Cost-of-Living Adjustments (COLAs) 101

Information provided by The Teachers' Retirement System of Louisiana (TRSL)

What factors determine when TRSL pays a COLA?

▶ **Legislative Approval** - TRSL and Louisiana's three other state retirement systems (for state employees, school employees, and state police) provide ad hoc COLAs—referred to as permanent benefit increases (PBIs)—which must be approved by the Legislature.

▶ **Available Funding** - the overriding factor on whether an ad hoc PBI can be granted in any given year is whether there is enough money in each retirement system's Experience Account to fund the benefit increase. Experience Accounts are accounts created by the Legislature and designated solely for holding funds to pay PBIs. TRSL's Experience Account is funded by a portion of the System's excess investment earnings. Excess investment earnings occur when TRSL earns more investment dollars than needed to fund regular retirement benefits. The Experience Account is credited **only after** the first $249.6 million in excess earnings is used to pay down the unfunded accrued liability (UAL), which is debt the state owes TRSL. After that, 50% of excess earnings above the $249.6 million hurdle, if any, would be credited to the Experience Account. Pension reforms the Legislature has put in place have prioritized the financial position of the System. Still, the creation of the hurdle and its capacity to grow as System assets grow has limited the amount of money that can be credited to the Experience Account for payment of PBIs. Currently, TRSL's Experience Account balance is $97.7 million, and the projected cost to fully fund a 1.5% PBI is $263 million. The projected cost of a 2.0% PBI is $350 million (and funding is now in the account).

▶ **Granting Mechanism** - the amount and frequency of a PBI is determined by TRSL's funding level and the Consumer Price Index for All Urban Consumers (CPI-U), an inflation indicator. A PBI will not be given if there is no increase in the CPI-U or when the balance in the Experience Account is not sufficient to fund a PBI. See Table 1 for more information.

Ongoing work toward regular permanent benefit increases

In the 2020 Legislative Session, the lawmakers passed Senate Resolution 15 and House Resolution 21. These identical resolutions directed the four state retirement systems to report on alternative methods for providing "meaningful benefit increases on a regularly scheduled basis, designed to preserve the purchasing power of the recipients."

At joint House and Senate retirement committee meeting last December where TRSL, along with the Louisiana State Employees' Retirement System (LASERS), the Louisiana School Employees' Retirement System (LSERS), the Louisiana State Police Retirement System (LSPRS), provided legislators with different concepts for funding future PBIs to their retirees. This information may guide legislators as they consider what approach the state will take toward funding and granting more regular PBIs. TRSL and the other state retirement systems continue to hold discussions with legislators on any and all future legislative initiatives that will protect the purchasing power of retirees.

COLA Checklist

- ☐ Approval from the Legislature
- ☐ Enough funds available in the Experience Account
- ☐ TRSL funding level and CPI-U increases

The following information was provided by the Teachers' Retirement System of Louisiana (TRSL).

TABLE 1: PBI Granting Mechanism

For example: *Assuming there are sufficient funds in the Experience Account, if TRSL's funding level were 81%, a PBI of up to 3.0% could be granted if the System's actuarial rate of return were at least 8.25%; a PBI of up to 2.0% could be granted if the System's actuarial rate were at least 7.45%.*

TRSL Funding Level	Last PBI Granted	System earns actuarial rate of return that is:		
		At least 8.25%	Equal to or greater than AVR*, but not 8.25%	Less than AVR
Less than 55%	N/A	None	None	None
At least 55%, but less than 65%	None in preceding FY	Lesser of 1.5% or CPI-U	Lesser of 1.5% or CPI-U	None
At least 65%, but less than 75%	None in preceding FY	Lesser of 2% or CPI-U	Lesser of 2% or CPI-U	None
At least 75%, but less than 80%	None in preceding FY	Lesser of 2.5% or CPI-U	Lesser of 2% or CPI-U	None
At least 80%, but less than 85%	None in preceding FY	Lesser of 3% or CPI-U	Lesser of 2% or CPI-U	Lesser of 2% or CPI-U
85% or greater	N/A	Lesser of 3% or CPI-U	Lesser of 2% or CPI-U	Lesser of 2% or CPI-U

**Board-approved actuarial valuation rate (AVR). The AVR for TRSL is 7.45% for FY 2021.*

TABLE 2: PBI Recipient Eligibility Criteria: The following requirements must be met on or before July 1 of the year the PBI is effective.

Recipient Type	Criteria
Regular retiree	Must have received a benefit for at least one year and be 60 years of age
Disability retiree	Must have been retired at least one year regardless of age
Beneficiary of retiree	Retiree or beneficiary (or both combined) must have received a benefit for at least one year, and the deceased retiree would have been 60 years of age at the time the PBI is payable
Survivor (non-retiree beneficiary)	Must have received a benefit for at least one year and the benefits must have originated from the service of a deceased member who would have been 60 years of age at the time the PBI is payable

Remember: the adjustment applies to the first x dollars of the retiree's benefit. For the next COLA, a 2% increase would apply to the first estimated $68,000 of the qualified retiree's benefit. This amount will be specified in the bill.

TABLE 3: PBIs granted from 2010-2020

Year	Average Annual Benefit	COLA/PBI Type	Amount (%) of Increase	Number of Recipients	Average PBI Monthly Increase	Actuarial Cost of PBI
2010	$23,477	None	--	--	--	--
2011	$23,863	None	--	--	--	--
2012	$24,300	None	--	--	--	--
2013	$24,522	None	--	--	--	--
2014	$25,218	Regular	1.50%	64,411	$28.72	$200.8 M
2015	$25,787	None	--	--	--	--
2016	$26,341	Regular	1.50%	69,095	$29.50	$226.4 M
2017	$26,548	None	--	--	--	--
2018	$26,757	None	--	--	--	--
2019	$26,966	None	--	--	--	--
2020	$27,160	None	--	--	--	--