



Joint Budget Committee Staff

Nonpartisan Budget Analysis for Colorado's Legislature

Memorandum

To: Joint Budget Committee
From: Michelle Curry, JBC Staff (303-866-2062)
Date: February 6, 2026
Subject: Statewide R1 Pinnacol Conversion

Request

The Governor's Statewide R1 request proposes the "conversion" of the State's share of Pinnacol Assurance (Pinnacol). It assumes that the conversion would result in at least \$400.0 million in TABOR-exempt revenue that would assist with budget balancing in FY 2026-27 by making that amount of General Fund available for other uses. The request proposes that the revenue be allocated as follows:

1. \$193.0 million for the senior citizens and disabled veteran's homestead exemption;
2. \$109.0 million for level 1 controlled maintenance; and
3. \$98.0 million for other budget-balancing purposes.

Recommendation

Staff has significant concerns about the level of revenue anticipated by the Governor's office. Pinnacol leadership has indicated that recent legislation has impacted their internal valuation estimates. H.B. 25-1300 (Workers' Compensation Benefits Proof of Entitlement) allows injured workers to choose their provider from a list approved at the state level. This limits Pinnacol's ability to negotiate lower rates with a select group of providers. H.B. 25B-1003 (Insurance Premium Tax Rate for Home Offices) removed a tax credit for insurance providers who employ a large number of Coloradans. This will increase the amount that Pinnacol will have to pay once they are subject to state premium taxes.

Given these changes since the spring valuation, staff believes that the assumptions used in the request may be outdated. However, staff does not have the expertise to recommend an alternative amount confidently. Further, the central component of any legislation would need to be a contractual business negotiation, which staff is not equipped to be part of.

If the Committee may want to run legislation for this proposal, then staff recommends approve drafting authority for legislation now. Staff recommends that the Committee consider two options for the draft legislation, including:

- Legislation to compel a transfer of funds from Pinnacol to the State as part of the conversion (as requested in Statewide R1); or

- Legislation that would outline the terms of an acceptable contract for the conversion rather than compelling a transfer of funds.

Staff further recommends that the Committee discuss the legal questions raised by the request with counsel, potentially including an executive session that could include both the Office of Legislative Legal Services (OLLS) and the Attorney General's Office. Staff's discussions with OLLS to date have raised significant legal questions. Examples include the State's authority to require/compel a specific payment from Pinnacol, whether the revenue generated would be exempt from TABOR, and whether statute could require a private company to serve as the insurer of last resort.

Staff suggests that beginning to draft legislation would facilitate the Committee's exploration of the many policy decisions implied by the conversion, including:

- Identifying the total amount that Pinnacol would pay to the State and the Colorado Public Employees' Retirement Association (PERA);
- Developing a policy solution regarding the state's workers compensation insurer of last resort; and
- Allocating revenue from the conversion within the budget.

Staff further notes that this may not be an ideal candidate for a JBC bill. Despite being central to the Governor's budget proposal, the request signifies a major policy change impacting multiple departments and many Coloradans as employees and employers. Staff assumes that extensive stakeholder conversations and negotiations would be required to confidently make policy decisions, including determining the amount of revenue. The coordination of the policy may not be viable given the Committee's other responsibilities.

As an alternative, the Committee may choose to include a "placeholder" assumption regarding anticipated revenue in the budget. However, this should only be included in the FY 2026-27 budget if the Committee were certain that the legislation would pass – and be implemented successfully on the necessary timeline.

Basis for the Request and Risk to the State

Proposals to convert Pinnacol over the last two years have centered around two key rationales.

- **Pinnacol Solvency and Sustainability:** As justified by the Governor's office, Pinnacol's interest in the proposal has centered on preserving their long-term sustainability. They identify that Pinnacol is losing market share and needs to "modernize" to remain competitive in the current economy. JBC Staff is not equipped to evaluate the valuation or solvency of insurance companies. While research suggests that it is reasonable to assume that the company has lost enough market share to impact how concentrated their high-risk pool is, Staff does not have the expertise to make this determination confidently.
- **General Fund Relief and the FY 2026-27 Budget:** Setting aside the Company's prognosis, the \$400.0 million in one-time money associated with this request is central to the Governor's balancing proposal.

