



# KPPA

Kentucky Public Pensions Authority

# PUBLIC PENSION OVERSIGHT BOARD

## Cost-of-Living Adjustments (COLAs)

October 19, 2021

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Kentucky Public Pensions Authority (KPPA)

# Agenda

- ▶ History Of Kentucky Retirement COLAs
- ▶ Impact of Inflation on Retirees' Purchasing Power
- ▶ Different Types of COLAs
- ▶ Practices in Other States
- ▶ Kentucky Statutes
- ▶ Projected Cost of Various COLAs

# Types of COLAs

- ▶ Automatic: No action required. Typically a predetermined set rate
- ▶ Ad Hoc: each one must be legislatively approved

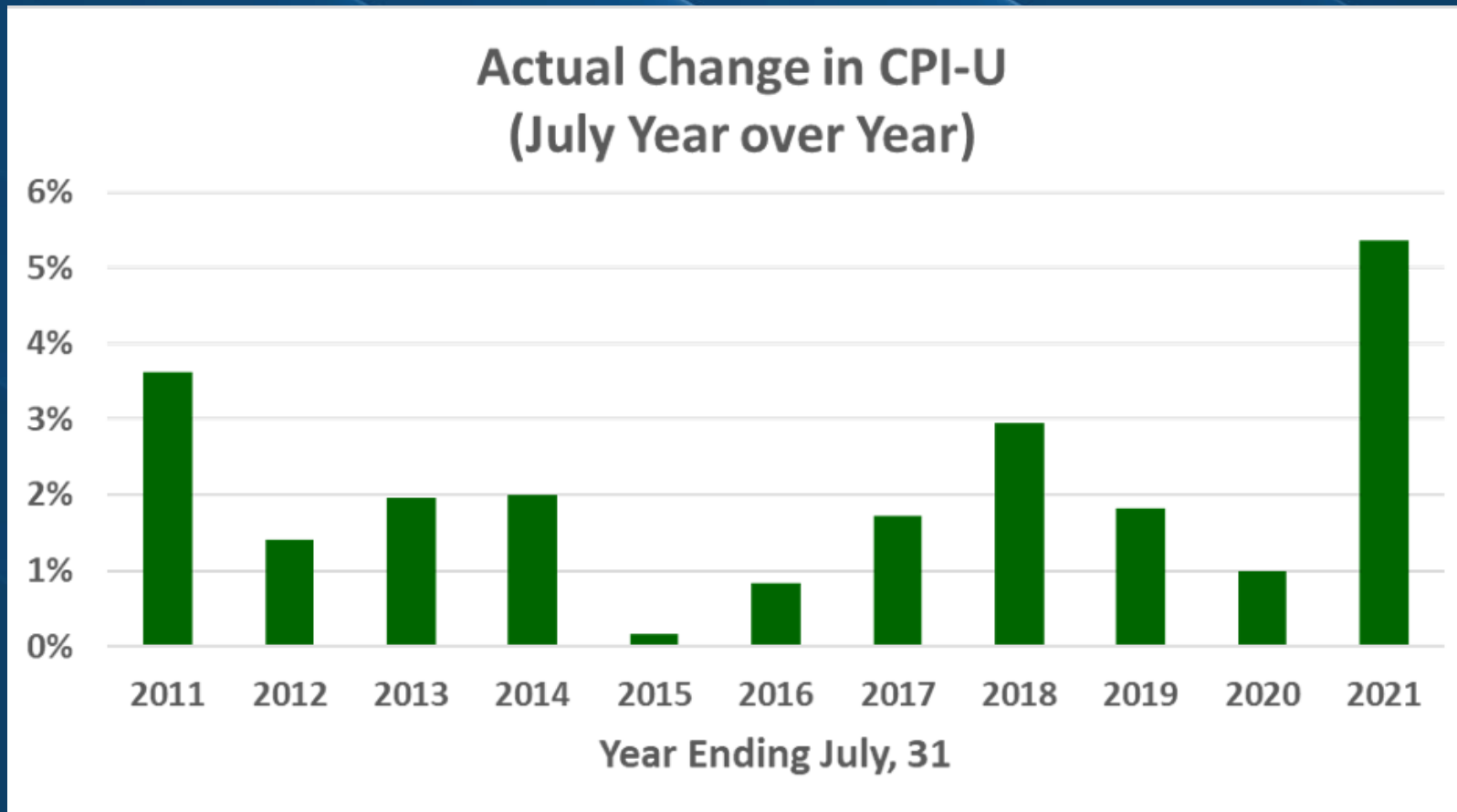
# History of Kentucky Retirement COLAs

- ▶ 1960's – 4 COLAs graduated from .25% to 1.47%
- ▶ 1970's – 3 COLAs graduated from 2% to 5% (Had conditions)
- ▶ 1980's – 9 COLAs graduated from \$1/month/per years of service up to 15% (Often 4% to 4.5%)
- ▶ 1990's – 10 COLAs graduated from \$2.50/month/per year of service to 2% to 3%
- ▶ 2000's – 10 COLAs graduated from 1.5% to 3.4%
- ▶ 2010's – Last COLA FY2012

# Kentucky Statutes

- ▶ SB 2 (2013 Regular Session)
  - ▶ 1.5% COLAs will be granted in the future only if the KRS Board (now KRS and CERS) determines that assets of the (respective) system(s) are greater than 100% of the actuarial liabilities and legislation authorizes the use of surplus funds for the COLA;
  - ▶ Or the General Assembly fully prefunds the COLA or directs the payment of funds in the year the COLA is provided.
  - ▶ New COLAS are not a part of the Inviolable Contract

# Actual Historical Change in Inflation



# National Trends in COLA

- ▶ Moved away from CPI Driven
- ▶ Moved towards caps and fixed rate formulas
- ▶ Now more are tied to financial conditions
  - ▶ Funded status
  - ▶ Investment performance

# Types of COLAs

- ▶ Reserve Account
  - ▶ Pay from a pre-funded reserve account
    - ▶ Ties to investment performance
