
62	1	1	1	2	2	2	0	9	905,754
63	1	0	1	1	0	3	0	6	558,548
64	1	0	0	1	3	2	1	8	872,161
65	0	0	1	0	2	1	0	4	420,830
66	0	0	0	0	0	1	1	2	217,298
67	0	0	0	1	0	1	1	3	331,403
68	0	0	1	0	0	0	0	1	117,975
69	0	0	0	0	0	0	0	0	—
70+	0	0	0	0	0	0	1	1	108,649
Totals	**54**	**46**	**39**	**41**	**40**	**39**	**16**	**275**	**$26,937,252**

Summary of Solvency Test

The Colorado PERA funding objective is to be able to pay long-term benefit promises through contributions that remain approximately level from year to year as a percent of salaries earned by members. In this way, members and employers in each year pay their fair share for retirement service accrued in that year by PERA members.

Over the years, Colorado PERA's contribution rates were occasionally increased to fund benefit improvements, or temporarily decreased at the State Legislature's direction. (See Schedule of Contribution Rate History on pages 96–97.)

Since 2000, PERA's funding ratio has declined from a high of 105.2 percent to 70.6 percent at the end of 2004. The results of PERA's annual valuation on December 31, 2005, determined that the funding ratio for the retirement trust funds had increased to 73.3 percent from 70.6 percent at the end of 2004 as the result of several actions taken by the Board. Legislation enacted in 2004 and 2005 that will strengthen PERA's funded status included the following provisions:

- Termination of MatchMaker contributions by June 1, 2004.
- Reduction in the rate of interest credited to member contribution accounts to a maximum of 5 percent per year, beginning July 1, 2004.
- Payment of employer contributions on salary paid to PERA retirees who work for PERA-affiliated employers, effective July 1, 2005.
- Phase-in of increased funding called the Amortization Equalization Disbursement (AED) from PERA employers through a contribution that will help amortize PERA unfunded liabilities beginning in January 2006 and increasing through 2012.

The collection of the employer contributions on salaries paid to rehired retirees that went into effect on July 1, 2005, may have also resulted in lower than expected retirements during the year, thus lowering PERA's liabilities. In an action that did not require legislation, the Board increased the cost to purchase prior non-covered service to the full actuarial cost effective November 1, 2005. This action, in concert with legislation passed over the last few years, should limit PERA's liabilities going forward and increase assets in the years to come.

If the retirement system follows level contribution rate financing principles, the system will pay all promised benefits when due—the ultimate test of financial soundness.

The following solvency test is one means of checking PERA's funding progress. In this test, the retirement plan's present assets (investments and cash) are compared with: (1) member contributions on deposit, (2) the liabilities for future benefits to persons who have retired, and (3) the liabilities for service already rendered by active members. In a system that has been following the discipline of level contribution rate financing, the liabilities for member contributions on deposit (liability 1) and the liabilities for future benefits to present retirees (liability 2) will be fully covered by present assets, except in rare circumstances. The actuarial valuation of December 31, 2005, shows that liability 1 and liability 2 are fully covered by PERA assets.

In addition, the remainder of present assets covers a small portion of the liabilities for service already rendered by members (liability 3). Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time.

Total Actuarial Liabilities

(In Actual Dollars)

Valuation Date	Member Contributions (1)[1]	Retirees and Beneficiaries (2)	Employer-Financed Portion of Active Members (3)	Valuation Assets	Portion of Actuarial Accrued Liabilities Covered by Reported Assets (1)	(2)	(3)
12/31/96	$4,040,814,028	$8,339,476,944	$5,611,614,086	$17,321,769,518	100%	100%	88%
12/31/97	4,161,334,387	10,303,331,080	7,029,404,533	19,776,487,860	100%	100%	76%
12/31/98	4,413,349,123	11,659,836,332	7,842,874,545	23,069,582,456	100%	100%	89%
12/31/99	4,631,541,543	12,650,882,161	8,564,267,296	26,643,394,180	100%	100%	100%
12/31/00	4,833,143,560	14,162,593,257	9,170,504,492	29,625,878,179	100%	100%	100%
12/31/01	5,562,390,361	16,301,486,412	9,503,435,639	30,935,478,756	100%	100%	95%
12/31/02	6,118,094,036	18,208,961,462	10,268,677,964	30,554,140,114	100%	100%	61%
12/31/03	6,316,579,440	20,884,057,920	13,291,470,411	30,596,661,957	100%	100%	26%
12/31/04	6,365,516,299	23,833,957,690	13,370,998,194	30,755,462,303	100%	100%	4%
12/31/05	**$5,755,118,042**	**$26,382,911,449**	**$14,614,266,949**	**$34,273,165,233**	**100%**	**100%**	**15%**

[1] Includes accrued interest on member contributions.

Summary of Unfunded/(Overfunded) Actuarial Accrued Liabilities

Unfunded/(overfunded) actuarial accrued liabilities are the difference between actuarially calculated liabilities for service already rendered and the assets of the retirement fund. It is natural for unfunded liabilities to exist for Colorado PERA and other defined benefit retirement plans.

The ratio of PERA's assets to accrued liabilities exceeded 100 percent for the first time on December 31, 1999, and again exceeded 100 percent in 2000. However, the ratio fell to a recent low of 71 percent in 2004. In 2005, the funded ratio increased to 73 percent.

The increase (or gains) in the 2005 funded status over 2004 can be attributed to the following factors:

- Recognition of investment gains experienced from 2003–2005.
- Survivor claims were lower in 2005 than had been assumed, resulting in fewer liabilities.
- More members terminated PERA-covered employment and withdrew their accounts than had been assumed during 2005, limiting future liabilities.
- Changes in actuarial assumptions and methods for recognizing assets and calculating liabilities resulted in a positive impact on the plan's funded status in 2005.

Liabilities increased in 2005, although at a slower pace than in previous years. The following factors resulted in higher liabilities (or losses) to PERA during 2005:

- Member pay increases were higher than expected.
- Fewer new employees were hired by PERA-affiliated employers in 2005 than had been predicted.
- Purchase of prior non-covered service, while significantly lower than experienced in 2003 and 2004, continued to negatively impact PERA's funded status.
- Members retired at earlier ages during 2005 than had been assumed.
- Employer contribution rates remained below the levels that were in effect in 2000, the last year in which actuarial assets exceeded liabilities. However, PERA began receiving the employer contribution on salaries paid to rehired retirees effective July 1, 2005, which should have a positive impact on the funded ratio in the years to come.

Effective November 1, 2005, the cost to purchase non-covered service was increased to the actuarial cost, further limiting the plan's liabilities going forward. Legislation passed and signed into law in 2003 limited the number of years for non-covered service to a total of 10 years. Legislation supported by the Board in 2004, 2005, and 2006 contained moderate and balanced provisions that improve PERA's financial soundness. A brief description of this legislation follows:

Senate Bill 04-132 ("Modification of Existing Benefit Plans for PERA Members") as amended was signed by Governor Owens. The bill contains the following provisions that went into effect during 2005:

- Reduced the annual post-retirement increase to the lower of 3 percent or the actual increase in the Consumer Price Index for new employees hired on or after July 1, 2005.
- Eliminated the unreduced service retirement eligibility requirement at age 50 with 30 or more years of service, for new employees hired on or after July 1, 2005.

Senate Bill 04-257 ("Modifications to Retirement Plans for Public Employees") as amended was signed by Governor Owens and included provisions that will phase-in increased funding from PERA employers with an amortization equalization disbursement beginning in January 2006 through 2012. The bill also requires employer contributions on salary paid to PERA retirees who return to work for PERA-affiliated employers.

Senate Bill 05-73 ("Employment After Retirement for PERA Retirees") was signed by Governor Owens and ensures that the amortization equalization disbursement will be paid by employers on the salary they pay to PERA retirees. SB 05-73 also provides for employer contributions to be paid on compensation paid to PERA retirees who are working as independent contractors or in certain other arrangements, and who are performing services for PERA employers.

Senate Bill 06-235 ("Concerning Public Employees' Retirement Benefit Plans") was signed by the Governor on May 25, 2006. This legislation will do the following:

- Adds a supplemental amortization equalization disbursement payment that is slated to come from salary increases that would have otherwise been awarded to employees over a six–year period. The collection of 0.5 percent of salaries is scheduled to begin on January 1, 2008.
- Modifies retirement provisions for new employees hired on or after January 1, 2007.
- Specifies a 30–year amortization period in statute.
- Requires that an actuarial study be commissioned by the General Assembly before any benefit enhancements can be made.
- Modifies the structure of the PERA Board of Trustees.
- Expands defined contribution and defined benefit choice to new employees of institutions of higher education who did not previously have access to both types of plans.

Benefits to retirees are fully funded, that is, assets reserved for benefits currently being paid equal liabilities for those benefits. Liabilities for members are based on service rendered toward their retirement benefits payable in the future. Unfunded actuarial accrued liabilities exist because liabilities for such service by members exceed assets currently on hand for such future benefits.