Given the magnitude of the policy questions and the budgetary assumptions, JBC Staff is concerned about the risk of relying on this proposal to generate \$400.0 million in TABOR-exempt General Fund revenue in FY 2026-27. Staff notes that both the amount and whether the revenue would be exempt are open questions. There would be risk in the Committee assuming a \$400.0 million placeholder. These risks include the possibility of the bill failing; revenue from the business transaction falling short; and/or potential litigation undermining the proposal. In any of these cases, the State may not know in time to effectively adjust the budget for FY 2026-27, creating a more emergent shortfall during the upcoming fiscal year.

It may be that Pinnacol will require a policy change to remain viable, so capturing the General Fund relief during the current budget shortfall would be ideal. However, the proposed conversion of Pinnacol raises major legal and policy questions for Pinnacol, Colorado employers and workers, and the State. If the Committee intends to assume any benefit from the Pinnacol conversion in the FY 2026-27 budget, then staff recommends moving forward with drafting now to explore the legal and policy questions. If the Committee intends to add a placeholder for potential legislation sponsored by other legislators, then staff would recommend engaging those colleagues to assess the potential risks of assuming the legislation as part of balancing.

Legislation Implied by the Request

The Governor's Statewide R1 request implies that legislation to convert Pinnacol would require Pinnacol to transfer funds to both the State (assumed to be \$400.0 million) and to the Public Employees Retirement Association (PERA) as part of the conversion. This suggests a statutory transfer amount. Staff is concerned that legislation directing this transfer without a contractual agreement could be subject to litigation.

The budget request also implies that legislation would include a stipulation that Pinnacol remain the state's workers' compensation insurer of last resort for up to three years. Again, this condition may pose some legal risk depending on outside negotiations between the two parties. There may be ways to alleviate some of this risk, but legislation would have to be drafted differently from the Governor's proposal or negotiations between the State and Pinnacol would need to be completed prior to enactment.

Revenue from a Pinnacol Conversion

The Governor's request assumes that Pinnacol would be "sold" to its shareholders and remain a mutual insurance company. Additionally, the request assumes that this would constitute a property sale, making the revenue TABOR exempt. Anticipated revenue from converting Pinnacol is dependent on two factors:

1. The share of Pinnacol's value owed to the State; and
2. The cost for Pinnacol's disaffiliation from PERA.

Pinnacol Valuation

During the FY 2025-26 budget cycle, staff provided the Committee with a third-party valuation of Pinnacol that was provided by the company. This estimated that the state's investment value in Pinnacol was between \$330.0 million and \$425.0 million. This amount does not include the cost for the company to disaffiliate from PERA. The valuation letter is included as Attachment A.

Shortly after this year's budget briefing covering Pinnacol, staff received a separate valuation of Pinnacol from the Governor's Office. This valuation compared the present value of Pinnacol with its projected value after conversion. It estimated that Pinnacol's value would increase by \$220.0 million - \$290.0 million. The Governor's estimated total valuation of Pinnacol is between \$400.0 million and \$800.0. The estimate is based on the rounded sum of the company's increased value plus the state's investment in the company. A memo summarizing the valuation is included as Attachment B.

Disaffiliation from PERA

Outside of revenue to the State, Pinnacol would have to pay to PERA for disaffiliation. Converting Pinnacol would remove their employees from PERA. However, the account remains liable for accrued benefits which are no longer being funded. Pinnacol would owe PERA for those unfunded liabilities. This cost is included in assumptions about the total amount the company could pay the State while remaining viable on the private market.

PERA uses a 7.25 percent discount rate when determining future liabilities of the fund. Statute directs PERA to subtract “two hundred basis points”, or 2.0 percent, from the discount rate when applied to disaffiliation costs.¹ This results in a discount rate of 5.25 percent for any disaffiliation costs. Using that rate, PERA estimates that the disaffiliation cost would be \$302.0 million. The Governor’s office has indicated their belief that this rate could be negotiated, but has indicated that the full \$302.0 million payment to PERA is accounted for in their assumptions. A JBC Staff memo that summarizes PERA’s actuarial analysis is included as Attachment C.

