

## HR 136 Committee

### September 7, 2022 Meeting Handout

Within the 2021 actuarial valuation, we priced the maximum COLA payable by the Firefighters' Retirement System under the current plan statutes along with the supplemental COLA payable to those over the age of 65. Both COLAs are available only to retirees and survivors who have completed at least one year since benefit commencement.

Before we get into the discussion of potential future COLA design, consider the following statistics taken from the June 30, 2021 retirees and survivors based on the available COLAs payable as of January 1, 2022:

### STATISTICS RELATED TO CURRENT COLA RULES

**TABLE 1:**

STATUS	COUNT	COUNT retired at least 1 year on 1/1/2022	COUNT retired 1 year and at least age 65 on 1/1/2022
Regular Retirees	2,028	1,971	1,032
Disabled Retirees	140	137	52
Survivors In Payment	410	410	259
TOTAL	2,578	2,518	1,343

**TABLE 2:**

STATUS	TOTAL ANNUAL BENEFITS	TOTAL ANNUAL COLA of 3% CURRENT BENEFIT TO THOSE RETIRED 1 YEAR	TOTAL PRESENT VALUE OF COLA BENEFITS
Regular Retirees	96,146,465	2,781,745	
Disabled Retirees	3,196,671	93,791	
Survivors In Payment	8,918,957	267,569	
TOTAL	108,262,093	3,143,105	32,458,618

**TABLE 3:**

STATUS	TOTAL ANNUAL BENEFITS	TOTAL ANNUAL COLA of 2% ORIGINAL BENEFIT TO THOSE RETIRED 1 YEAR AND AGE 65	TOTAL PRESENT VALUE OF COLA BENEFITS
Regular Retirees	96,146,465	774,818	
Disabled Retirees	3,196,671	15,659	
Survivors In Payment	8,918,957	85,030	
TOTAL	108,262,093	875,507	7,781,852

### **STATISTICS RELATED TO LIMITED 3% COLA RULES**

If a less costly COLA design is necessary, we have calculated a number of potential options to demonstrate how much limiting COLAs to those in excess of a specified age and/or a minimum number of years retired would affect COLA cost. These costs are shown below. Each scenario represents a restricted definition that has a cost that is lower than the 3% of current benefit COLA payable to all retirees and survivors who have been in payment for at least one-year as of the date the COLA is paid (or \$32,458,618):

**Chart 1**

<b>COLAs limited by age at time COLA granted:</b>	<b>Lifetime COLA cost</b>	<b>Percent of Original COLA cost</b>
Cost of 3% COLA to all retired at least 1 year and at least age 60 on 1/1/22:	\$21,919,070	68%
Cost of 3% COLA to all retired at least 1 year and at least age 62 on 1/1/22:	\$18,242,213	56%
Cost of 3% COLA to all retired at least 1 year and at least age 65 on 1/1/22:	\$13,134,306	40%
Cost of 3% COLA to all retired at least 1 year and at least age 70 on 1/1/22:	\$ 7,065,823	22%

As shown in Chart 1, limiting COLAs to those at least age 60 reduces the cost of providing the 3% COLA by 32%. Extending the age limit has a material impact. Chart 2 extends the savings by adding an extra limit based on the number of years since benefit commencement. The combination of rules generally has an added impact. Of course, at the higher ages the impact of a combined rule provides little additional savings since most retirees at older ages have been retired for at least five years. (Note, the average age of regular retirees at retirement is 53).

**Chart 2**

<b>A COLA limited by age and years retired at time COLA granted:</b>	<b>Lifetime COLA cost</b>	<b>Percent of Original COLA cost</b>
Cost of 3% COLA to all retired at least 5 years and at least age 60 on 1/1/22:	\$19,313,002	60%
Cost of 3% COLA to all retired at least 5 years and at least age 62 on 1/1/22:	\$16,444,955	51%
Cost of 3% COLA to all retired at least 5 years and at least age 65 on 1/1/22:	\$12,359,473	38%
Cost of 3% COLA to all retired at least 5 years and at least age 70 on 1/1/22:	\$ 6,975,224	21%

## **STATISTICS RELATED TO A STAGED COLA FOCUSED ON THOSE RETIRED THE LONGEST**

If future COLAs are targeted to those retired for the longest period of time, the cost of a COLA can be reduced by providing a smaller percentage COLA to those retired for less time and a larger percentage to those retired for a longer time.

For instance, a 1% COLA could be targeted to those with at least 5 years, 2% to those with 10 – 15 years, and the 3% COLA could be provided to those with at least 15 years. This would significantly lower the cost (as seen in Chart 3). An even greater savings could be achieved by extending the break points past 5 years and 10 years.

