

## **COLA Study Committee**

### **Model Framework for the Annual Consideration of COLA Adjustments**

At the Annual Meeting of the Employees' Retirement System ("ERS" or "System") Board of Trustees ("Board") in April 2014, the Chair created a COLA Study Committee ("Committee") to develop a framework that would guide future Boards in their determination of whether, when, and how to pay Cost of Living Adjustments ("COLAs"). After careful consideration, the Committee submits the following recommendations to the full Board.

Note that unless otherwise stated, the term "COLA" refers to an amount permanently added to a retiree's or payee's monthly benefit, with multiple COLAs compounding over time.

Also note that the Board does not have the authority to provide COLAs to all possible retirees and payees; the following pertains only to COLAs payable to those for whom the Board has such authority.

#### **Committee Objectives**

The Committee documented the following primary objectives:

- To maintain the Board's strong focus on paying down the unfunded liabilities of the System;
- To be mindful of controlling the future growth of the System's liabilities, to the extent that is possible, and ensuring the resulting funding requirements are well within the State's ability to continue to meet;
- To assist retirees with the preservation of at least a portion of their purchasing power over time; and
- To manage the System in a manner consistent with the State's workforce management objectives, in particular the retention of longer-serving and highly skilled employees.

#### **Recommendations**

The Committee recommends that future COLA decisions be made by the Board with the following guidelines in mind:

- That COLAs should be calculated as a percentage of a retiree's / payee's pension income up to the lesser of the retiree's gross annual ERS pension income, or \$30,000;
- That the ERS pension income to be used in the COLA calculation should be the retiree's / payee's annual gross income rate as of the day prior to the effective date of the COLA;
- That only those retirees who have been retired for at least seven months and who are at least age 60 as of the COLA effective date should receive a COLA;
- That those retirees on Disability Retirement should be included in the population being considered for a COLA, regardless of their age;
- That Disability Retirees should be subject to the seven-month and \$30,000 provisions included above;
- That beneficiaries of deceased members and retirees should have their COLA eligibility based on:
  - The deceased member's / retiree's age in relation to age 60, regardless of the disability status of the member / retiree;

- Seven months having elapsed since the retiree's payment start date, or if the member never retired, based on the beneficiary's payment start date;
  - The beneficiary's retirement income in relation to the \$30,000 per year limit;
- That the maximum size of a COLA should be limited according to System's funding ratio (as calculated under the terms and actuarial assumptions of the System's Funding Policy) as follows:
  - Funding ratio at least 100%: 3% maximum COLA
  - Funding ratio between 90% and 99.9%: 2% maximum COLA
  - Funding ratio between 80% and 89.9%: 1% maximum COLA
  - Funding ratio less than 80%: no COLA
- That notwithstanding the above, no COLA should be granted in a year where the active ERS membership does not generally receive raises in their pay rates.

The recommendations contained herein are not intended to be hard and fast rules. The Board should be mindful of its discretion to make decisions outside of this framework, once it is satisfied that all proper due diligence has been performed. In addition, the standard valuation and financial data available to the Board is in some cases as much as 10 months old. The Board should not hesitate to ask for and consider more recent data if available and necessary to reach a decision.

### **Other ERS-Administered Systems**

This model is written for the Employees' Retirement System of Georgia and its Board. The ERS Board and two related Boards are responsible for the governance of four other defined benefit systems:

- The Public School Employees Retirement System (PSERS)
- The Legislative Retirement System (LRS)
- The Judicial Retirement System (JRS)
- The Georgia Military Pension Fund (GMPF)

The GMPF does not provide for any COLA for its retirees.

The statutory terms, the actuarial assumptions, and the financial condition of the other three systems may or may not be materially different from those of ERS at any given time. Regardless, the Committee recommends that the Boards of those three systems be very mindful of this framework, and the discussion and decisions of the ERS Board, when making their own COLA decisions.