Other Ongoing Revenue

Privatizing Pinnacol could also lead to other revenue to the state. Currently, state and federal statute relieves the company from paying taxes because of their status as insurer of last resort. OSPB estimates that privatization could result in an estimated \$5.0 million in annual state tax revenue. This could, however, lead to increases in premium costs. Staff assumes that negotiations related to the proposed conversion could include premium tax relief as a basis of maintaining Pinnacol as the state’s insurer of last resort.

Considerations Beyond Revenue

Staff recommendation to allow drafting authority with OLLS would allow the Committee to explore other policy aspects associated with Pinnacol privatization.

Pinnacol’s Current Statutory Role

As the insurer of last resort, Pinnacol provides coverage for the highest risk businesses in Colorado. Statute requires certain protections for these companies and benefits for the state including²:

- Ability for the State to appoint board members;
- Assumption of all liabilities by Pinnacol;
- Ensuring that Pinnacol cannot refuse coverage to any employer;
- Equitable premium rates that are commensurate to risk;
- Distribution of overpayment dividends back to policyholders annually³;
- Oversight from the Commissioner of Insurance, the state Treasurer, and the Office of the State Auditor.

Drafted legislation could include aspects of these protections through the development of insurer of last resort alternatives. However, requiring the private company to serve as the insurer of last resort may raise legal questions (discussed in the following section).

¹ Section 24-51-315(5), C.R.S.

² Section 10-45-101, C.R.S.

³ Section 8-4-112, C.R.S.

Status as Colorado's Insurer of Last Resort

The Governor's request suggests that legislation could require Pinnacol to remain the State's insurer of last resort for a set number of years prior to a broader request for proposals for that role. While staff agrees that this would likely be the best option for employers, there may be legal question about the State's ability to statutorily compel a private firm to fulfill this role. Alternative legislation could outline terms of a contract where Pinnacol agrees to fulfill this role.

Two additional alternatives for providing insurance to the residual market are:

1. Join the National Council on Compensation Insurance (NCCI)'s National Workers Compensation Reinsurance Association (NWRCA); or
2. Develop a state assigned risk pool.

Staff believes that any of these options are viable for maintaining stability in premium rates, though development of an assigned risk pool may be administratively cumbersome.

Workers Compensation Insurance in Other States

During the Department's budget briefing, the Committee asked about outcomes from other states who have undergone conversion of their state-owned workers compensation providers. Workers compensation insurance is heavily regulated and most states, including Colorado, rely on the NCCI to collect data and recommend rates to providers. Because of this centralized regulation and rate setting, healthier insurance markets tend to be the most effective way to drive down costs to employers.

Based on information from a handful of states that have recently converted (Nevada⁴, Maryland⁵, Arizona⁶), overall premium rates have decreased in the last decade. While this does follow broader national trends, it also indicates that privatization did not necessarily increase rates overall for most employers. However, for employers who cannot procure insurance from the private market and remain in the residual market, premiums could increase. This is because lower risk employers may seek out different carriers, leaving a higher concentration of risk in the residual market. States who have maintained an insurer of last resort on the private market or an assigned risk pool seem to have been able to alleviate the risk of premium hikes⁷. A private insurer of last resort can minimize the impact of high-risk policyholders by providing insurance to lower-risk employers while an assigned risk pool can spread out the risk across insurers.

Citizen Ballot Measure Proposal

As the Committee has noted, Legislative Council Staff has received a [ballot initiative](#) that would force Pinnacol's conversion without providing General Fund relief. The measure would do the following:

⁴ Other State Mutualizations/Privatizations, Montana Legislative Services Division: <https://archive.legmt.gov/content/Committees/Interim/2017-2018/Economic-Affairs/Committee-Topics/SJR27/other-states.pdf>

⁵ Maryland 2025 Workers' Compensation Report: <https://insurance.maryland.gov/Consumer/Appeals%20and%20Grievances%20Reports/Workers-Compensation-Insurance-2025-Report.pdf>

⁶ Worker's Compensation Rates Decrease for 10th Consecutive Year: <https://difi.az.gov/announcementnews/workers-compensation-rates-decrease-10th-consecutive-year>

⁷ Ozbek, Mehmet E. "A Study of the Privatization of State-Chartered Workers' Compensation Funds." (2010).

