



**PERA**

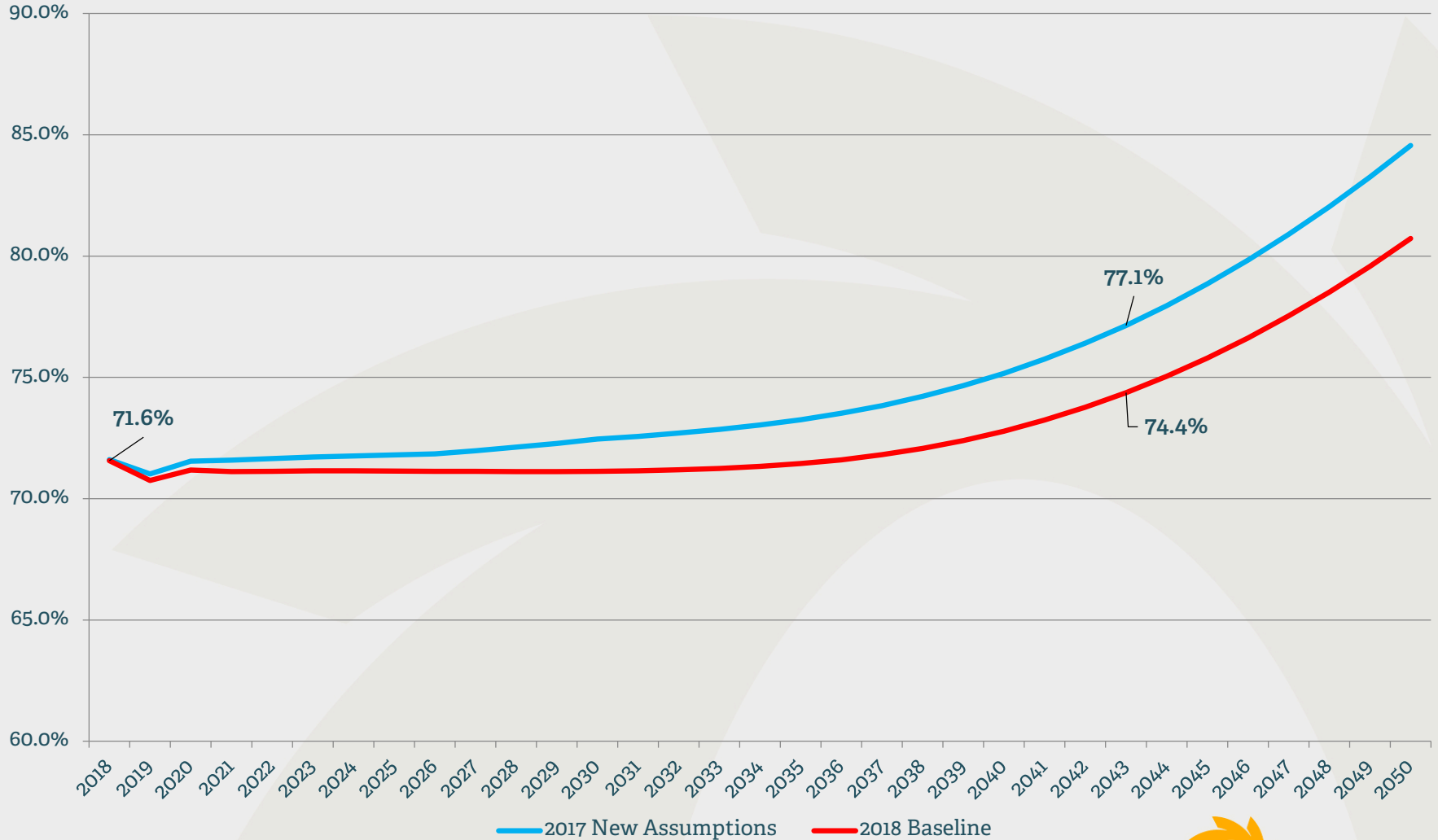
# **Board Solvency Proposal**

*James Maxon, Chair*

*Jackie Kohlasch, Vice Chair*

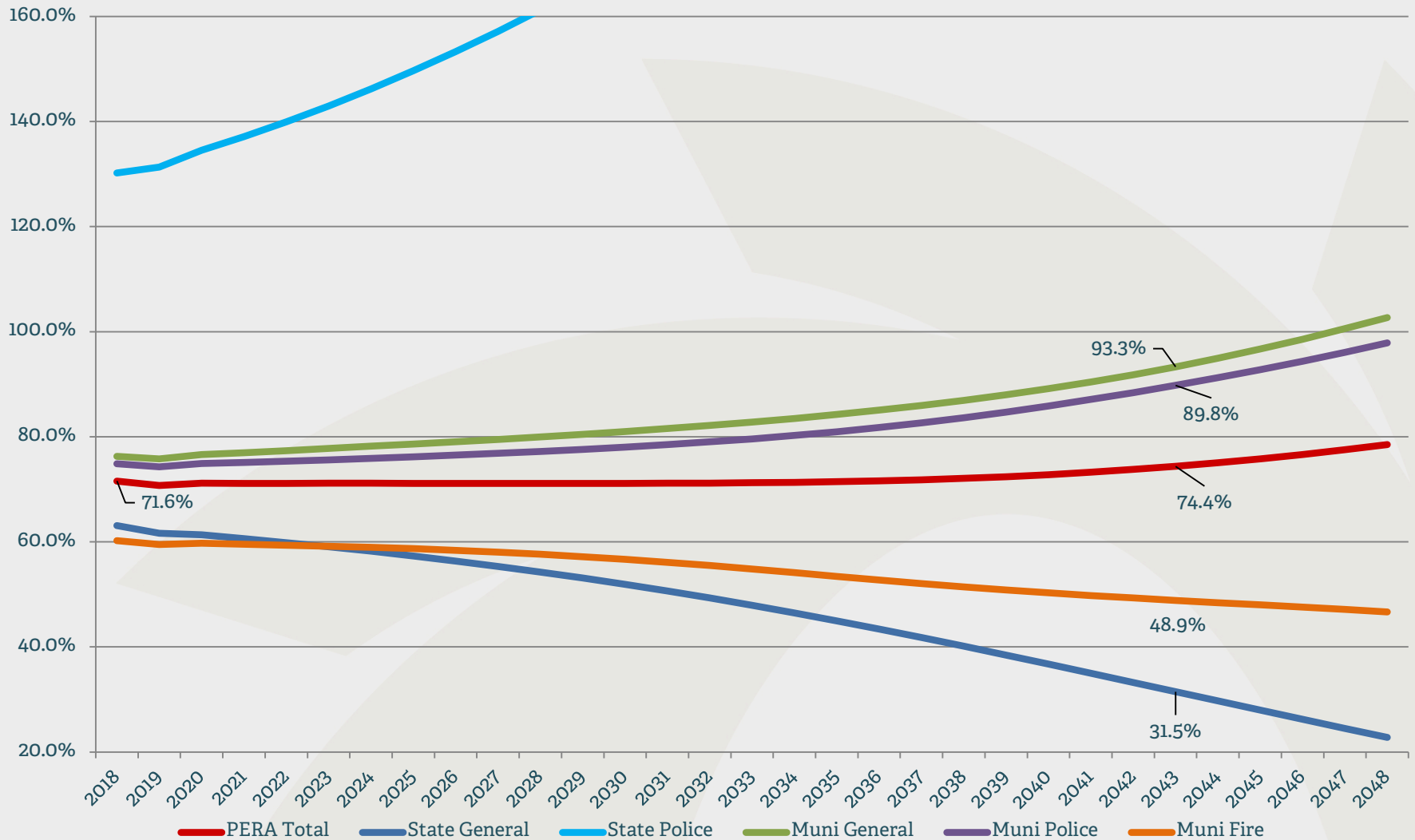
# Projected Funded Ratio

## 2018 Baseline vs. 2017 New Assumptions



# 2018 Projected Funded Ratio by Division

## 2043 Highlighted



# PERA Board Solvency Proposal

- Employer/Employee Contribution Rates Adjust Upward or Downward Based on Funded Status of Coverage Plan (Excludes State Police and Adult Correctional Officers unless Coverage Plan Funded Status falls Below 100%)
- Automatic Triggers provide Predictability in Planning for Employers, Employees *and* Retirees
- COLA Suspended for 3 years, until July 1, 2022, Thereafter, Retirees are Eligible for COLA at Age 60 for Public Safety and Age 65 for Non Public Safety OR one year after retirement whichever is later (eliminates current 7-year waiting period)
- COLA Adjustments Tied to CPI with Maximum COLA at 3% and Never a Negative COLA
