

# PERA's Redesigned COLA Provides Retirees Inflation Protection & Improved Sustainability



## Current PERA COLA Policy is Flawed

- ❖ A Cost-of-Living-Adjustment (COLA) is meant to protect the purchasing power of retirees' pension, but PERA's current fixed 2% compounded policy is flawed.
- ❖ Being locked to a fixed rate instead of floating with inflation, PERA's current policy effectively acts as an automatic benefit increase untethered to any actual change in consumer prices throughout the economy.
- ❖ The proposed profit-sharing COLA structure, along with other COLA changes, offers PERA a more sustainable approach and helps increase the likelihood of achieving full funding by 2043 according to the Governor's Solvency Task Force.

Cost of Living Adjustments are designed to protect retirees against inflation. When the PERA COLA is untied from inflation it serves more as an annual pay raise for retirees at the expense of active and future employees.

## A Pragmatic COLA Solution

- ❖ Transitioning to a COLA based on the performance and health of the fund as included in Senate Bill 72 is the same approach used in other pension plans able to maintain full funding despite economic volatility.
- ❖ Actuarial modeling by the Pension Integrity Project at Reason Foundation finds that:

The reformed COLA is **likely to produce annual benefit increases in the 1.2% - 2.4% range** over the 2023-49 period.

**50%** - Probability the proposed COLA would average at least 1.7% annually through 2049, consistent with the PERA actuary's 1.64% COLA projections.

**37%** - Probability that the proposed COLA would average out to 2.0% or above over the 2023-2049 period.

**Takeaway:** Senate Bill 72 aligns PERA benefit adjustments with other fully funded state pension plans and provides robust protections for retirees against inflation.

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