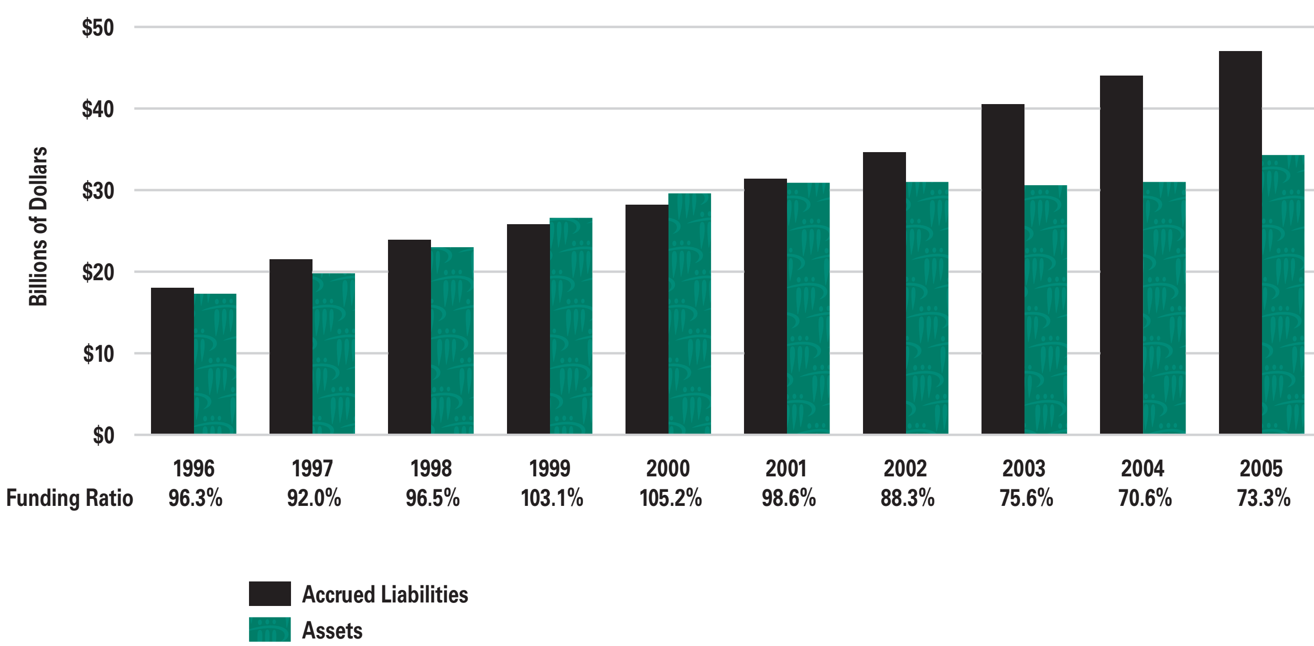
Summary of Unfunded/(Overfunded) Actuarial Accrued Liabilities

Since inflation decreases the dollar's value, it is important to examine more than only the dollar amounts of assets, benefits paid, member salaries, and unfunded/(overfunded) actuarial accrued liabilities when assessing the Plan's financial status. The ratio of unfunded/(overfunded) actuarial accrued liability dollars divided by member salary dollars can provide a meaningful index. The smaller the ratio, the stronger the system. Observation of this relative index over a period of years will give an indication of the financial strength of the system. This ratio has decreased at times over the last decade, but increased sharply in years 2002 through 2004. This increase reflects the poor investment environment of 2001 and 2002, as well as increased liabilities. The UAAL/OAAL as a percent of member salaries was reduced in 2005, which is evidence of a moderation in PERA's liabilities and recognition of good investment gains in the past few years.

Unfunded/(Overfunded) Actuarial Accrued Liabilities (UAAL/OAAL)
(In Actual Dollars)

Valuation Date	Total Actuarial Accrued Liabilities	Valuation Assets	Assets as a % of Accrued Liabilities	Unfunded/(Overfunded) Actuarial Accrued Liabilities	Member Salaries	UAAL/OAAL as a % of Member Salaries
12/31/96	$17,991,905,058	$17,321,769,518	96.3%	$670,135,540	$3,968,963,337	16.9%
12/31/97	21,494,070,000	19,776,487,860	92.0%	1,717,582,140	4,211,820,401	40.8%
12/31/98	23,916,060,522	23,069,582,456	96.5%	846,478,066	4,477,302,776	18.9%
12/31/99	25,846,691,306	26,643,394,180	103.1%	(796,702,874)	4,709,759,629	(16.9%)
12/31/00	28,166,241,309	29,625,878,179	105.2%	(1,459,636,870)	4,982,542,964	(29.3%)
12/31/01	31,367,312,412	30,935,478,756	98.6%	431,833,656	5,415,327,493	8.0%
12/31/02	34,595,733,462	30,554,140,114	88.3%	4,041,593,348	5,779,703,602	69.9%
12/31/03	40,492,107,771	30,596,661,957	75.6%	9,895,445,814	5,645,468,380	175.3%
12/31/04	43,570,472,183	30,755,462,303	70.6%	12,815,009,880	5,879,355,179	218.0%
12/31/05	**$46,752,296,440**	**$34,273,165,233**	**73.3%**	**$12,479,131,207**	**$5,940,132,036**	**210.1%**

Assets as a Percent of Accrued Liabilities
1996–2005



Schedule of Gains and Losses in Accrued Liabilities

Type of Activity	$ Gain (or Loss) for Years Ended December 31 (In Millions of Dollars) 2005	2004	2003	2002	2001	2000
Age and service retirements[1]	**($32.4)**	($436.3)	($435.7)	($557.4)	($178.4)	($323.4)
Disability retirements[2]	**(5.8)**	(0.7)	(19.7)	(3.1)	0.1	0.4
Deaths[3]	**130.7**	(50.7)	(26.0)	5.9	11.5	(12.2)
Withdrawal from employment[4]	**104.1**	13.0	18.1	(20.4)	0.6	21.5
New entrants[5]	**(129.1)**	(66.3)	(110.7)	(68.6)	(41.0)	(166.1)
Pay increases[6]	**(332.1)**	97.4	716.4	(182.7)	(495.5)	(39.4)
Investment income[7]	**89.4**	(1,697.7)	(2,612.1)	(2,710.8)	(780.1)	989.1
Service purchases	**(73.2)**	(215.0)	(1,241.6)	—	—	—
Other	**70.3**	(23.0)	(753.1)	(323.9)	5.7	273.1
Gain (or loss) during year	**(178.1)**	(2,379.3)	(4,464.4)	(3,861.0)	(1,477.1)	743.0
Non-recurring items (assumption change)[8]	**(126.3)**	275.6	(981.3)	—	(572.5)	(288.3)
Non-recurring items (asset method change)[8]	**1,660.7**	—	—	—	—	—
Composite gain (or loss) during year	**$1,356.3**	($2,103.7)	($5,445.7)	($3,861.0)	($2,049.6)	$454.7

[1] Age and service retirements: If members retire at older ages than assumed, there is a gain. If members retire at younger ages, a loss occurs.

[2] Disability retirements: If disability claims are lower than was assumed, there is a gain. If a higher number of disability claims was experienced, there is a loss.

[3] Deaths: If survivor claims are lower than was assumed, there is a gain. If a higher number of survivor claims was experienced, there is a loss. If retirees live longer than assumed, there is a loss; if retirees die sooner than assumed, there is a gain.

[4] Withdrawal from employment: If more members terminate and more liabilities are released by withdrawals than are assumed, there is a gain. If fewer liabilities are released, a loss occurs.

[5] New entrants: If the number of new members entering the Plan is lower than was assumed, there is a loss. If a higher number of new members entered the Plan than was assumed, there is a gain.

[6] Pay increases: If there are smaller salary increases than assumed, there is a gain. If greater increases occur, a loss results.

[7] Investment income: If there is greater investment income than assumed, there is a gain. If less income is received, a loss occurs.

[8] Non-recurring items: Include changes in actuarial assumptions or method and changes to plan benefits.

Schedule of Computed Employer Contribution Rates for Fiscal Years Beginning in 2007

	Expressed as a Percentage of Member Payroll: State Division	School Division	Municipal Division	Judicial Division
Contributions:				
Service retirement benefits	8.92%	9.98%	8.71%	12.18%
Disability retirement benefits	0.95%	0.41%	1.01%	1.30%
Survivor benefits	0.41%	0.34%	0.41%	1.08%
Termination withdrawals	3.00%	3.12%	3.02%	2.81%
Refunds	0.91%	0.68%	1.07%	0.72%
Total normal cost	14.19%	14.53%	14.22%	18.09%
Less member contributions	(8.05%)[1]	(8.00%)	(8.00%)	(8.00%)[2]
Employer normal cost	6.14%	6.53%	6.22%	10.09%
Percentage available to amortize unfunded actuarial accrued liabilities	4.05%	3.60%	3.76%	3.55%
Amortization period	Infinite	Infinite	Infinite	Infinite
Total employer contribution rate for actuarially funded benefits	10.21%	10.15%	10.00%	13.66%
Amortization Equalization Disbursement	1.00%	1.00%	1.00%	1.00%
Less Health Care Trust Fund	(1.02%)	(1.02%)	(1.02%)	(1.02%)
Employer contribution rate for defined benefit plan	10.19%[1]	10.13%	9.98%	13.64%

[1] Weighted average of more than one statutory rate.

[2] Assumes no judge will elect a refund of contributions made for the 17th through the 20th year of service.

Schedule of Contribution Rate History

			Percent of Payroll	
			Member Contribution Rate	Employer Contribution Rate[1]
State and School Division[2] (Members Other Than State Troopers)				
7-1-97	to	6-30-98	8.00%	11.50%
7-1-98	to	6-30-00	8.00%	11.40%
7-1-00	to	6-30-01	8.00%	10.40%
7-1-01	to	6-30-02	8.00%	9.90%
7-1-02	to	6-30-03	8.00%	10.04%
7-1-03	to	12-31-04	8.00%	10.15%
1-1-05	**to**	**12-31-05**	**8.00%**	**10.15%**
State Troopers				
7-1-45	to	6-30-69	7.00%	7.00%
7-1-69	to	6-30-70	8.00%	8.00%
7-1-70	to	6-30-71	8.00%	9.00%
7-1-71	to	6-30-73	8.00%	9.50%
7-1-73	to	6-30-74	8.75%	10.50%
7-1-74	to	6-30-75	8.75%	11.50%
7-1-75	to	8-31-80	8.75%	11.64%
9-1-80	to	12-31-81	8.75%	13.20%
1-1-82	to	6-30-87	9.00%	13.20%
7-1-87	to	6-30-88	9.00%	11.20%
7-1-88	to	6-30-89	9.00%	13.20%
7-1-89	to	4-30-92	12.30%	13.20%
5-1-92	to	6-30-92	12.30%	7.20%[3]
7-1-92	to	6-30-93	11.50%	12.20%
7-1-93	to	6-30-97	11.50%	13.20%
7-1-97	to	6-30-99	11.50%	13.10%
7-1-99	to	6-30-01	10.00%	13.10%
7-1-01	to	6-30-02	10.00%	12.60%
7-1-02	to	6-30-03	10.00%	12.74%
7-1-03	**to**	**12-31-05**	**10.00%**	**12.85%**

[1] All employer contribution rates shown for the Divisions between July 1, 1985, to December 31, 2005, include the Health Care Trust Fund allocation.