- Retirees do not Shoulder the Entire Burden of Low Investment Returns because the COLA is *NOT Dependent on Excess Investment Returns*(Board has been advised that we are in a “low return environment” which is projected to continue)
- No Windfall COLA Awards which Rely on “Excess” Investment Returns that Can’t Be Guaranteed, and Could Result in Multiple Years Without a COLA **Even if Plan is Fully Funded.**

# Board Solvency Proposal - Contributions

- Contributions increase/decrease based on funding status
- Decrease as funding status improves
- Increases would not impact State Police/Adult Corrections Division members or full time employees earning a salary of \$20,000 or less

Funded Ratio (x%)	Contribution Rate Increases	
	Employer Rate	Employee Rate
$x \leq 80\%$	1.75%	1.50%
$80\% < x < 85\%$	1.50%	1.35%
$85\% \leq x < 90\%$	1.25%	1.15%
$90\% \leq x < 95\%$	1.00%	0.75%
$95\% \leq x < 100\%$	0.50%	0.50%
$x \geq 100\%$	0.00%	0.00%

# Board Solvency Proposal – Contributions & COLA

- Cost of Living Adjustment (COLA) suspended through July 1, 2022
- COLA for future retirees deferred to age 65 for general employees and age 60 for public safety employees
- Increases would not impact State Police/Adult Corrections Division members or full time employees earning a salary of \$20,000 or less
- Contributions increased 7/1/2019 – 6/30/2022 per table below

Funded Ratio (x%)	Contribution Rate Increases		Cost Of Living Adjustment %
	Employer Rate	Employee Rate	
$x \leq 80\%$	1.75%	1.50%	If CPI <2%:50% of CPI, If CPI > 2%: 75% of CPI, but NTE 1.50%
$80\% < x < 85\%$	1.50%	1.35%	If CPI <2%:75% of CPI, If CPI > 2%: 80% of CPI, but NTE 1.80%
$85\% \leq x < 90\%$	1.25%	1.15%	
$90\% \leq x < 95\%$	1.00%	0.75%	If CPI <2%:100% of CPI, If CPI > 2%: 95% of CPI, but NTE 2.50%
$95\% \leq x < 100\%$	0.50%	0.50%	
$x \geq 100\%$	0.00%	0.00%	If CPI <2%:100% of CPI, If CPI > 2%: 95% of CPI, but NTE 3.00%