### Chart 3

<b>COLA staged to provide larger COLA percent to those who have been retired longer:</b>	<b>Lifetime COLA cost</b>	<b>Percent of Original COLA cost</b>
Cost of 1% COLA to all retired between 1 year and 5 years on 1/1/22:	\$2,796,493	
Cost of 2% COLA to all retired between 5 years and 10 years on 1/1/22:	\$6,410,566	
Cost of 3% COLA to all retired at least 10 years on 1/1/22:	\$14,453,260	
<b>TOTAL</b>	<b>\$23,660,319</b>	<b>73%</b>

Later in this report (in Chart 4) we show the average benefit for retirees broken down by how long they have been retired. Consider that the average benefit payable to regular retirees who retired within the last 10 years is approximately 23% larger than the average benefit payable to regular retirees with between 10 and 20 years. By continuing to work to a later date, those retirees maintained greater parity with CPI through pay raises. Targeting larger COLAs to those retired a long time helps to offset this disparity.

### **STATISTICS RELATED TO A ONE-TIME PAYMENT**

If current employer contribution rates make it impossible to approve a permanent COLA in the coming years, a one-time payment to retirees who have been receiving benefits for at least one year could be considered.

#### **One-time payment of \$2,000 to those retired at least 1 year:**

Total Annual Current benefits payable to those retired $\geq 1$ year:	\$ 104,914,961
Total number of retirees and survivors retired $\geq 1$ year:	2,520
Cost of a 13 <sup>th</sup> Check (equal to an extra monthly benefit check):	\$8,742,924
Cost of a one-time payment of a flat \$2,000 to each retiree/survivor:	\$5,040,000

The use of a flat one-time payment provides the largest impact (as a % of total FRS benefits received) to those with the smallest benefit amounts. The 13<sup>th</sup> check form of payments is tied to benefit level, so everyone receives a one-time payment tied to their benefit level. This gives the largest lump sum payments to the retirees and survivors who are already receiving the highest benefits.

## **ATTEMPTING TO PROVIDE COLAs BASED ON THE POVERTY LEVEL**

The HHS poverty level guideline for a family a two within the United States as of 2022 is \$18,310 per year. Because most retired households do not have dependent children or parents, this level seems most appropriate for this purpose. The following chart shows average annual benefits from the June 30, 2021 valuation database broken down based on the time since benefit commencement. Those retired the longest are shown at the bottom of the chart and the newest recipients are found at the top.

### **Annual Benefits Organized by Status and Years Since Benefits Commenced**

**Chart 4**

<b>Years Since Benefits Commenced</b>	<b>Regular Retirees</b>	<b>Disabled Retirees</b>	<b>Survivors</b>	<b>Grand Total</b>
0-10	\$54,931	\$30,031	\$27,085	\$52,277
10-20	\$44,372	\$24,671	\$25,268	\$41,125
20-30	\$38,910	\$17,560	\$22,048	\$33,481
30-40	\$29,761	\$18,352	\$21,964	\$25,127
40-50	\$18,470	\$14,161	\$11,232	\$13,599
50-60	\$5,033	\$3,641	\$8,336	\$7,609
<b>Grand Total</b>	<b>\$47,409</b>	<b>\$22,833</b>	<b>\$21,754</b>	<b>\$41,995</b>

Benefit levels have increased over the years as seen in the average level of benefits organized above by years since benefits commenced. The average benefits paid to those whose benefits commenced in the most recent 10-year period exceed every prior period in all three statuses. Therefore, if the goal is to target COLAs to those most harmed by the passage of time and the effects of inflation and separately to help those with smaller annual benefits, the use of years since benefit commencement might accomplish both.

Otherwise, a COLA could be designed to provide benefits only on the first \$18,310 of annual benefits to provide the largest percentage increase to those who have

benefits below or near the poverty level. The only concern would be that this group could include individuals who did not participate in FRS for a full career. Unfortunately, the Firefighters' Retirement System computer database does not include service credit information on every retiree and survivor. A review of the data provided to the actuary for the 2021 actuarial valuation confirms that this missing data is most prevalent in records for merged retirees and survivors. A look at the entire database shows the following counts related to missing and apparently incorrect creditable service for retirees and survivors:

#### Chart 5

##### Regular Retirees:

Records with 0 service credit	69
Svc Not 0, but less than 12 years	25
Svc between 12 years and 20 years	135
Svc between 20 years and 30 years	1,066
Svc between 30 years and 40 years	712
Svc between 40 years and 50 years	18
Svc greater than 50 years	3
<b>TOTAL Regular Retirees</b>	<b>2,028</b>

##### Disability Retirees:

Records with 0 service credit	24
Svc Not 0, but less than 12 years	46
Svc between 12 and 20 years	59
Svc between 20 and 30 years	11
<b>TOTAL Disability Retirees</b>	<b>140</b>

##### Survivors:

Records with 0 service credit	122
Svc Not 0, but less than 12 years	48
Svc Not between 12 and 20 years	41
Svc Not between 20 and 30 years	121
Svc Not between 30 and 40 years	76
Svc greater than 40 years	2
<b>TOTAL Survivors</b>	<b>410</b>

If COLAs are directed only to those below the poverty level, we find the following count of individuals that would qualify:

Of 2,028 regular retirees, 77 have annual benefits below \$18,310.