[2] State and School Divisions were merged July 1, 1997, and separated on January 1, 2006.

[3] Legislation created an annual reduction equal to 1 percent of salary retroactive to July 1, 1991, to be taken during May and June of 1992.

			Percent of Payroll	
			Member Contribution Rate	Employer Contribution Rate[1]
School Division[2]				
1-1-44	to	12-31-49	3.50%	3.50%
1-1-50	to	6-30-58	5.00%	5.00%
7-1-58	to	6-30-69	6.00%	6.00%
7-1-69	to	12-31-69	7.00%	6.00%
1-1-70	to	12-31-70	7.00%	7.50%
1-1-71	to	12-31-71	7.00%	8.50%
1-1-72	to	6-30-73	7.00%	9.25%
7-1-73	to	12-31-73	7.75%	9.25%
1-1-74	to	12-31-74	7.75%	10.25%
1-1-75	to	12-31-75	7.75%	11.25%
1-1-76	to	12-31-80	7.75%	12.10%
1-1-81	to	12-31-81	7.75%	12.50%
1-1-82	to	6-30-87	8.00%	12.50%
7-1-87	to	6-30-88	8.00%	11.50%
7-1-88	to	6-30-91	8.00%	12.50%
7-1-91	to	6-30-92	8.00%	12.20%
7-1-92	to	6-30-97	8.00%	11.60%

[1] All employer contribution rates shown for the Divisions between July 1, 1985, to December 31, 2005, include the Health Care Trust Fund allocation.

[2] State and School Divisions were merged July 1, 1997, and separated on January 1, 2006.

			Percent of Payroll	
			Member Contribution Rate	Employer Contribution Rate[1]
State Division[2] (Members Other Than State Troopers)				
8-1-31	to	6-30-38	3.50%	0.00%
7-1-38	to	6-30-49	3.50%	3.50%
7-1-49	to	6-30-58	5.00%	5.00%
7-1-58	to	6-30-69	6.00%	6.00%
7-1-69	to	6-30-70	7.00%	7.00%
7-1-70	to	6-30-71	7.00%	8.00%
7-1-71	to	6-30-73	7.00%	8.50%
7-1-73	to	6-30-74	7.75%	9.50%
7-1-74	to	6-30-75	7.75%	10.50%
7-1-75	to	8-31-80	7.75%	10.64%
9-1-80	to	12-31-81	7.75%	12.20%
1-1-82	to	6-30-87	8.00%	12.20%
7-1-87	to	6-30-88	8.00%	10.20%
7-1-88	to	6-30-91	8.00%	12.20%
7-1-91	to	4-30-92	8.00%	11.60%
5-1-92	to	6-30-92	8.00%	5.60%[2]
7-1-92	to	6-30-93	8.00%	10.60%
7-1-93	to	6-30-97	8.00%	11.60%

[1] All employer contribution rates shown for the Divisions between July 1, 1985, to December 31, 2005, include the Health Care Trust Fund allocation.

[2] State and School Divisions were merged July 1, 1997, and separated on January 1, 2006.

Schedule of Contribution Rate History

	Percent of Payroll Member Contribution Rate	Percent of Payroll Employer Contribution Rate[1]
Municipal Division[1]		
1-1-44 to 12-31-49	3.50%	3.50%
1-1-50 to 6-30-58	5.00%	5.00%
7-1-58 to 6-30-69	6.00%	6.00%
7-1-69 to 12-31-69	7.00%	6.00%
1-1-70 to 12-31-70	7.00%	7.00%
1-1-71 to 6-30-73	7.00%	7.50%
7-1-73 to 12-31-73	7.75%	7.50%
1-1-74 to 12-31-74	7.75%	8.50%
1-1-75 to 12-31-75	7.75%	9.50%
1-1-76 to 12-31-80	7.75%	9.86%
1-1-81 to 12-31-81	7.75%	10.20%
1-1-82 to 6-30-91	8.00%	10.20%
7-1-91 to 12-31-00	8.00%	10.00%
1-1-01 to 12-31-01	8.00%	9.43%
1-1-02 to 12-31-02	8.00%	9.19%
1-1-03 to 12-31-03	8.00%	9.60%
1-1-04 to 12-31-05	**8.00%**	**10.00%**

[1] Employer contribution rates shown between July 1, 1985, to December 31, 2004, include the Health Care Trust Fund allocation.

	Percent of Payroll Member Contribution Rate	Percent of Payroll Employer Contribution Rate[1]
Judicial Division[1]		
7-1-49 to 6-30-57	5.00%	5.00%
7-1-57 to 6-30-73	6.00%	12.00%
7-1-73 to 6-30-80	7.00%	12.00%
7-1-80 to 8-30-80	7.00%	13.00%
9-1-80 to 12-31-81	7.00%	15.00%
1-1-82 to 6-30-87	8.00%	15.00%
7-1-87 to 6-30-88	8.00%	13.00%
7-1-88 to 6-30-00	8.00%	15.00%
7-1-00 to 6-30-01	8.00%	14.00%
7-1-01 to 6-30-03	8.00%	11.82%
7-1-03 to 6-30-04	8.00%	12.66%
7-1-04 to 12-31-04	8.00%	13.66%
1-1-05 to 12-31-05	**8.00%**	**13.66%**

[1] Employer contribution rates shown between July 1, 1985, to December 31, 2004, include the Health Care Trust Fund allocation.

	Percent of Payroll Allocated from Employer Contribution to Health Care Trust Fund
State and School Division[1]	
7-1-85 to 6-30-99	0.80%
7-1-99 to 12-31-00	1.10%
1-1-01 to 12-31-01	1.42%
1-1-02 to 12-31-02	1.64%
1-1-03 to 6-30-04	1.10%
7-1-04 to 12-31-05	**1.02%**
Municipal Division	
7-1-85 to 6-30-99	0.80%
7-1-99 to 12-31-00	1.10%
1-1-01 to 12-31-01	1.96%
1-1-02 to 12-31-02	2.31%
1-1-03 to 12-31-03	1.69%
1-1-04 to 6-30-04	1.10%
7-1-04 to 12-31-05	**1.02%**
Judicial Division	
7-1-85 to 6-30-99	0.80%
7-1-99 to 12-31-00	1.10%
1-1-01 to 12-31-01	4.37%
1-1-02 to 12-31-02	4.37%
1-1-03 to 12-31-03	3.11%
1-1-04 to 6-30-04	1.10%
7-1-04 to 12-31-05	**1.02%**

[1] State and School Divisions were merged July 1, 1997, and separated on January 1, 2006.

	Percent of Payroll Available from Employer Contribution for MatchMaker (Maximum Match)
State and School Division[1]	
1-1-01 to 12-31-01	3%
1-1-02 to 12-31-02	3%
1-1-03 to 12-31-03	2%
1-1-04 to 5-31-04[2]	1%
Municipal Division	
1-1-01 to 12-31-01	2%
1-1-02 to 12-31-02	3%
1-1-03 to 12-31-03	2%
1-1-04 to 5-31-04[2]	1%
Judicial Division	
1-1-01 to 12-31-01	7%
1-1-02 to 12-31-02	7%
1-1-03 to 12-31-03	6%
1-1-04 to 5-31-04[2]	5%

[1] State and School Divisions were merged July 1, 1997, and separated on January 1, 2006.
[2] Legislation enacted in 2004 ended MatchMaker contributions by June 1, 2004.

Schedule of Active Member Valuation Data

Year	Number of Employers	Number of Members	Annual Payroll	Average Annual Salary	% Increase (Decrease) in Average Pay
1996	370	147,670	$3,968,963,337	$26,877	2.05%
1997	373	152,475	4,211,820,401	27,623	2.78%
1998	374	154,235	4,477,302,776	29,029	5.09%
1999	375	157,967	4,709,759,629	29,815	2.71%
2000	379	162,106	4,982,542,964	30,736	3.09%
2001	385	169,833	5,415,327,493	31,886	3.74%
2002	393	172,761	5,779,703,602	33,455	4.92%
2003	399	170,991	5,645,468,380	33,016	(1.31%)
2004	399	176,840	5,879,355,179	33,247	0.70%
2005	**425**	**180,630**	**$5,940,132,036**	**$32,886**	**(1.09%)**

Statistical Section

Vital

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Schedule of Expenses by Type

(In Thousands of Dollars)

Year	Benefit Payments	Refunds[1]	Administrative Expenses	Disability Insurance	Other	Total
State and School Division[2]						
1997	$749,313	$60,686	$14,090	$—	$377	$824,466
1998	851,676	65,811	14,142	—	2,068	933,697
1999	943,112	89,684	15,794	8,054	1,873	1,058,517
2000	1,042,905	124,096	15,245	4,824	973	1,188,043
2001	1,171,996	90,898	16,363	3,228	1,409	1,283,894
2002	1,307,652	88,793	17,752	4,070	1,649	1,419,916
2003	1,469,343	99,039	19,750	3,592	448	1,592,172
2004	1,677,417	108,136	20,949	4,186	13,320	1,824,008
2005	**$1,872,565**	**$114,968**	**$18,811**	**$4,038**	**$10,373**	**$2,020,755**
State Division[2]						
1996	$305,658	$31,880	$5,503	$—	($3,902)	$339,139
School Division[2]						
1996	$355,521	$27,343	$8,548	$—	$4,237	$395,649
Municipal Division						
1996	$28,723	$7,330	$999	$—	$249	$37,301
1997	32,823	8,112	996	—	150	42,081
1998	36,967	8,070	1,158	—	(824)	45,371
1999	40,903	10,210	1,391	692	(1,118)	52,078
2000	44,957	14,619	1,339	418	(131)	61,202
2001	50,294	10,645	1,437	283	(721)	61,938
2002	57,835	10,426	1,539	360	(125)	70,035
2003	67,458	10,453	1,724	326	1,965	81,926
2004	78,494	13,500	1,943	432	1,832	96,201
2005	**$90,808**	**$15,052**	**$1,848**	**$444**	**$2,885**	**$111,037**
Judicial Division						
1996	$4,449	$9	$36	$—	($67)	$4,427
1997	4,992	145	35	—	(53)	5,119
1998	5,168	46	25	—	(442)	4,797
1999	5,521	683	37	38	1	6,280
2000	5,917	—	20	23	(130)	5,830
2001	6,440	282	19	16	281	7,038
2002	6,731	83	20	20	(460)	6,394
2003	8,467	596	22	18	(849)	8,254
2004	8,806	98	23	21	(103)	8,845
2005	**$9,868**	**$181**	**$20**	**$20**	**($742)**	**$9,347**
Health Care Trust Fund						
1996	$57,102	$—	$—	$—	$—	$57,102
1997	59,652	—	—	—	—	59,652
1998	62,395	—	846	—	(2,122)	61,119
1999	64,979	—	483	—	—	65,462
2000	77,332	—	1,134	—	—	78,466
2001	103,472	—	679	—	(368)	103,783
2002	113,898	—	5,409	—	—	119,307
2003	120,814	—	6,157	—	—	126,971
2004	130,917	—	6,634	—	—	137,551
2005	**$135,550**	**$—**	**$8,216**	**$—**	**$—**	**$143,766**

[1] Refunds include interest and matching amounts as required by law.