- Require Pinnacol to pay \$150.0 million to a newly created “Skilled Workers and Trades Fund”, which would provide grant funding for individuals to attend work training programs;
- Credit all subsequent premium tax revenue from Pinnacol to the same fund;
- Require payment of the full disaffiliation cost to PERA; and
- Require Pinnacol to serve as the insurer of last resort for one year while the Commissioner of Insurance develops an assigned risk pool plan.

Additionally, the measure prevents the State from using this fund to substitute funding for any other workforce development program that is already funded by the government.

Attachment A:

Letter from Pinnacol Assurance dated March 17, 2025. This letter summarizes the valuation provided by RSM. See the full valuation report in the FY 2026-27 Department of Regulatory Agencies Staff Budget Briefing document here: https://content.leg.colorado.gov/sites/default/files/fy2026-27_regbrf.pdf

March 17, 2025

Colorado Joint Budget Committee
c/o Michelle Curry

Senator Bridges and Honorable Members of the Joint Budget Committee,

As the Committee heads further into figure-setting, Pinnacol will be providing an independent valuation conducted by RSM to inform the proposal related to the state's remaining interest in Pinnacol. We expect to have RSM's valuation in the next several days.

Although it has yet to be finalized, we wanted to provide an update in the interest of time.

In 2002, Pinnacol was mostly spun off from the state and its surplus of roughly \$80 million was transferred to Pinnacol under the ownership of its policyholders. Since that date, the state has had no risk nor liability for the solvency or financial condition of Pinnacol [CRS 8-45-102(1)], nor has it had any interest in Pinnacol's revenues and assets [CRS 8-45-202(5)].

As such, RSM is calculating the state's investment value in Pinnacol based on the present value of the roughly \$80 million transfer to Pinnacol.

For your planning, it's my belief that the range may come in somewhere between **\$330m to \$425m**.

Please note that this range is separate from a disaffiliation payment to PERA. We also understand that the Governor's Office has engaged a separate service provider to advise them with respect to the state's remaining interest in Pinnacol.

We will forward the report to you when RSM provides it, and we're happy to answer any questions you may have in the meantime.

Regards,

Kathy Kranz
Vice President, Chief Financial Officer

cc: Sen. Jeff Bridges
Rep. Shannon Bird
Sen. Judy Amabile
Sen. Barbara Kirkmeyer
Rep. Emily Sirota
Rep. Rick Taggart

Craig Harper, Joint Budget Committee Staff Director

Mark Ferrandino, Director, Office of State Planning and Budgeting
Casey Badmington, Deputy Legislative Director

Attachment B:

Memo provided by the Office of State Planning and Budgeting on November 12, 2025. This memo summarizes the valuation provided by A&M.

Summary

The State has a clear ownership interest in Pinnacol Assurance. We estimate the total value of this interest to be \$400M to \$800M (net of PERA's buyout), based on a sum of estimates from a recently-conducted forward-looking valuation and the net present value of prior State support. In the FY27 budget request, the Governor's Office estimates a \$400M contribution to the State after the PERA buyout. This document provides background information, the recent valuation, and support for why we think the final sale will result in a larger amount based on a backward-looking analysis of the state's support and other factors. Note, Pinnacol has concerns about the backward-looking framing, but we have an obligation to get the highest return for the State and our estimated benefit from the sale is supported by a recent offer that would have exceeded \$400M net benefit to the State after the PERA buyout.

If we fail to act, Pinnacol will be unable to cover Colorado businesses' out-of-state employees or sell complementary business lines of insurance. Their market share will likely keep falling, which will eventually put upward pressure on premiums and downward pressure on benefits levels.