# PERA Board Solvency Proposal – Future Benefit Structure

*Total Benefit = Defined Benefit + CPI Based COLA up to 3%*

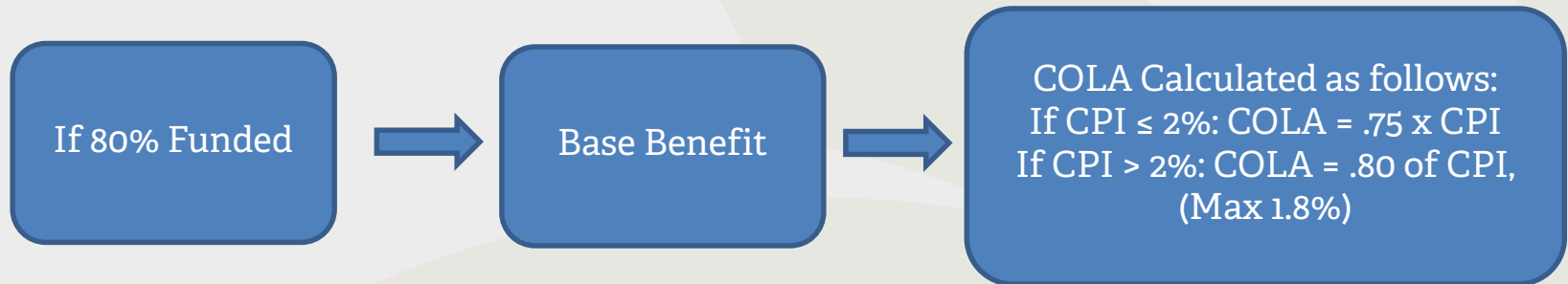
- COLA suspended for three years (2019 through 2021)
- Beginning July 1, 2022 COLA – Automatically adjusted annually using Board approved rate increases tied to CPI and based on Total PERA Funded Ratio. COLA rate applicable to ALL retirees regardless of previous plan affiliations
- Base Benefits & Spending Power Retained - No Reductions in Base Benefits; Maintain Retiree’s “spending power” by paying COLA if total PERA Fund funded ratio requirements are met, but never provide more than the actual Cost of Living increase.
- Removes Mandatory 7-year restriction - COLA Eligibility:
  - *Public Safety Member Coverage Plans: 60 years of age, or one year post retirement whichever comes later; and*
  - *Non Public Safety Member Coverage Plans: 65 years of age, or one-year post retirement whichever comes later.*
- COLA Tied to Consumer Price Index (CPI) - Same Index used by Social Security, No negative COLA and No reduction in Base Benefit.

# PERA Board Solvency Proposal – COLA Calculation

- After the three-year suspension, beginning July 1, 2022, and continuing thereafter, the COLA is calculated based upon two criteria, (1) the Consumer Price Index (CPI) and (2) the Total PERA Fund Funded Ratio as of the date of adjustment as follows:
  - **If Funded Ratio is less than 80%:**
    - If CPI is equal to or less than 2%, COLA = 50% of CPI, and
    - If CPI greater than 2%, COLA = 75% of CPI, but not to exceed 1.5
  - **If Funded Ratio is 80% or greater, but less than 90%:**
    - If CPI is equal to or less than 2%, COLA = 75% of CPI, and
    - If CPI greater than 2%, COLA = 80% of CPI, but not to exceed 1.8%
  - **If Funded Ratio is 90% or greater, but less than 95%:**
    - If CPI equal to or less than 2%, COLA = same as CPI, and
    - If CPI greater than 2%, COLA = 95% of CPI, but no more than 2.50%
  - **If Funded Ratio is 95% or greater, but less than 100%:**
    - If CPI equal to or less than 2%, COLA = 2%, and
    - if CPI greater than 2%, COLA = 95% of CPI, but not to exceed 2.5%
  - **If Funded Ratio is 100% or greater:**
    - If CPI equal to or less than 2%, COLA = 2% and
    - if CPI greater than 2%, COLA = 95% of CPI, but not to exceed 3.0%
- COLA Eligibility -Except for Disability Retirees and Retiree's whose base benefit, after all previous adjustments is less than \$20,000:
- Non-Public Safety -Age 65 years or older or one-year post retirement whichever is later.
- Public Safety –Age 60 years or older or one-year post retirement whichever is later.