[2] The State and School Divisions were merged on July 1, 1997, and separated on January 1, 2006.

Schedule of Revenue by Source

(In Thousands of Dollars)

Year	Member Contributions[1]	Employer Contributions[1]	Service Credit Purchases	Retiree Health Care Premiums	Net Investment Income	Other	Total Revenues
State and School Division[2]							
1997	$293,059	$392,898	$27,029	$—	$3,361,986	$—	$4,074,972
1998	308,379	409,749	43,762	—	3,231,469	—	3,993,359
1999	324,504	422,025	69,775	—	4,130,854	—	4,947,158
2000	343,040	420,031	96,023	—	(30,817)	—	828,277
2001	368,968	314,649	119,719	—	(2,287,062)	—	(1,483,726)
2002	397,315	315,825	329,572	—	(3,099,924)	5	(2,057,207)
2003	405,715	387,920	695,516	—	5,203,073	3	6,692,227
2004	411,376	452,997	192,033	—	3,663,632	30	4,720,068
2005	**$425,657**	**$491,031**	**$212,971**	**$—**	**$2,827,871**	**($9)**	**$3,957,521**
State Division[2]							
1996	$118,472	$159,057	$5,513	$—	$840,178	$—	$1,123,220
School Division[2]							
1996	$158,675	$214,155	$8,018	$—	$1,232,953	$—	$1,613,801
Municipal Division							
1996	$21,872	$25,149	$814	$—	$119,221	$—	$167,056
1997	23,701	27,253	853	—	195,741	—	247,548
1998	26,248	30,186	1,339	—	191,499	—	249,272
1999	27,893	31,418	3,630	—	249,209	—	312,150
2000	29,392	32,639	4,678	—	(2,134)	—	64,575
2001	32,451	25,435	6,916	—	(141,466)	—	(76,664)
2002	35,202	21,972	30,609	—	(196,652)	—	(108,869)
2003	37,584	31,033	68,056	—	341,545	—	478,218
2004	43,496	47,104	18,566	—	255,505	—	364,671
2005	**$48,404**	**$54,357**	**$92,018**	**$—**	**$206,017**	**$2**	**$400,798**
Judicial Division							
1996	$1,426	$2,531	$62	$—	$11,802	$—	$15,821
1997	1,485	2,636	340	—	19,086	—	23,547
1998	1,517	2,693	89	—	18,394	—	22,693
1999	1,552	2,689	121	—	23,539	—	27,901
2000	1,630	2,726	732	—	(200)	—	4,888
2001	1,806	637	748	—	(13,089)	—	(9,898)
2002	1,982	383	1,928	—	(17,521)	—	(13,228)
2003	2,034	1,011	8,388	—	29,825	—	41,258
2004	2,071	2,677	2,203	—	21,789	—	28,740
2005	**$2,154**	**$3,408**	**$2,993**	**$—**	**$16,953**	**$—**	**$25,508**
Health Care Trust Fund							
1996	$—	$30,008	$—	$18,932	$10,383	$—	$59,323
1997	—	31,750	—	20,124	15,711	—	67,585
1998	—	33,522	—	21,798	14,089	—	69,409
1999	—	43,136	—	25,611	17,891	—	86,638
2000	—	51,351	—	28,751	(94)	—	80,008
2001	—	74,324	—	43,960	(10,818)	—	107,466
2002	—	92,562	—	48,825	(17,742)	1,055	124,700
2003	—	64,443	—	55,668	33,445	2,118	155,674
2004	—	60,465	—	59,453	23,117	16,116	159,151
2005	**$—**	**$61,193**	**$—**	**$62,872**	**$17,665**	**$13,609**	**$155,339**

[1] Member and employer contribution rate history is shown on pages 96–97.

[2] The State and School Divisions were merged on July 1, 1997, and separated on January 1, 2006.

Member and Benefit Recipient Statistics[1]

(In Actual Dollars)

	State Division	School Division	Municipal Division	Judicial Division	Total
Active members—12/31/05	53,351	111,449	15,555	275	180,630
Retirements during 2005					
Disability retirements	58	66	13	0	137
Service retirements	1,657	2,669	288	15	4,629
Total	**1,715**	**2,735**	**301**	**15**	**4,766**
Retirement benefits					
Total receiving disability and service retirement benefits on Dec. 31, 2004	25,664	36,866	3,184	229	65,943
Total retiring during 2005	1,715	2,735	301	15	4,766
Cobeneficiaries continuing after retiree's death	245	280	28	1	554
Returning to retirement rolls from suspension	10	32	1	0	43
Total	**27,634**	**39,913**	**3,514**	**245**	**71,306**
Retirees and cobeneficiaries deceased during year	801	908	87	8	1,804
Retirees suspending benefits to return to work	21	63	2	0	86
Total receiving retirement benefits	**26,812**	**38,942**	**3,425**	**237**	**69,416**
Annual retirement benefits for retirees as of 12/31/05	$799,779,936	$1,134,232,308	$94,514,928	$10,078,476	$2,038,605,648
Average monthly benefit on 12/31/05	$2,486	$2,427	$2,300	$3,544	$2,447
Average monthly benefit for all members who retired during 2005	$2,879	$2,643	$2,863	$4,741	$2,748
Survivor benefit accounts					
Total survivors being paid on 12/31/05	960	1,089	151	15	2,215
Annual benefits payable for survivors as of 12/31/05	$15,718,080	$14,340,816	$1,641,756	$365,076	$32,065,728
Future benefits					
Future retirements to age 60 or 65	3,913	6,946	868	14	11,741
Total annual future benefits	$30,080,486	$37,302,473	$5,888,346	$197,609	$73,468,914
Future survivor beneficiaries of inactive members	235	923	58	0	1,216
Total annual future benefits	$1,761,666	$3,941,016	$368,739	$0	$6,071,421

[1] In addition, as of 12/31/05, there was a total of 112,534 non-vested terminated members due a refund of their contributions—State Division: 40,919; School Division: 60,533; Municipal Division: 11,079; and Judicial Division: 3.

Schedule of Average Retirement Benefits Payable[1]

(In Actual Dollars)

Year Ended	Average Monthly Benefit	Average Age at Retirement	Average Current Age of Retirees	Average Years of Service at Retirement
12/31/96	$1,334	59.6	69.2	19.6
12/31/97	1,533	59.2	69.5	19.8
12/31/98	1,580	59.2	69.6	20.1
12/31/99	1,657	59.0	69.4	20.5
12/31/00	1,755	58.8	69.3	20.9
12/31/01	1,876	58.6	69.1	21.2
12/31/02	1,997	58.5	68.0	21.6
12/31/03	2,140	58.2	68.4	22.0
12/31/04	2,288	57.9	68.7	22.4
12/31/05	**$2,447**	**58.0**	**68.7**	**23.0**

[1] Includes disability retirements, but not survivor benefits.

Schedule of Benefit Disbursements by Type[1]

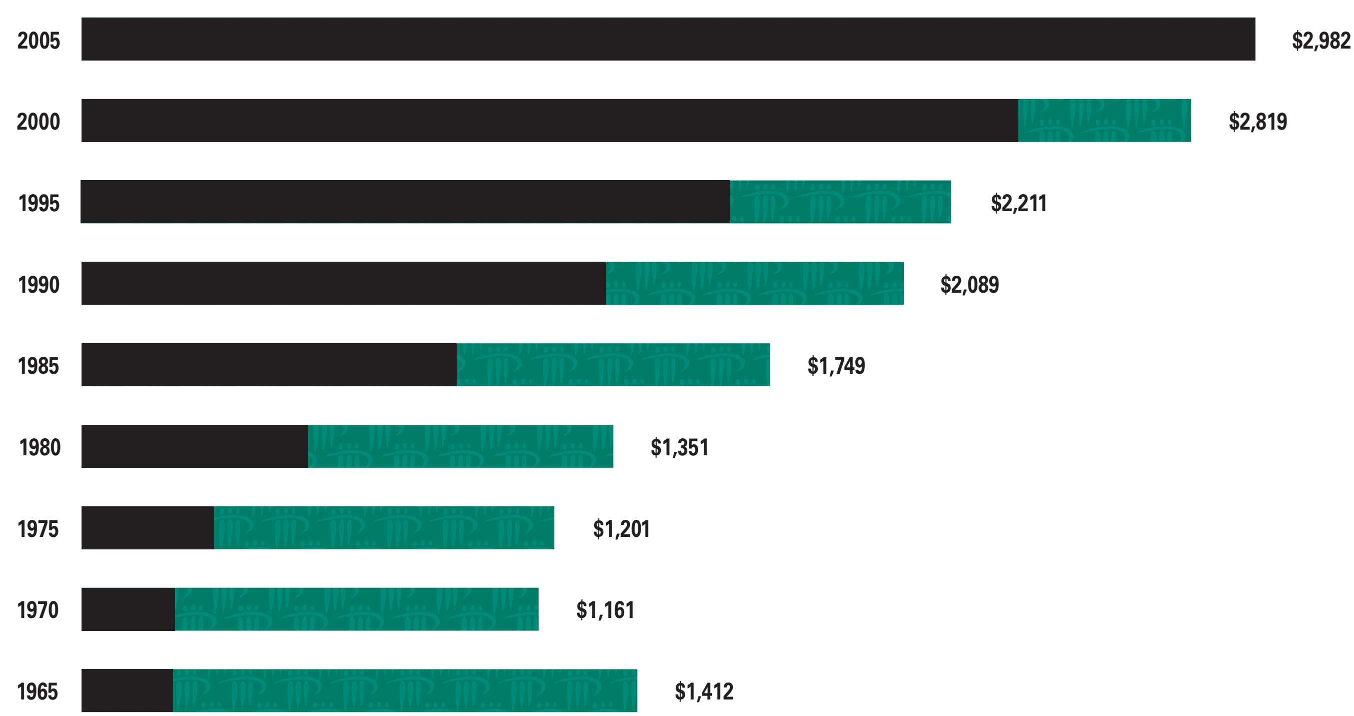
(In Thousands of Dollars)