Background

Pinnacol is a quasi-independent political subdivision of the State that operates as a worker's comp insurer, and is required to serve as the insurer of last resort for employers who are unable to obtain worker's comp policies elsewhere (comprise 5.8% of the market). Between 1915 and 2002, there was no question that the State fully "owned" Pinnacol. In 2002, the General Assembly passed legislation creating a new degree of independence between the State and Pinnacol. Even afterwards, Pinnacol remained tied to the State, with the State subsidizing Pinnacol in at least three major ways: ~\$75M in seed money, an exemption from insurance premium tax and other state and federal taxes, and indirect financial support, e.g. Pinnacol was allowed to operate undercapitalized and without a credit rating for much of this period.

The State has a clear current interest in Pinnacol. In other words, the State holds at least partial ownership of the insurer. If the State were to sell its interest - its property - the proceeds would be exempted from TABOR under TABOR's "property sale" provision.

There are two components that together sum to the monetary value of the State's current interest in Pinnacol. The forward-looking component is made up of the difference between the price Pinnacol would fetch if sold on the market in an arm's length transaction today vs. its sales price if its statutory restrictions were removed, e.g. it was able to sell policies in other states and in different insurance lines. This can be thought of as the State's value from Pinnacol's additional potential moving forward. Earlier this year, the State contracted with prominent insurance valuation firm Alvarez & Marsal (A&M), which estimated this amount.

There is also a backwards-looking component stemming from the State's prior direct and indirect support of Pinnacol, which enabled Pinnacol to build up its currently strong balance sheet and excess capital reserves. Between 2010-2012, the State contracted out a number of studies that estimated the net present value of this support. This can be thought of as the State's value from its prior investment in Pinnacol.

A&M Evaluation April 2025: Forward Looking Component of Valuation

To determine the forward-looking value of Pinnacol with its current statutory restrictions in place (the “base case” scenario), A&M conducted a number of analyses:

- Reviewing base case forecast documents from Pinnacol
- Interviewing Pinnacol management to understand key assumptions
- Estimating Pinnacol’s Best Capital Adequacy Ratio (BCAR) at the end of each forecasted year to determine what amount of annual policyholder dividends it could support without risking a credit rating downgrade from A.M.
 - BCAR measures the strength of an insurer’s balance sheet and takes into account how much available capital (e.g. surplus, loss reserves, and growth in the value of any fixed income securities held) and required capital (e.g. net insurance premiums written, investments, and credit).
 - Based on interviews and industry research it was determined that a BCAR score of 55 was considered adequate to maintain an A- or better rating.
- Projecting certain asset balances, investment income, and policyholder dividends over the period
- Performing a valuation of the company using the discounted cash flow (DCF), guideline public company, and guideline transaction approaches
 - The DCF starts with a stream of money based on historical or projected cash flows that is reasonably reflective of a subject company’s assets or future operations, then is discounted to present value using an appropriate discount rate.
 - The guideline public company approach is based on analyzing market transactions from publicly-traded companies to arrive at “valuation ratios,” which are then applied to the financial metrics of the subject company.
 - The guideline transaction approach analyzes mergers or acquisitions of companies comparable to the subject company to arrive at “valuation ratios,” which are similarly applied to the subject company.

These estimates suggested that Pinnacol was valued between \$1.42B and \$1.66B as of 12/31/24.

To determine the forward-looking value of Pinnacol if it were to be fully spun off and free of these statutory restrictions (the “disaffiliated case” scenario), A&M’s analyses included:

- Reviewing disaffiliated case forecast documents from Pinnacol
- Interviewing Pinnacol management to understand key assumptions
- Assessing the financial performance of other state-owned worker’s comp insurers which were spun off
- Performing a valuation of the company using the DCF approach.
 - The market approach wasn’t used to compare Pinnacol’s base case vs. disaffiliated case value because it doesn’t adequately capture the financial improvements associated with disaffiliation

These estimates suggested that if Pinnacol was independent of the State then it would be valued between \$1.64B and \$1.95B as of 12/31/24.

Therefore, the difference of the base case and disaffiliated case scenarios is \$220-\$290M as of 12/31/24. However, this amount likely understates the value of the company as of July 2026 for two reasons.