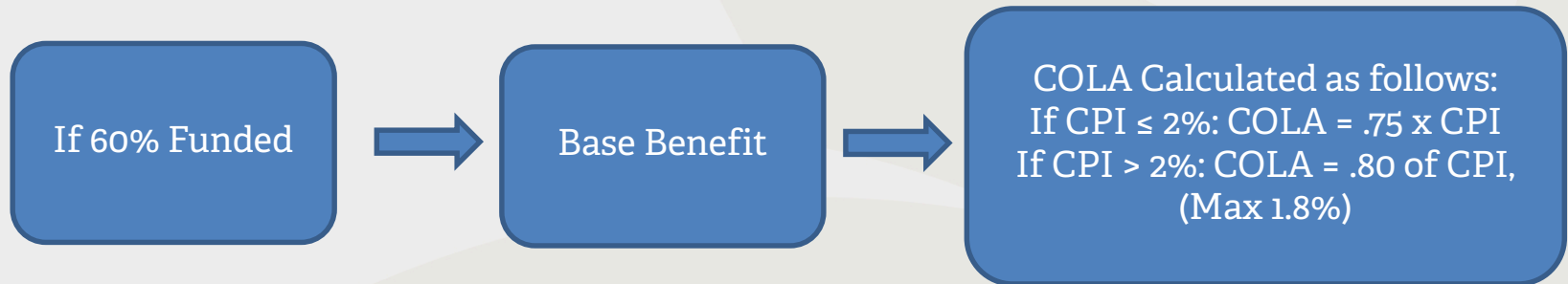
# COLA Calculation Example at 80% Funded