Year Ended	Retirement Benefits	Survivor Benefits	Contribution Refunds	Interest and Matching Amount Paid	Health Care	Total
12/31/96	$677,181	$17,170	$39,022	$27,540	$57,102	$818,015
12/31/97	769,130	17,998	39,326	29,617	59,652	915,723
12/31/98	874,913	18,898	41,884	32,043	62,395	1,030,133
12/31/99	966,966	22,570	46,230	54,347	64,979	1,155,092
12/31/00	1,073,845	19,934	59,617	79,098	77,332	1,309,826
12/31/01	1,208,022	20,708	45,928	55,897	103,472	1,434,027
12/31/02	1,350,359	21,859	44,450	54,852	113,898	1,585,418
12/31/03	1,522,877	22,391	48,988	61,100	120,814	1,776,170
12/31/04	1,741,245	23,472	55,153	66,581	130,917	2,017,368
12/31/05	**$1,949,182**	**$24,059**	**$59,577**	**$70,624**	**$135,550**	**$2,238,992**

[1] Numbers do not include 401(k) Voluntary Investment Program.

Current Average Monthly Benefit by Year of Retirement

Service Retiree Accounts as of December 31, 2005



	1965	1970	1975	1980	1985	1990	1995	2000	2005
Original Benefit at Retirement	$234	$239	$339	$580	$960	$1,342	$1,661	$2,398	**$2,982**
Benefit Increases	$1,178	$922	$862	$771	$789	$747	$550	$421	**$0**

Schedule of Retirees and Survivors by Type of Benefit

As of December 31, 2005

Types of Benefits:
1—Age and service retirement.
2—Disability retirement.
3—Survivor payment—Option 3.
4—Survivor payment—children, spouse, or dependent parent.
5—Surviving spouse with future benefit.
6—Former member with future benefit.

Option Selected:
Retirees select one of the following options at retirement:
1—Single life benefit.
2—Joint benefit with 1/2 to surviving cobeneficiary.
3—Joint and survivor benefit.
4—Joint benefit with 1/2 to either survivor. (No longer offered to members retiring.)

Surviving Cobeneficiary:
Retiree has predeceased the cobeneficiary.

Surviving Retiree:
Cobeneficiary has predeceased the retiree.

State Division

	Type of Benefit						
Amount of Benefit	Total (Columns 1–5)	1	2	3	4	5	6
$1–$250	557	497	7	7	38	8	28
$251–$500	1,293	1,081	80	5	108	19	70
$501–$750	1,500	1,181	180	6	107	26	77
$751–$1,000	1,775	1,237	400	8	102	28	94
$1,001–$1,250	1,938	1,285	533	12	90	18	59
$1,251–$1,500	2,103	1,402	608	8	80	5	61
$1,501–$1,750	2,138	1,485	579	6	58	10	50
$1,751–$2,000	1,956	1,430	483	3	38	2	50
$2,000+	14,560	13,490	854	61	143	12	3,659
Totals	**27,820**	**23,088**	**3,724**	**116**	**764**	**128**	**4,148**

	Option Selected					
Amount of Benefit	1	2	3	4	Surviving Cobeneficiary	Surviving Retiree
$1–$250	317	19	61	6	78	16
$251–$500	704	63	136	4	208	46
$501–$750	764	80	186	10	270	51
$751–$1,000	861	122	243	10	344	57
$1,001–$1,250	996	216	263	15	260	68
$1,251–$1,500	1,093	235	360	13	241	72
$1,501–$1,750	1,080	232	445	15	245	50
$1,751–$2,000	990	271	430	12	169	41
$2,000+	6,493	2,867	3,942	73	768	201
Totals	**13,298**	**4,105**	**6,066**	**158**	**2,583**	**602**

Schedule of Retirees and Survivors by Type of Benefit

As of December 31, 2005

Types of Benefits:
1—Age and service retirement.
2—Disability retirement.
3—Survivor payment—Option 3.
4—Survivor payment—children, spouse, or dependent parent.
5—Surviving spouse with future benefit.
6—Former member with future benefit.

Option Selected:
Retirees select one of the following options at retirement:
1—Single life benefit.
2—Joint benefit with 1/2 to surviving cobeneficiary.
3—Joint and survivor benefit.
4—Joint benefit with 1/2 to either survivor. (No longer offered to members retiring.)

Surviving Cobeneficiary:
Retiree has predeceased the cobeneficiary.

Surviving Retiree:
Cobeneficiary has predeceased the retiree.

School Division

Type of Benefit

Amount of Benefit	Total (Columns 1–5)	1	2	3	4	5	6
$1–$250	1,945	1,743	53	8	108	33	52
$251–$500	2,793	2,307	276	9	167	34	138
$501–$750	2,723	2,176	373	11	133	30	170
$751–$1,000	2,437	1,937	384	5	88	23	181
$1,001–$1,250	2,272	1,799	374	5	79	15	206
$1,251–$1,500	2,126	1,709	336	8	67	6	213
$1,501–$1,750	2,046	1,710	269	5	57	5	224
$1,751–$2,000	2,081	1,820	210	2	45	4	209
$2,000+	21,642	20,710	766	40	107	19	6,476
Totals	**40,065**	**35,911**	**3,041**	**93**	**851**	**169**	**7,869**

Option Selected

Amount of Benefit	1	2	3	4	Surviving Cobeneficiary	Surviving Retiree
$1–$250	1,239	79	258	6	170	44
$251–$500	1,727	159	339	9	286	63
$501–$750	1,719	210	285	5	269	61
$751–$1,000	1,460	240	290	13	253	65
$1,001–$1,250	1,294	255	335	12	221	56
$1,251–$1,500	1,198	295	359	16	121	56
$1,501–$1,750	1,174	280	332	5	137	51
$1,751–$2,000	1,151	327	350	8	135	59
$2,000+	12,414	4,566	3,752	78	502	164
Totals	**23,376**	**6,411**	**6,300**	**152**	**2,094**	**619**

Schedule of Retirees and Survivors by Type of Benefit

As of December 31, 2005

Types of Benefits:
1—Age and service retirement.
2—Disability retirement.
3—Survivor payment—Option 3.
4—Survivor payment—children, spouse, or dependent parent.
5—Surviving spouse with future benefit.
6—Former member with future benefit.

Option Selected:
Retirees select one of the following options at retirement:
1—Single life benefit.
2—Joint benefit with 1/2 to surviving cobeneficiary.
3—Joint and survivor benefit.
4—Joint benefit with 1/2 to either survivor. (No longer offered to members retiring.)

Surviving Cobeneficiary:
Retiree has predeceased the cobeneficiary.

Surviving Retiree:
Cobeneficiary has predeceased the retiree.

Municipal Division

Type of Benefit

Amount of Benefit	Total (Columns 1–5)	1	2	3	4	5	6
$1–$250	118	106	1	0	10	1	14
$251–$500	187	156	13	0	14	4	11
$501–$750	226	169	35	1	19	2	6
$751–$1,000	275	178	72	2	18	5	12
$1,001–$1,250	301	172	105	3	21	0	14
$1,251–$1,500	355	194	144	1	15	1	17
$1,501–$1,750	278	175	96	1	6	0	10
$1,751–$2,000	243	152	86	3	2	0	842
$2,000+	1,592	1,436	135	7	11	3	0
Totals	**3,575**	**2,738**	**687**	**18**	**116**	**16**	**926**

Option Selected

Amount of Benefit	1	2	3	4	Surviving Cobeneficiary	Surviving Retiree
$1–$250	65	5	17	0	16	4
$251–$500	87	8	26	2	41	5
$501–$750	88	13	33	1	59	10
$751–$1,000	123	23	36	0	66	2
$1,001–$1,250	124	37	65	5	44	2
$1,251–$1,500	164	46	77	4	38	9
$1,501–$1,750	114	49	70	3	29	6
$1,751–$2,000	102	39	63	2	22	10
$2,000+	681	332	485	7	51	15
Totals	**1,548**	**552**	**872**	**24**	**366**	**63**

Schedule of Retirees and Survivors by Type of Benefit

As of December 31, 2005

Types of Benefits:
1—Age and service retirement.
2—Disability retirement.
3—Survivor payment—Option 3.
4—Survivor payment—children, spouse, or dependent parent.
5—Surviving spouse with future benefit.
6—Former member with future benefit.

Option Selected:
Retirees select one of the following options at retirement:
1—Single life benefit.
2—Joint benefit with 1/2 to surviving cobeneficiary.
3—Joint and survivor benefit.
4—Joint benefit with 1/2 to either survivor. (No longer offered to members retiring.)

Surviving Cobeneficiary:
Retiree has predeceased the cobeneficiary.

Surviving Retiree:
Cobeneficiary has predeceased the retiree.

