PUBLIC EMPLOYEES
RETIREMENT ASSOCIATION

Date: February 13, 2025
To: PERA Board of Trustees
From: Doug Anderson, Executive Director
Amy Strenge, Policy Coordinator
Subject: 2025 PERA Legislative Agenda – PERA General Plan Initiative

During the October 10, 2024, board meeting, the board directed staff to engage with PERA General Plan stakeholders regarding the postretirement increase. The purpose of these conversations is to identify an agreed upon plan to improve postretirement inflation protection for all vested members.

The current postretirement benefit is fifty percent of CPI with a 1 percent minimum and a 1.5 percent maximum. Any change to the postretirement increase formula will impact over 120,000 current retirees and over 230,000 future retirees (160,000 actives and 70,000 vested deferred members).

The current funding status of the General Plan is 89.1 percent with a 2.8 percent funding sufficiency. The Plan is anticipated with all assumptions met to reach full funding in 2034. At which point, the employer's additional 1 percent contribution ends.

As discussed, inflation protection is a priority for all PERA's Plans. The PERA General Plan is in an unique position to address this issue while retaining progress to full funding.

**Staff Proposal**

Staff have reviewed the following proposal with stakeholders.

1) Postretirement increase adjustment formula is modified to 100 percent of CPI with a 1 percent minimum and a 1.75 percent maximum.

2) The additional one percent employer contribution requirement is changed from stopping when the plan reaches 100 percent funding to when the plan reaches 98 percent funding using the actuarial valuation of assets.

3) Addition of a sustainability provision that adds a requirement if the funding status declines to 85% for two consecutive years or 80% for one year on a market value of assets basis, the maximum increase will be lowered to 1.5% (100% CPI would not change). If the maximum increase is 1.5%, and the Plan's funding ratio improves to 85% for two consecutive years on a market value of asset basis, then the maximum increase will revert to 1.75%. [Similar to Correctional Plan provision].

4) The effective date would be January 1, 2026.

## Rationale

The Board has prioritized improving postretirement inflation protection for all members when it is affordable to do so. The proposal does not prevent continued progress towards the full funding goal. The proposal reverses some of the impact of changes made to postretirement benefits 10 to 15 years ago. The proposal does not extend the employers additional 1% commitment. The proposal adds a sustainability protection provision in case of a sudden and significant decline in funding status. The sustainability provision restores the higher cap when the plan rebounds.

## Member Impact

If this proposal had applied from 2018 (the effective date of the current formula) through 2025, the annual increase would have been larger each year by at least 0.25% and up to 0.75%. Collectively the increase would have resulted in a benefit that is 3.3% higher than today's benefit. A $3,000 monthly benefit would be $3,099.

## Cost

The cost of the change to the postretirement increase adjustment formula has a present value of $878M. This translates to annual contribution change of 0.76 percent of payroll, which is equal to $64M a year until 2048. The annual amount increases 3 percent a year.

The Plan would absorb the cost to increase the postretirement adjustment. This means there will be no member or employer contribution increase or request for legislative funding.

Upon being effective, the funding ratio will decrease by 2.0 percent (from 89.1 percent to 87.1 percent using current results). The funding sufficiency will decrease by 0.8 percent from 2.8% to 2.0%. The projected full funding date will change from 2034 to 2036.

## Stakeholder Input

PERA staff have engaged with member groups including ASFCME, SEIU, and MMRA. Staff have also engaged with employer groups including AMC, MICA, and LMC.

Staff will continue conversations with stakeholders and will bring a recommendation to the Board at the March board meeting.

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Re: Post-Retirement Benefit COLA Increase Proposal

Dear Mr. Anderson and PERA Trustees:

We appreciate the recent opportunity to meet with you and your staff to discuss the issues of benefit improvements for both active and retiree members of PERA.

Defined-benefit pensions, paid for through deferred compensation, are the cornerstone of public employees being able to live a fulfilling and dignified life after a career in public service. Additionally, our pensions are a major incentive to recruit and retain employees to deliver what are often thankless, yet critical public services. To meet these ends, the long-term stability of our defined-benefit pensions is vital.

In recent years, higher than normal rates of inflation have ravaged the purchasing power of retirees' pension benefits. Annual retiree COLA increases, currently only 50% of inflation and capped at only 1.5%, do not provide adequate protection against the effects of inflation. We support the proposal to change the post-retirement benefit increase formula to 100% of CPI and increase the cap to 1.75%. While seemingly modest, these benefit increases are both meaningful and responsible over the long term.

Additionally, we urge you to examine and propose ways to increase benefits for active members. While the proposed formula change to the post-retirement benefit is a theoretical benefit increase for active members, as every active member will someday become a retiree, there is no guarantee that active members will realize this benefit increase as it can be changed by subsequent legislation. Active public employees currently contributing to the PERA General plan are subsidizing the unfunded liability which they had no part in creating. This should be addressed as soon as practically possible.

Again, we thank you for meeting with us and for the prudent approach you have taken in managing a critical benefit for public employees.

In Solidarity,

Bart Andersen
Executive Director