If 80% Funded, and CPI = 2%,  
**COLA = 1.5%\***

\*Excess earnings pay down unfunded liability

# COLA Calculation Example at 60% Funded

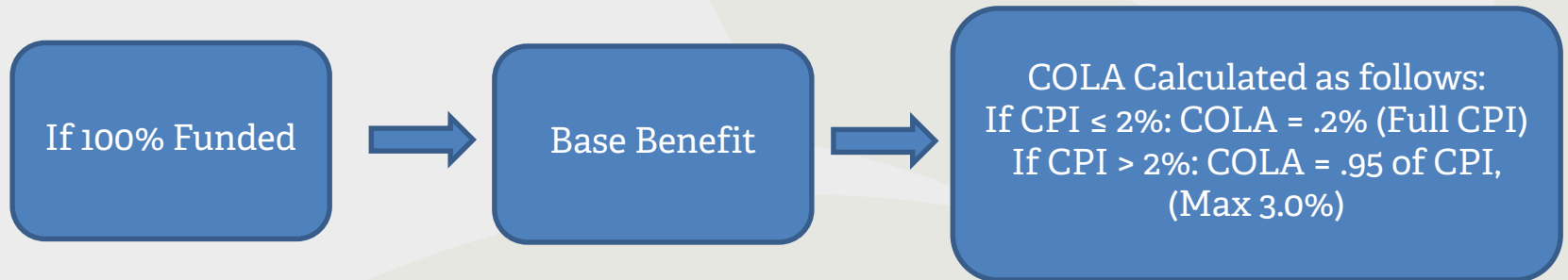


If 60% Funded, and CPI = 2%,  
**COLA = 1%\***

\*Excess earnings pay down unfunded liability

# COLA Calculation Example

## Fully Funded Status Example



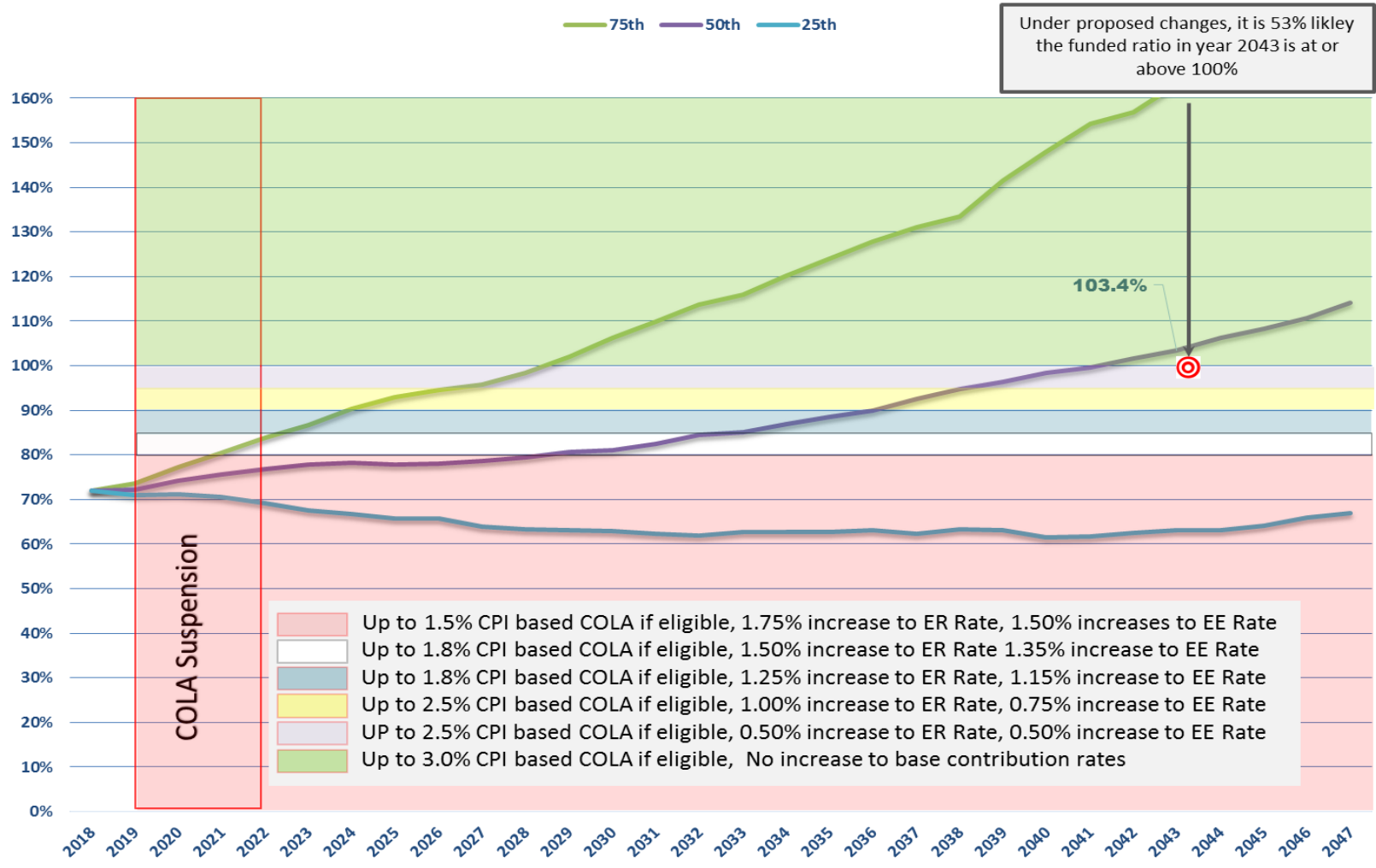
If 100% Funded, and CPI = 2%,  
**COLA = 2%**