Judicial Division

Type of Benefit

Amount of Benefit	Total (Columns 1–5)	1	2	3	4	5	6
$1–$250	2	2	0	0	0	0	0
$251–$500	10	10	0	0	0	0	0
$501–$750	4	3	1	0	0	0	0
$751–$1,000	8	6	0	0	2	0	0
$1,001–$1,250	9	8	0	0	1	0	0
$1,251–$1,500	5	4	1	0	0	0	0
$1,501–$1,750	18	14	2	0	2	0	0
$1,751–$2,000	12	8	1	0	2	1	1
$2,000+	184	164	13	0	7	0	13
Totals	**252**	**219**	**18**	**0**	**14**	**1**	**14**

Option Selected

Amount of Benefit	1	2	3	4	Surviving Cobeneficiary	Surviving Retiree
$1–$250	0	0	1	0	1	0
$251–$500	5	0	0	0	5	0
$501–$750	0	1	1	0	2	0
$751–$1,000	1	1	1	0	3	0
$1,001–$1,250	3	0	2	1	2	0
$1,251–$1,500	1	0	2	0	2	0
$1,501–$1,750	3	2	7	1	3	0
$1,751–$2,000	0	1	2	0	6	0
$2,000+	34	34	71	4	30	4
Totals	**47**	**39**	**87**	**6**	**54**	**4**

Schedule of Average Benefit Payments

(In Actual Dollars)

	Years of Service Credit					
Year Retired	**0–10**	**10–15**	**15–20**	**20–25**	**25–30**	**30+**
Period 1/1/05 to 12/31/05						
Average monthly benefit	**$376**	**$661**	**$1,101**	**$1,954**	**$2,684**	**$4,063**
Average highest average salary	**$2,456**	**$2,467**	**$2,945**	**$3,893**	**$4,337**	**$5,318**
Number of service retirees	**296**	**173**	**244**	**720**	**859**	**2,331**
Period 1/1/04 to 12/31/04						
Average monthly benefit	$421	$629	$919	$1,729	$2,443	$3,944
Average highest average salary	$2,178	$2,543	$2,679	$3,572	$4,110	$5,168
Number of service retirees	265	140	188	649	823	2,987
Period 1/1/03 to 12/31/03						
Average monthly benefit	$337	$538	$901	$1,725	$2,357	$3,851
Average highest average salary	$1,956	$2,100	$2,609	$3,576	$3,992	$5,072
Number of service retirees	231	164	200	627	755	2,725
Period 1/1/02 to 12/31/02						
Average monthly benefit	$322	$653	$1,175	$1,834	$2,649	$3,769
Average highest average salary	$1,961	$2,303	$2,909	$3,565	$4,150	$5,015
Number of service retirees	187	219	178	747	639	1,712
Period 1/1/01 to 12/31/01						
Average monthly benefit	$361	$738	$1,121	$1,796	$2,660	$3,646
Average highest average salary	$2,181	$2,591	$2,777	$3,504	$4,193	$4,872
Number of service retirees	158	193	137	824	708	1,559
Period 1/1/00 to 12/31/00						
Average monthly benefit	$334	$746	$1,042	$1,770	$2,527	$3,468
Average highest average salary	$2,004	$2,680	$2,567	$3,466	$4,018	$4,652
Number of service retirees	160	201	168	819	615	1,599
Period 1/1/99 to 12/31/99						
Average monthly benefit	$351	$659	$1,039	$1,591	$2,387	$3,385
Average highest average salary	$2,117	$2,495	$2,836	$3,278	$3,934	$4,551
Number of service retirees	149	193	162	820	553	1,513
Period 1/1/98 to 12/31/98						
Average monthly benefit	$296	$611	$975	$1,586	$2,194	$3,293
Average highest average salary	$1,815	$2,296	$2,543	$3,249	$3,709	$4,398
Number of service retirees	153	191	160	754	488	1,059
Period 1/1/97 to 12/31/97						
Average monthly benefit	$600	$828	$1,159	$1,588	$2,171	$3,097
Average highest average salary	$2,011	$2,395	$2,716	$3,322	$3,727	$4,170
Number of service retirees	322	308	277	775	556	736
Period 1/1/96 to 12/31/96						
Average monthly benefit	$599	$800	$1,023	$1,514	$2,200	$3,211
Average highest average salary	$1,917	$2,298	$2,444	$3,098	$3,671	$4,169
Number of service retirees	304	313	265	714	374	559

State Category

Agencies and Instrumentalities

CollegeInvest
Colorado Association of School Boards
Colorado Association of School Executives
Colorado College Access Network
Colorado Council on the Arts
Colorado High School Activities Association
Colorado Public Employees' Retirement Association
Colorado Water Resources & Power Development Authority
CoverColorado
Department of Agriculture
Department of Corrections
Department of Education
Department of Health Care Policy and Financing
Department of Human Services
Department of Labor and Employment
Department of Law
Department of Local Affairs
Department of Military and Veterans Affairs
Department of Natural Resources
Department of Personnel and Administration
Department of Public Health and Environment
Department of Public Safety
Department of Regulatory Agencies
Department of Revenue
Department of State
Department of the Treasury
Department of Transportation
Fire and Police Pension Association
General Assembly
Joint Budget Committee
Judicial Department
Legislative Council
Office of the District Attorneys
Office of the Governor
Office of Legislative Legal Services
Office of the Lieutenant Governor
Office of the State Auditor
Pinnacol Assurance
School for the Deaf and the Blind
Special District Association of Colorado
State Historical Society

Institutions of Higher Education

Adams State College
Aims Community College
Arapahoe Community College
Auraria Higher Education Center
Aurora Community College
Colorado Mountain College
Colorado Northwestern Community College
Colorado School of Mines
Colorado State University
Colorado State University at Pueblo
Commission on Higher Education
Denver Community College
Fort Lewis College
Front Range Community College
Lamar Community College
Mesa State College
Metropolitan State College of Denver
Morgan Community College
Northeastern Junior College
Otero Junior College
Pikes Peak Community College
Pueblo Vocational Community College
Red Rocks Community College
State Board for Community Colleges and
Occupational Education
Trinidad State Junior College
University of Colorado
University of Northern Colorado
Western State College

School Category

Adams County

Adams 12 Five Star Schools
Adams County School District 14
Bennett School District 29J
Brighton School District 27J
Mapleton School District 1
Strasburg School District 31J
Westminster School District 50

Alamosa County

Alamosa County School District Re-11J
Sangre de Cristo School District Re-22J

Arapahoe County

Adams-Arapahoe School District 28J
Byers School District 32J
Cherry Creek School District 5
Deer Trail School District 26J
Englewood School District 1
Littleton School District 6
Sheridan School District 2

Archuleta County

Archuleta County School District 50 Jt

Baca County

Campo School District RE-6
Pritchett School District RE-3
Springfield School District RE-4
Vilas School District RE-5
Walsh School District RE-1

Bent County

Las Animas School District RE-1
McClave School District RE-2

Boulder County

Boulder Valley School District RE2
St. Vrain Valley School District RE1J

Chaffee County

Buena Vista School District R-31
Salida School District R-32(J)

Schedule of Affiliated Employers

Cheyenne County
Cheyenne County School District Re-5
Kit Carson School District R-1

Clear Creek County
Clear Creek School District RE-1

Conejos County
North Conejos School District RE1J
Sanford School District 6J
South Conejos School District RE 10

Costilla County
Centennial School District R-1
Sierra Grande School District R-30

Crowley County
Crowley County School District RE-1

Custer County
Custer County Consolidated School District C-1

Delta County
Delta County School District 50(J)

Dolores County
Dolores County School District Re No. 2

Douglas County
Douglas County School District Re 1

Eagle County
Eagle County School District Re 50

Elbert County
Agate School District 300
Big Sandy School District 100J
Elbert School District 200
Elizabeth School District C-1
Kiowa School District C-2

El Paso County
Academy School District #20
Calhan School District RJ1
Cheyenne Mountain School District 12
Colorado Springs School District 11
Edison School District 54 Jt
Ellicott School District 22
Falcon School District 49
Fountain School District 8
Hanover School District 28
Harrison School District 2
Lewis-Palmer School District 38
Manitou Springs School District 14
Miami/Yoder School District 60 Jt
Peyton School District 23 Jt
Widefield School District 3

Fremont County
Canon City School District Re-1
Cotopaxi School District Re-3
Florence School District Re-2

Garfield County
Garfield School District 16
Garfield School District Re-2
Roaring Fork School District Re-1

Gilpin County
Gilpin County School District Re-1

Grand County
East Grand School District 2
West Grand School District 1

Gunnison County
Gunnison Watershed School District Re1J

Hinsdale County
Hinsdale County School District Re-1

Huerfano County
Huerfano School District Re-1
La Veta School District Re-2

Jackson County
North Park School District R-1

Jefferson County
Jefferson County School District R-1

Kiowa County
Eads School District Re-1
Plainview School District Re-2

Kit Carson County
Arriba-Flagler Consolidated School District No. 20
Bethune School District R-5
Burlington School District Re-6J
Hi-Plains School District R-23
Stratton School District R-4

Lake County
Lake County School District R-1

La Plata County
Bayfield School District 10Jt-R
Durango School District 9-R
Ignacio School District 11 Jt

Larimer County
Park School District R-3
Poudre School District R-1
Thompson School District R-2J

Las Animas County
Aguilar Reorganized School District 6
Branson Reorganized School District 82
Hoehne Reorganized School District 3
Kim Reorganized School District 88
Primero Reorganized School District 2
Trinidad School District 1

Lincoln County
Genoa/Hugo School District C-113
Karval School District Re 23
Limon School District Re 4J

Logan County
Buffalo School District Re-4
Frenchman School District Re-3
Plateau School District Re-5
Valley School District Re-1

Mesa County
De Beque School District 49 Jt
Mesa County Valley School District 51
Plateau Valley School District 50

Mineral County
Creede Consolidated School District 1

Moffat County
Moffat County School District Re No. 1

Montezuma County
Dolores School District RE 4A
Mancos School District Re-6
Montezuma-Cortez School District Re 1

Montrose County
Montrose County School District Re-1J
West End School District Re-2

Morgan County
Brush School District Re-2 (J)
Fort Morgan School District Re-3
Weldon Valley School District Re-20 (J)
Wiggins School District Re-50 (J)

Otero County
Cheraw School District 31
East Otero School District R1
Fowler School District R4J
Manzanola School District 3J
Rocky Ford School District R2
Swink School District 33

Ouray County
Ouray School District R-1
Ridgway School District R-2

Park County
Park County School District Re-2
Platte Canyon School District 1

Phillips County
Haxtun School District Re-2J
Holyoke School District Re-1J

Pitkin County
Aspen School District 1

Prowers County
Granada School District Re-1
Holly School District Re-3
Lamar School District Re-2
Wiley School District Re-13 Jt

Pueblo County
Pueblo City School District 60
Pueblo County Rural School District 70