- There could be updated actuarial assumptions that would lower the buyout to PERA which would raise the contribution to the state
- The valuation is based on December 2024, and with inflation and other factors (such as H.R. 1 benefitting insurers), we assume an additional 5% annual increase in that valuation resulting in \$312M rather than \$290M

Therefore, an updated forward-looking only valuation (net PERA costs) based on those factors could exceed \$350M rather than A&M's estimate of \$290M.

However, that forward-looking component alone is insufficient given the state's historical support that has led to the total valuation of up to \$1.95B after disaffiliation. The Governor's Office believes that the historical stake in Pinnacol needs further consideration as well, which should be incorporated into the overall valuation.

Backward-looking considerations: Valuation of the State's Prior Investments

There is a need to take the historical state support prior to affiliation into account, and that backward looking methodology, when summed with A&M's forward-looking one, would suggest a significantly higher value of the sale, potentially in the \$100's of millions. See below for previous reports on Pinnacol's value that are also worth considering in a backward-looking valuation.

In 2010, Pinnacol hired Goldman Sachs to conduct a study, which concluded that Pinnacol's exemption from state insurance premium tax (just one aspect of State support) since 1987 was worth \$117M in 2010 dollars. It also noted that there were other benefits the State provided Pinnacol but didn't value them. That same year, the State hired Morgan Stanley to conduct a study, which concluded that since 2002 Pinnacol's:

- premium tax exemption was worth between \$47-51M
- ability to operate without an AM Best rating and at surplus levels that wouldn't be acceptable for a private insurer was worth \$149-\$167M
- \$75M seed money from the State was worth \$134-\$155M

In 2012, the State hired W.G. Nielsen & Co., which concluded that since 2002 the above three components of State support for Pinnacol was worth \$372-\$431M (in 2012 dollars).

These figures only cover certain elements of the State's support for Pinnacol, and only for short periods within Pinnacol's 110-year history. There is some debate around which periods of State support to count since Pinnacol underwent statutory changes in 1987, 1997, and 2002 that some argue changed its relationship with the State. However it is clear that any net present

value or other analysis of State support for Pinnacol shows the State has seeded it with at least several hundreds of millions of dollars of value. This “past-looking” value has significantly improved Pinnacol’s balance sheet and surplus levels and has put it in a strong position to grow and reverse its declining market share if it were fully spun off from the State.

In summary, by considering all the State’s prior investments in combination with the forward-looking net gains, the Governor’s office estimates that a net benefit to the State could reasonably exceed \$400M.

Attachment C:

Memo provided by JBC Staff dated January 15, 2025. This memo summarizes the PERA actuarial analysis of Pinnacol disaffiliation. See the full report in the FY 2026-27 Department of Regulatory Agencies Staff Budget Briefing document here: https://content.leg.colorado.gov/sites/default/files/fy2026-27_regbrf.pdf

MEMORANDUM



JOINT BUDGET COMMITTEE

To Members of the Joint Budget Committee
From Michelle Curry, JBC Staff (303) 866-2062
Date January 15, 2024
Subject Actuarial Analysis of Pinnacol Assurance Disaffiliation

Please see the attached letter from Segal Consulting regarding the potential impact created by the disaffiliation of Pinnacol Assurance from PERA. The letter includes explanation of the methodology used to determine the impact of disaffiliation based on valuation results and trust fund amounts as of December 31, 2023. The reported amounts represent an estimate since the actual disaffiliation cost would be determined by the valuation on the disaffiliation effective date.

Currently, the assumed discount rate for Pinnacol's disaffiliation from PERA is 5.25 percent (Sec. 24-51-315(5), C.R.S.). However, Pinnacol requested disaffiliation estimates for alternative discount rates for informational purposes. The following table indicates the estimated impact based on various discount percentages:

Pinnacol Disaffiliation Cost Estimates	
Discount Rate	Cost Estimate
5.25%	\$316,799,445
6.25%	\$242,598,032
7.25%	\$183,471,641

Again, these numbers reflect an estimate only. Further explanation can be found in the attached letter from Segal Consulting.