Of 140 disabled retirees, 51 have annual benefits below \$18,310.

Of 410 survivors in payment, 199 have annual benefits below \$18,310. Of these 199 survivors with annual benefits below the poverty level, 180 appear to be merged individuals.

A look at service credit and annual benefit amounts by percentile help to understand how many retired records would be affected by limiting COLAs to a maximum level of benefit. The state retirement systems set their base COLA rules on the first \$60,000 in benefits (adjusted for inflation). The Sheriffs' Pension & Relief Fund sets their COLA to apply up to 2× the average retiree benefit amount. Both of these rules limit the cost of providing a COLA.

As shown below, only 10% of retirees and survivors have an annual benefit below \$16,111. 50% of retirees and survivors have benefits below \$39,652. The largest annual benefit is \$140,340. Years in payment percentiles and benefit percentiles are independent.

**Chart 6**

	Years in Payment Percentiles	Annual Benefit Percentiles
10%	2.50	\$ 16,111
20%	4.90	\$ 24,061
30%	7.50	\$ 29,855
40%	9.80	\$ 34,817
50%	12.85	\$ 39,652
60%	15.82	\$ 45,493
70%	19.70	\$ 51,101
80%	23.60	\$ 58,339
90%	31.43	\$ 69,515
100%	58.50	\$ 140,340
Minimum Annual Benefit		\$ 1,638
Maximum Annual Benefit		\$ 140,340

Considering all of the COLA possibilities listed above and the discussions that the Board of Trustees has had in recent years about current employer contribution rates, it may be necessary to build a long-term plan for COLAs with some thought toward less expensive options in the near future prior to the payoff of the frozen UAL. A look at the Fiscal 2021 actuarial valuation finds a scheduled UAL amortization payment of \$58,225,648 as of July 1, 2021 for the cumulative non-merger base created in the system's 2019 legislation. When this is adjusted with interest and divided by the projected payroll of \$257,398,495, we find that the cost of funding this single UAL base is currently 23.39% of payroll. Within the Fiscal 2021 valuation, this base shows 13 remaining payments. Now that another year has elapsed, this base has 12 remaining payments. The ability to fund COLAs after the completion of scheduled payments for this largest UAL base will likely be more achievable.

**One potential approach is to pass a statutory change that contains both a long-term plan for COLA funding and a limited approach to near-term COLA assistance.**

The Firefighters' Retirement System could seek an author for legislation that would build a COLA prefunding account for the express purpose of setting aside additional funding to provide future COLAs to retirees. The purpose of the prefunding account would be to segregate funds set aside for future COLAs from the assets used in determining the employer contribution rate. Certain guardrails could be built into the legislation to protect employers from required funding at times where employer contribution rates are excessive.

The following is a description of one such potential plan (based on a possible effective date of July 1, 2023):

There is hereby established a COLA prefunding account, hereafter in this Section referred to as the "account". The account shall be credited and charged solely as provided in this Section.

The balance in the account shall be set equal to zero as of July 1, 2023.

The rate determined under R.S. 11:103 shall represent the minimum employer contribution rate certified within the actuarial valuation accepted by the Public Retirement Systems' Actuarial Committee.

The funds in the account shall earn interest annually at the board approved valuation interest rate, and the interest shall be credited to the account once a year.

Notwithstanding any provision of R.S. 11:103 or 104 to the contrary, for fiscal years beginning on or after July 1, 2024, the board of trustees may require a net direct employer contribution rate of up to the following applicable limit:

For a year in which the employer contribution rate determined under R.S. 11:103 is greater than or equal to 35%, the rate determined under R.S. 11:103.

For a year in which the employer contribution rate determined under R.S. 11:103 is less than 35%, the rate determined under R.S. 11:103 plus an additional amount not to exceed the lesser of 2% or the difference between the rate determined under R.S. 11:103 and 35%.

For any fiscal year in which the board of trustees sets the direct employer contribution rate higher than the rate determined under R.S. 11:103, excess contributions resulting from the higher rate applied to the system's projected payroll for that year shall be deposited into the COLA prefunding account to be used solely to pay additional benefits to retirees, survivors, and beneficiaries.