Rio Blanco County
Meeker School District RE1
Rangely School District RE4

Rio Grande County
Del Norte School District C-7
Monte Vista School District C-8
Sargent School District Re-33J

Routt County
Hayden School District Re 1
South Routt School District Re 3
Steamboat Springs School District Re 2

Saguache County
Center Consolidated School District 26 Jt
Moffat School District 2
Mountain Valley School District Re 1

San Juan County
Silverton School District 1

San Miguel County
Norwood School District R-2J
Telluride School District R-1

Sedgwick County
Julesburg School District Re 1
Platte Valley School District Re3

Summit County
Summit School District Re 1

Teller County
Cripple Creek-Victor School District Re-1
Woodland Park School District RE-2

Washington County
Akron School District R-1
Arickaree School District R-2
Lone Star School District 101
Otis School District R-3
Woodlin School District R-104

Weld County
Ault-Highland School District Re-9
Briggsdale School District Re-10
Eaton School District Re-2
Fort Lupton School District Re-8
Gilcrest School District Re-1
Greeley School District 6
Johnstown-Milliken School District Re-5J
Keenesburg School District Re-3
Pawnee School District Re-12
Platte Valley School District Re-7
Prairie School District Re-11
Windsor School District Re-4

Yuma County
Idalia School District RJ-3
Liberty School District J-4
Wray School District RD-2
Yuma School District 1

Schedule of Affiliated Employers

Boards of Cooperative Educational Services (BOCES)
Centennial BOCES
East Central BOCES
Expeditionary Learning School BOCES
Grand Valley BOCES
Mountain BOCES
Northeast BOCES
Northwest Colorado BOCES
Pikes Peak BOCES
Rio Blanco BOCES
Santa Fe Trail BOCES
South Central BOCES
Southeastern BOCES
Uncompahgre BOCES
Ute Pass BOCES

Boards of Cooperative Services (BOCS)
San Juan BOCS
San Luis Valley BOCS
Southwest BOCS

Vocational Schools
Delta-Montrose Area Vocational School
San Juan Basin Area Vocational School

Municipal Division
Adams and Jefferson County Hazardous Response Authority
Alamosa Housing Authority
Arapahoe Park and Recreation District
Aurora Housing Authority
Baca Grande Water & Sanitation District
Beulah Water Works District
Black Hawk-Central City Sanitation District
Blanca-Fort Garland Metropolitan District
Boulder County
Boulder County Public Trustee's Office
Boxelder Sanitation District
Brush Housing Authority
Carbon Valley Park & Recreation District
Castle Pines Metropolitan District
Castle Pines North Metropolitan District
Center Housing Authority
City of Alamosa
City of Boulder
City of Colorado Springs
City of Fort Morgan
City of Las Animas
City of Lone Tree
City of Manitou Springs
City of Pueblo
City of Wray
City of Yuma
Collbran Conservancy District
Colorado District Attorneys' Council
Colorado First Conservation District
Colorado Health Facilities Authority
Colorado Housing and Finance Authority
Colorado Library Consortium
Colorado School District Self Insurance Pool
Colorado Springs Utilities
Columbine Knolls-Grove Metropolitan Recreation District
Costilla Housing Authority
County Technical Services
Crown Mountain Park & Recreation District
Cunningham Fire Protection District
Douglas County Housing Partnership
Douglas Public Library District
Durango Fire and Rescue Authority
East Cheyenne Groundwater Management District
East Larimer County Water District
Eaton Housing Authority
Elbert County Library District
Elizabeth Park and Recreation District
Estes Valley Public Library District
Forest Lakes Metropolitan District
Fremont Conservation District
Fremont Sanitation District
Garfield County Housing Authority
Grand Valley Fire Protection District
Green Mountain Water and Sanitation District
GVR Metropolitan District
Housing Authority of Arriba
Housing Authority of the County of Adams
Housing Authority of the Town of Limon
Lamar Housing Authority
Lamar Utilities Board
Left Hand Water District
Longmont Housing Authority
Longs Peak Water District
Louisville Fire Protection District
Meeker Cemetery District
Meeker Regional Library District
Meeker Sanitation District
Memorial Hospital–Colorado Springs
Montrose Fire Protection District
Montrose Recreation District
Monument Sanitation District
Morgan Conservation District
Morgan County Quality Water District
Mountain View Fire Protection District
Mountain Village Metropolitan District
Mountain Water and Sanitation District
Niwot Sanitation District
North Chaffee County Regional Library
Northeast Colorado Health Department
Northeastern Colorado Association of Local Governments
Park Center Water District
Pine Drive Water District
Plains and Peaks Regional Library Services System
Prowers Conservation District
Pueblo City-County Health Department
Pueblo Library District
Pueblo Transit Authority
Rampart Regional Library District
Rangely Regional Library District
Red Feather Mountain Library District
Red, White & Blue Fire Protection District
Republican River Water Conservation District
Rifle Fire Protection District
Rio Blanco Fire Protection District

Rio Blanco Metropolitan Recreation & Park District
Rio Blanco Water Conservancy District
Routt County Conservation District
Sable-Altura Fire Protection District
San Luis Valley Development Resources Group
San Luis Valley Water Conservancy District
San Miguel County Public Library
San Miguel Regional and Telluride Housing Authority
Scientific and Cultural Facilities District
Sheridan Sanitation District #1
Soldier Canyon Filter Plant
Steamboat II Water and Sanitation District
St. Vrain Sanitation District
Tabernash Meadows Water and Sanitation District
Town of Alma
Town of Bayfield
Town of Crawford
Town of Dinosaur
Town of Eckley
Town of Estes Park
Town of Firestone
Town of Lake City
Town of Lochbuie
Town of Mountain Village
Town of Platteville
Town of Rico
Town of Rye
Town of Seibert
Town of Silver Plume
Tri-County Health Department
Upper Colorado Environmental Plant Center
Walker Field, Colorado, Public Airport Authority
Washington-Yuma Counties Combined Communications Center
Weld County Department of Public Health and Environment
West Greeley Conservation District
Western Rio Blanco Metropolitan Recreation and Park District
Windsor-Severance Library District
Yuma Housing Authority
Y-W Well Testing Association

Judicial Division

1st-23rd District Court
24th District-Denver Probate Court
25th District-Denver Juvenile Court
Adams County Court
Alamosa County Court
Arapahoe County Court
Archuleta County Court
Baca County Court
Bent County Court
Boulder County Court
Broomfield County Court
Chaffee County Court
Cheyenne County Court
Clear Creek County Court
Conejos County Court
Costilla County Court
Court of Appeals
Crowley County Court
Custer County Court
Delta County Court
Denver County Court
Dolores County Court
Douglas County Court
Eagle County Court
Elbert County Court
El Paso County Court
Fremont County Court
Garfield County Court
Gilpin County Court
Grand County Court
Gunnison County Court
Hinsdale County Court
Huerfano County Court
Jackson County Court
Jefferson County Court
Kiowa County Court
Kit Carson County Court
Lake County Court
La Plata County Court
Larimer County Court
Las Animas County Court
Lincoln County Court
Logan County Court
Mesa County Court
Mineral County Court
Moffat County Court
Montezuma County Court
Montrose County Court
Morgan County Court
Otero County Court
Ouray County Court
Park County Court
Phillips County Court
Pitkin County Court
Prowers County Court
Pueblo County Court
Rio Blanco County Court
Rio Grande County Court
Routt County Court
Saguache County Court
San Juan County Court
San Miguel County Court
Sedgwick County Court
Summit County Court
Supreme Court
Teller County Court
Washington County Court
Weld County Court
Yuma County Court

Health Care Program

History

Legislation in 1985 established the PERA Health Care Fund and the Health Care Program, which began offering benefit recipients and their qualified dependents health care coverage on July 1, 1986. Since inception, the Fund has received contributions from affiliated employers. On July 1, 1999, the Fund was converted to the PERA Health Care Trust Fund (HCTF). Legislation enacted in 1999 expanded eligibility in PERA's Health Care Program to PERA-affiliated employers for their active employees, effective January 1, 2001. Also effective for 2001, PERA's Health Care Program was renamed "PERACare."

Funding

The results of Colorado PERA's 1999 actuarial valuation allowed PERA to increase employer contribution allocations to the HCTF, effective January 1, 2001, pursuant to House Bill 00-1458. HB 1458 provided for 30 percent of the amount needed to reduce any overfunding in the PERA retirement trust funds to be allocated to the HCTF. This allocation, in addition to the permanent allocation of 1.1 percent of salaries, was initiated to improve the HCTF's financial condition and assist with the cost associated with an increase in early retirements resulting from the legislation.

Senate Bill 03-98 included a provision that transfers a portion of a PERA member's service credit purchase payment for non-PERA covered employment to the HCTF when a member retires or dies with survivor benefits paid. This transfer better funds the cost of future retiree health care premium subsidies that the HCTF incurs when a member purchases service credit.

Senate Bill 04-132 decreased the HCTF's permanent allocation from 1.1 percent to 1.02 percent of payroll, by reallocating 0.08 percent of employer contributions to the retirement trust funds, rather than to the HCTF, effective July 1, 2004. This change increased the period for amortizing the HCTF's unfunded liability from 20 years to 34 years, but still left the HCTF actuarially sound.

Contributions to the HCTF from affiliated employers, as a percentage of member salaries, are as follows:

- From 7/1/85 through 7/1/99: 0.8 percent
- From 7/1/99 through 12/31/00: 1.1 percent
- From 1/1/01 through 12/31/01: State and School Division 1.42 percent, Municipal Division 1.96 percent, and Judicial Division 4.37 percent.
- From 1/1/02 through 12/31/02: State and School Division 1.64 percent, Municipal Division 2.31 percent, and Judicial Division 4.37 percent.
- From 1/1/03 through 12/31/03: State and School Division 1.1 percent, Municipal Division 1.69 percent, and Judicial Division 3.11 percent.
- From 1/1/04 through 6/30/04: 1.1 percent.
- From 7/1/04 through 12/31/05: 1.02 percent.

