Advisory Committee on Retirement Matters Meeting – COLA Options

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Current COLA Options

- 30%, 50% or 70% of CPI-U
- Repeating COLAs are advance funded over each active employee's working career
- Ad-hoc COLAs are funded when granted over 15 years with level dollar amortization

Short Term Analysis

- Ad hoc rates lower in short run, but costs increase with each adoption; repeating rates are stable, but higher initially
- After 10 years, rate for a plan granting ad hocs is similar to the repeating rate and will continue to increase thereafter
- UAAL increases over time with ad hocs, decreases over time for repeating
- Funded ratio improves over time with repeating, declines with ad hocs

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Long Term Analysis

- In the long run, cumulative contributions for ad hoc COLAs exceed those for repeating COLAs
- Investment earnings accumulated through advance funding accounts for difference in long term costs

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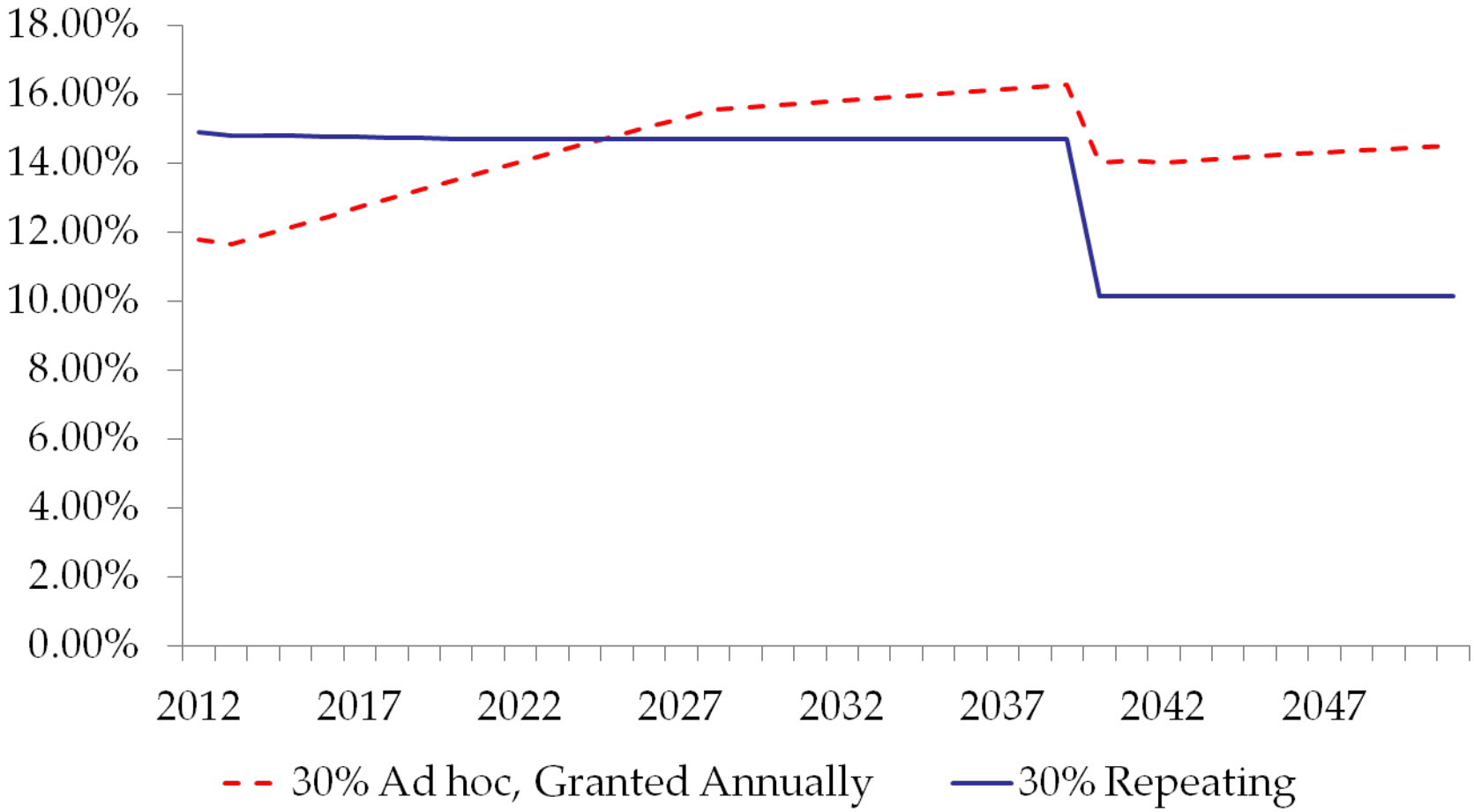
Projected Contribution Pattern