If 100% Funded, and CPI = 4%,  
**COLA = 3%**

If 100% Funded, and CPI = 4%,  
**COLA = 3%**

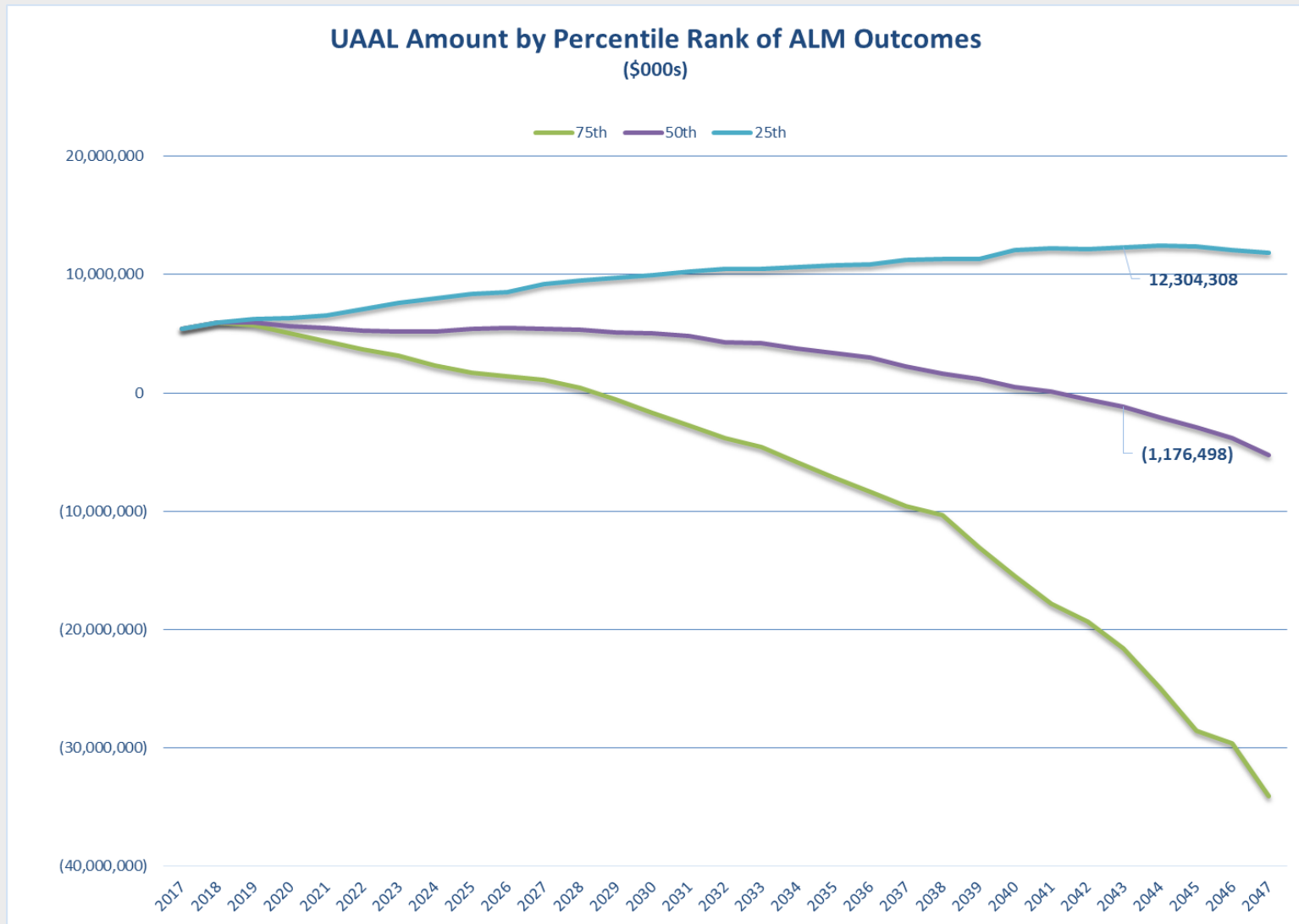
# Funding Status Improved

## Funded Ratio by Percentile Rank of ALM Outcomes



- Up to 1.5% CPI based COLA if eligible, 1.75% increase to ER Rate, 1.50% increases to EE Rate
- Up to 1.8% CPI based COLA if eligible, 1.50% increase to ER Rate 1.35% increase to EE Rate
- Up to 1.8% CPI based COLA if eligible, 1.25% increase to ER Rate, 1.15% increase to EE Rate
- Up to 2.5% CPI based COLA if eligible, 1.00% increase to ER Rate, 0.75% increase to EE Rate
- UP to 2.5% CPI based COLA if eligible, 0.50% increase to ER Rate, 0.50% increase to EE Rate
- Up to 3.0% CPI based COLA if eligible, No increase to base contribution rates

# Unfunded Liability Elimination



# Cash Flow Sustainability

Net Percent of Negative External Cash Flow by Percentile Rank of ALM Outcomes