Colorado PERA subsidizes the monthly health care premium for benefit recipients enrolled in its health care program. In 2005, the maximum subsidies for benefit recipients were $230 per month for benefit recipients under age 65 and not eligible for Medicare, and $115 per month for benefit recipients age 65 or older or under age 65 and on Medicare. If the PERA benefit is based on less than 20 years of PERA service credit, the subsidy is reduced 5 percent for each year of service ($11.50 or $5.75, respectively). Monthly premiums for participants depend on the plan selected, the PERA subsidy amount, Medicare enrollment, and the number of persons covered.

An additional subsidy exists for retirees who have not participated in Social Security and are not otherwise eligible for Medicare Part A for hospital-related services. C.R.S. § 24-51-1206(4) states that the HCTF cannot charge premiums to retirees without Part A that are greater than premiums charged to retirees with Part A for the same plan option, coverage level, and service credit. Currently for each individual retiree, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Parts A and B. Implicit in this process, an additional subsidy is paid by the HCTF on behalf of retirees who are not covered by Medicare Part A.

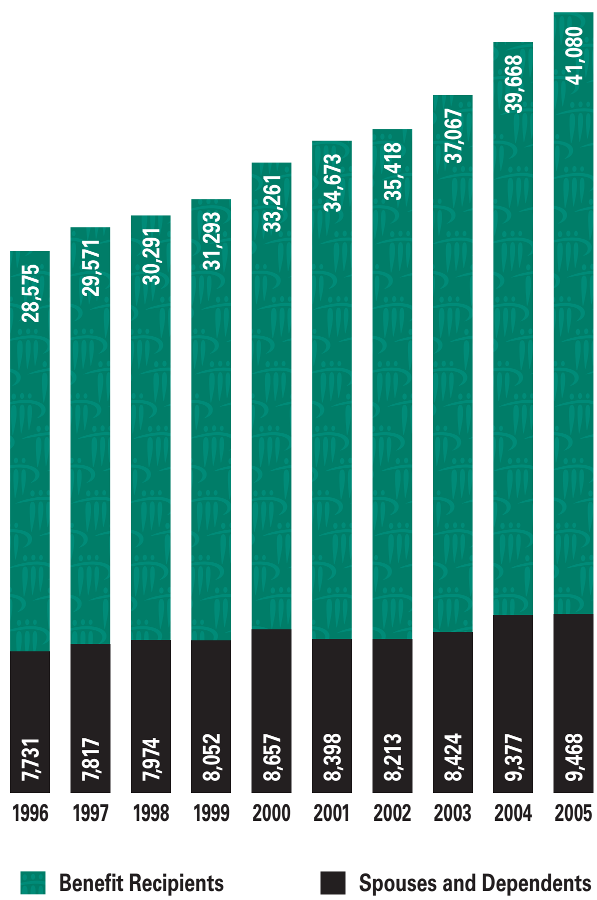
The PERACare program consisted of the following plans in 2005:

- Two self-insured plans administered by Mutual of Omaha (a preferred provider organization (PPO) plan for pre-Medicare participants, and a Medicare supplement plan). Each plan offers multiple levels of coverage and is available worldwide. Caremark serves as the prescription benefit manager for both self-insured plans.
- Fully insured plans from Kaiser Permanente, Rocky Mountain Health Plans, and CIGNA HealthCare for active employees and pre-Medicare participants. Each carrier offers three different levels of health maintenance organization (HMO) plan benefits and a High Deductible Health Plan (HDHP). In addition, CIGNA HealthCare and Rocky Mountain Health Plans both offer three PPO plans.
- Two HMO plans (one from Kaiser Permanente and one from Rocky Mountain Health Plans) for Medicare participants.
- Two dental care plans (a dental HMO from CIGNA and a PPO plan from United Concordia) and four vision plans (two PPO plans from Cole Managed Vision Plan and two PPO plans from Vision Service Plan).

Senate Bill 04-94 conformed state law to the 2003 federal law that allows individuals under age 65 who are covered by a High Deductible Health Plan to contribute to a Health Savings Account (HSA). In 2005, PERACare offered HDHPs with all four health carriers (CIGNA, Kaiser Permanente, Mutual of Omaha, and Rocky Mountain Health Plans).

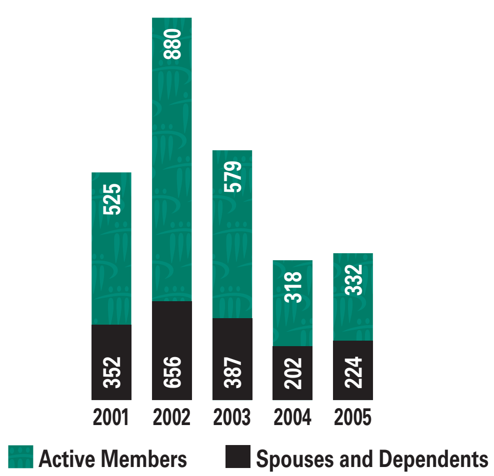
Health Care Program Enrollments—Benefit Recipients, Spouses, and Dependents

As of December 31



Health Care Program Enrollments—Active Members, Spouses, and Dependents

As of December 31



Life Insurance Program

Colorado PERA has provided its members with access to voluntary supplemental life insurance benefits since 1956 when it contracted with New York Life Insurance Company for coverage. The PERA Board of Trustees transferred the plan underwritten by New York Life to Rocky Mountain Life Insurance Company in 1988. In December 2000, Rocky Mountain Life merged with its Anthem Life affiliate, giving the decreasing-term life coverage the Anthem Life name. New York Life retained coverage for members and retirees having paid-up policies and certain disability retirees with waivers of premiums.

Colorado PERA had offered another decreasing-term life insurance policy since 1969. The plan was underwritten by the Prudential Insurance Company and was offered through the National Conference on Public Employee Retirement Systems.

In 1986, PERA assumed responsibility from the State of Colorado for administering two plans with Rocky Mountain Life, later Anthem Life, for retired state employees. These are both closed groups with no provision for new participants.

In 2004, the PERA Board of Trustees selected UnumProvident as PERA's new life insurance program vendor, effective April 1, 2005, and approved consolidating Anthem Life and Prudential benefits into UnumProvident on that date. Active members and retirees enrolled in the Anthem Life or Prudential plans were automatically moved to UnumProvident effective April 1, 2005.

Active members may join the decreasing-term life insurance plan offered by UnumProvident. The coverage may continue into retirement or after leaving PERA-covered employment if the PERA member retains their PERA account. During the annual open enrollment period, members are not required to furnish evidence of good health for themselves or their dependents. Members may enroll outside the open enrollment period, but must provide a statement of good health.

Life Insurance Program Enrollment

	UnumProvident		Anthem Life	Prudential	Grandfathered Closed Groups			Total
	Enrollees	Units			Anthem Life	Prudential	New York Life	Enrollments
1996	—	—	37,062	17,135	2,489	—	16,297	72,983
1997	—	—	37,382	17,270	2,154	—	15,936	72,742
1998	—	—	37,477	17,327	1,997	—	15,513	72,314
1999	—	—	37,901	17,622	1,855	—	15,081	72,459
2000	—	—	37,883	17,606	1,678	—	14,336	71,503
2001	—	—	37,427	17,759	1,406	—	14,021	70,613
2002	—	—	38,300	18,360	1,373	—	13,710	71,743
2003	—	—	39,296	19,203	893	—	13,331	72,723
2004	—	—	38,749	19,211	544	—	12,839	71,343
2005	**41,180**[1]	**111,915**	**—**	**—**	**476**	**467**	**12,432**	**54,555**[1]

[1] Total enrollments are fewer beginning in 2005 because of the consolidation of Anthem Life and Prudential coverages into Unum. Individuals could have been enrolled in both Anthem Life and Prudential in 2004; in 2005, they would be reflected as one enrollment with Unum. The number of units of Unum enrollments is more reflective of the amount of insurance in force, since enrollees may have from one to four units of coverage. Individuals who were enrolled with either Anthem Life or Prudential transitioned to two units of coverage with Unum; individuals who were enrolled with both Anthem Life and Prudential transitioned to four units with Unum.

Life Insurance Program Claims

UnumProvident

	Amount Paid	Claims Paid
1996	$—	—
1997	—	—
1998	—	—
1999	—	—
2000	—	—
2001	—	—
2002	—	—
2003	—	—
2004	—	—
2005	**$4,372,075**	**491**

Anthem Life (Grandfathered Closed Group)

	Amount Paid	Claims Paid
1996	$268,815	157
1997	171,175	127
1998	246,473	149
1999	265,141	138
2000	221,072	155
2001	241,722	139
2002	207,264	152
2003	226,137	132
2004	105,759	69
2005	**$47,733**	**30**

Anthem Life

	Amount Paid	Claims Paid
1996	$4,660,358	599
1997	5,116,641	679
1998	4,875,713	691
1999	4,700,668	703
2000	4,953,863	741
2001	5,111,123	705
2002	5,749,934	784
2003	5,637,526	836
2004	4,983,843	755
2005	**$2,214,349**	**383**

Prudential (Grandfathered Closed Group)

	Amount Paid	Claims Paid
1996	$—	—
1997	—	—
1998	—	—
1999	—	—
2000	—	—
2001	—	—
2002	—	—
2003	—	—
2004	—	—
2005	**$89,069**	**45**

Prudential

	Amount Paid	Claims Paid
1996	$1,462,712	210
1997	1,469,340	226
1998	1,731,344	283
1999	1,415,914	256
2000	1,508,591	264
2001	1,579,714	227
2002	1,875,580	311
2003	2,086,882	334
2004	1,918,416	336
2005	**$706,169**	**150**

New York Life (Grandfathered Closed Group)

	Amount Paid	Claims Paid
1996	$399,868	288
1997	378,422	282
1998	395,834	333
1999	412,966	328
2000	417,428	335
2001	345,798	279
2002	446,384	380
2003	580,157	471
2004	466,295	373
2005	**$445,635**	**365**

Total Life Insurance Program

	Amount Paid	Claims Paid
1996	$6,791,753	1,254
1997	7,135,578	1,314
1998	7,249,364	1,456
1999	6,794,689	1,425
2000	7,100,954	1,495
2001	7,278,357	1,350
2002	8,279,162	1,627
2003	8,530,702	1,773
2004	7,474,313	1,533
2005	**$7,875,030**	**1,464**

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