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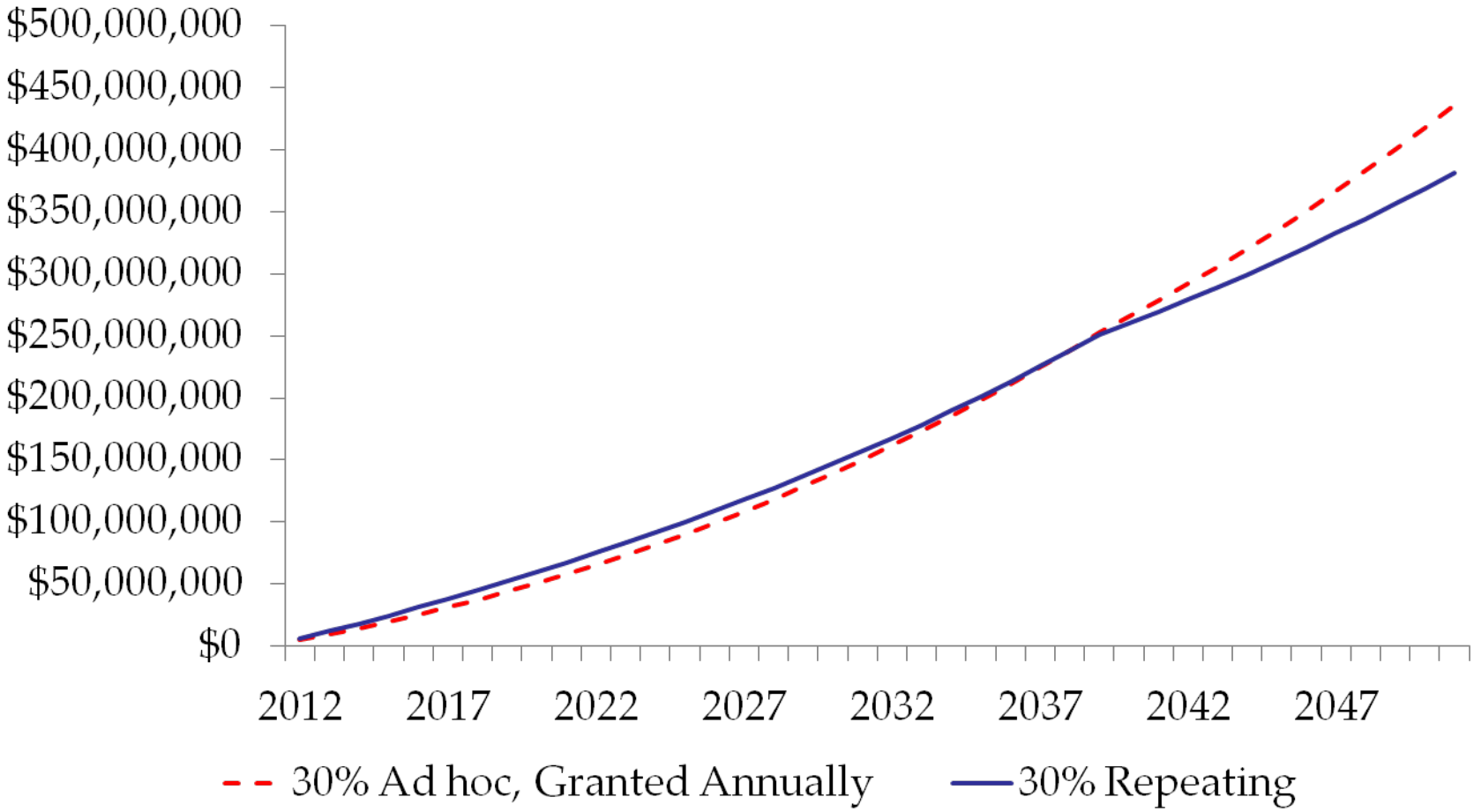
Total Cumulative Contributions



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COLAs are Retroactive

- Increases are calculated as if COLA had always been in effect since date of retirement
  - Typically referred to as "catch up" provision
- Initial COLA or an increase in CPI percent results in large benefit increases for the year adopted; longer retired, higher the increase
- Reduction in CPI percent results in lower or no increase until cumulative increase at lower percent exceeds current benefit; longer retired, longer until another increase will be granted

The cost of the “catch up” provision

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Example ad hoc "catch up" provision and flat rate ad hoc

	Baseline * (No COLA)	70% CPI Ad hoc with Catch-up (9.64%)	70% CPI Ad hoc without Catch-up (1.22%)	Flat 3% Ad hoc
UAAL	$9,797,444	$30,966,454	$13,037,603	$17,765,051
Funded Ratio	98.6%	95.8%	98.2%	97.5%
ER Current Service %	10.73%	10.73%	10.73%	10.73%
Prior Service %	0.48%	2.20%	0.74%	1.13%
Full Rate	11.21%	12.93%	11.47%	11.86%
Estimated Contribution	$15,085,136	$17,399,715	$15,435,014	$15,959,832
Annual Cost to Provide COLA		$2,314,579	$349,878	$874,696

* City last adopted a COLA on January 1, 2008

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Example Repeating Provisions

	Baseline * (No COLA)	70% CPI Repeating with Catch-up (9.64%)	70% CPI Repeating without Catch-up (1.22%)
UAAL	$9,797,444	$166,463,309	$148,062,946
Funded Ratio	98.6%	80.9%	82.6%
ER Current Service %	10.73%	14.11%	14.11%
Prior Service %	0.48%	7.29%	6.49%
Full Rate	11.21%	21.40%	20.60%
Estimated Contribution	$15,085,136	$28,797,673	$27,721,124
Annual Cost to Provide COLA		$13,712,537	$12,635,988

* City last adopted a COLA on January 1, 2008

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Pros and Cons of no "catch up" or a "flat rate" approach

- Pros:
  - Employer may be able to better "afford" a COLA without the cost of the "catch up" requirement
  - Employer may be able to better control the cost of COLAs given the flat rate design
  - A lower flat rate can be utilized to dampen growth of plan liabilities when returns are low
  - Can be repeating or ad hoc
- Cons:
  - May not keep pace with inflation if not tied to CPI
  - If there has been a period of no COLAs, a flat rate COLA or no "catch up" does not restore lost purchasing power evenly across retirees

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Another alternative

- The one-time window concept:
  - Allow TMRS employers a "window of opportunity" to grant a one-time or add a repeating COLA without the current retroactive or "catch up" requirement
- May be complex and costly to administer as a stand alone provision

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Other options?

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Next steps?

- May 15th meeting expectations

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