Beginning with the June 30, 2025, valuation, the board of trustees may, in any fiscal year, direct that the account be charged to provide additional benefits or one-time payment to retirees, survivors, and beneficiaries as provided in this Section.

The monies in the account shall be excluded from system assets for purposes of calculating the employer contribution rate under R.S. 11:103.

Funding for additional benefits for retirees, survivors, and beneficiaries shall be provided only from the COLA prefunding account and only when sufficient funds are available as determined by the actuary to fully fund the present value of any additional benefits. (May require a notwithstanding clause or repeal of other COLA provisions applicable to FRS)

Any additional benefits shall be payable only upon the determination of the board of trustees, in consultation with the system's actuary, that the funds in the account are sufficient to fully fund the present value of the additional benefits. Within the

actuarial valuation immediately following the Board's decision to fund additional benefit payments, the system's actuary shall recognize a reduction in the outstanding balance of the COLA Prefunding Account equal to the present value of future additional benefits.

The additional benefits shall be payable only as determined by the board of trustees. No additional benefits shall be payable to a regular retiree or disabled retiree unless their benefits commenced at least one year prior to the effective date of the additional benefits. No additional benefits shall be payable to a survivor or designated beneficiary unless benefits to the member and/or survivor or beneficiary commenced at least one year prior to the effective date of the additional benefits.

The board may authorize additional benefits in any one of the following forms:

1. The Board may authorize a nonrecurring lump-sum payment based on a percentage of the annual benefit in payment for each qualifying benefit recipient not to exceed one-twelfth of that recipient's annual benefit in payment at the time of the lump-sum payment. [13<sup>th</sup> check]
2. The Board may authorize a nonrecurring lump-sum payment based on a level dollar amount available to each qualifying benefit recipient.
3. The Board may authorize a nonrecurring lump-sum payment based on a set number of dollars multiplied by the number of years since each qualifying benefit recipient's benefit commencement date.
4. The Board may authorize a lifetime additional benefit based on each qualifying benefit recipients' benefit amount, with the flexibility of restricting the amount of the additional benefit and/or the rules defining a qualified benefit recipient as follows:
  - a. The maximum percentage applied to any qualifying benefit recipients' benefit is three percent, but the additional benefit may be defined based upon a single percentage applied to each qualifying recipient or a set of percentages applying to specified subsets of qualifying recipients.
  - b. The Board may set a maximum benefit level or maximum benefit levels applicable to calculate the additional benefit.
  - c. The Board may base the computation of additional benefits on the original or current benefit amount.

The Board shall define the qualified benefit recipient prior to the approval of any nonrecurring lump sum payment or additional lifetime benefit. The qualified benefit recipient may be restricted by the Board of Trustees to target COLAs to certain subgroups as follows:

- a. The Board may set minimum ages to qualify for additional benefits.
- b. The Board may specify a set of minimum numbers of years since benefit commencement to qualify for different levels of additional benefit.
- c. The Board may combine age and years since benefit commencement.
- d. The Board may specify different rules for different statuses of retirees.

The legislation could include a limitation on frequency of nonrecurring lump-sum payments. Senator Peacock added a once in every three years limitation to the MPERS legislation.

Please note that the language above is intended to allow a number of potential forms of COLA:

1. 13<sup>th</sup> check
2. Regressive level dollar one-time payment
3. One-time payment based on years since benefit commencement – (Example: \$100 times years since benefit commencement. Would provide a retiree of 5 years a \$500 payment and a retiree whose benefits commenced 25 years ago a \$2,500 payment.)
4. A lifetime additional benefit where the Board can specify a number of rules limiting who receives the benefit and the size of the additional benefit

Examples would include:

1. 3% of current benefit to each retiree and survivor whose benefits commenced at least one year prior. (Could base this on original benefit level)
2. 3% of current benefit to each retiree and survivor whose benefits commenced at least five years prior. (Could base this on original benefit level)
3. 3% of current benefit to each retiree and survivor who have reached age 65 and whose benefits commenced at least five years prior. (Could base this on original benefit level)

4. 3% of current benefit up to \$40,000 per year to each retiree and survivor who have reached age 65 and whose benefits commenced at least five years prior. (Could base this on original benefit level)
5. 3% of current benefit to each retiree and survivor whose benefits commenced at least ten years prior; 2% of current benefit to each retiree and survivor whose benefits commenced at least five years prior; 1% of current benefit to each retiree and survivor whose benefits commenced at least one year prior. (Could base this on original benefit level)
6. 3% of current benefit to each retiree and survivor whose benefits commenced at least ten years prior who has attained at least age 67; 2% of current benefit to each retiree and survivor whose benefits commenced at least five years prior who has attained at least age 62; 1% of current benefit to each retiree and survivor whose benefits commenced at least one year prior who has attained at least age 57. (Could base this on original benefit level)