  - ▶ May require reaching a certain age
  - ▶ May have a draw down if there is an earnings shortfall



# Funded Status of Pensions (\$millions)

	KERS Non-Haz	KERS Haz	SPRS	CERS Non-Haz	CERS Haz	All Systems
<u>Funded Status of Pension Funds as of June 30, 2020</u>						
Actuarial Accrued Liability	\$ 16,349	\$ 1,284	\$ 1,053	\$ 14,611	\$ 5,431	\$ 38,728
Actuarial Value of Assets	<u>2,323</u>	<u>710</u>	<u>296</u>	<u>7,221</u>	<u>2,448</u>	<u>12,998</u>
Unfunded Actuarial Accrued Liability	\$ 14,026	\$ 574	\$ 757	\$ 7,390	\$ 2,983	\$ 25,730
Funded Ratio at June 30, 2020	14%	55%	28%	49%	45%	34%
FY21 Investment Gain (Market Value) – Pension Fund Only	\$ 390	\$ 130	\$ 46	\$ 1,331	\$ 450	\$ 2,347

Except where noted, analysis based on the results of the June 30, 2020 Actuarial Valuation. Please see the June 30, 2020 Actuarial Valuation report for a summary of the assumptions, methods, plan provisions and data used for this analysis. Analysis is further based on June 30, 2021 market value of asset information provided by KPPA on August 20, 2021.

# Cost of Possible Benefit Increase (\$millions)

	KERS Non-Haz	KERS Haz	SPRS	CERS Non-Haz	CERS Haz	All Systems
<u>Cost to Fully Fund Benefit Increase</u>						
1.5% "Dividend", or Increase, in Current Retiree Benefits, Increase Payable for Five Years Only*	\$ 76	\$ 6	\$ 5	\$ 62	\$ 22	\$ 171
* Retirees' benefits reduce back to amount prior to 1.5% increase after five years						
One-Time 13 <sup>th</sup> Check to Current Retirees	84	6	5	69	24	188
One-Time 1.5% Increase in Current Retiree Benefits, Benefit is <u>not</u> Reduced after Increase	162	12	12	116	50	352
Five (5) 1.5% Annual Increases in Current Retiree Benefits, Capped after Five Years, Benefit is <u>not</u> Reduced after Five Years	704	51	53	494	215	1,517
Permanent Annual 1.5% COLA to Current and Future Retirees	2,571	210	195	2,105	945	6,026

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