DISCUSSION CALENDAR – AGENDA ITEM NO. 14
BOARD OF DIRECTORS MEETING
September 26, 2013

TO: Board of Directors, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **2013 Long Term Liability Study**

Summary:
This agenda item is submitted to provide information on the Orange County Fire Authority's (OCFA) total long term liabilities.

Committee Action:
At its September 11, 2013, meeting, the Budget and Finance Committee reviewed and unanimously recommended approval of this item.

Recommended Actions:
1. Direct staff to transmit a copy of the report to the County Board of Supervisors and the OCERS Board of Retirement, for its consideration of potential cost-containment actions relating to Pension Cost of Living Adjustments (COLAs) under the authority granted by the '37 Act.
2. Direct staff to pursue a special actuarial study relating to the OCFA's Retiree Medical Defined Benefit Plan to evaluate options for potential plan amendments which could improve plan funding, subject to future negotiation with OCFA's labor groups.
3. Direct staff to evaluate the financial feasibility of paying off the outstanding lease financing obligations associated with the OCFA's helicopters, as part of the 2014/15 budget development process.
4. Direct staff to evaluate options for mitigating the budget and liability impacts of payouts for accumulated sick and vacation balances, subject to future negotiation with OCFA's labor groups.
5. Receive and file the report.

Background:
In order to determine an agency's financial stability, one must look at all of its long term obligations or liabilities, not just pensions. The attached Liability Study (Attachment 1) examines all of OCFA's long-term liabilities including:

1. Defined Benefit Pension Plan
2. Defined Benefit Retiree Medical Plan
3. Lease Purchase Agreements (helicopters)
4. Workers Compensation Claims
5. Accrued Compensated Absences (accumulated sick and vacation payouts)

In addition to this agenda item summarizing existing long term liabilities, staff has submitted a separate agenda item focused on expedited payment of OCFA's unfunded pension liability with OCERS.

Although the OCFA has already taken steps to reduce some of its long-term liabilities, it must continue to find additional ways to mitigate the impacts, fund the accrued liabilities, and ensure the long term viability of the organization.

Impact to Cities/County:
Strategic planning to reduce liabilities where possible, and provide early funding for those liabilities which cannot be reduced, will assist OCFA in sustaining frontline emergency services for our member agencies and the citizens we serve.

Fiscal Impact:
See attached report.

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Attachment:
2013 Long Term Liability Study

ORANGE COUNTY FIRE AUTHORITY

2013
LIABILITY STUDY

THE OCFA'S LONG TERM LIABILITES

SEPTEMBER 2013

THE OCFA'S LONG TERM LIABILITY STUDY

I. OBJECTIVE

One of the key components of fiscal responsibility is prudent management of long-term liabilities. The objective of this study is to provide an accurate assessment of the OCFA's ***total*** long-term obligations.

II. BACKGROUND

OCFA's long term liabilities include:

1. Defined Benefit Pension Plan
2. Defined Benefit Retiree Medical Plan
3. Lease Purchase Agreements (helicopters)
4. Workers Compensation Claims
5. Accrued Compensated Absences (accumulated sick and vacation payouts)

OCFA's biggest long-term challenges are pensions, retiree medical for current and retired employees, and workers' compensation claims. These costs are expected to increase dramatically over the coming decades due to population aging and increases in healthcare costs. Both the Defined Benefit Pension Plan and the Defined Benefit Retiree Medical Plan are currently underfunded.

DEFINED BENEFIT PENSION PLAN

In a *defined benefit plan*, employees are promised *specific benefits* upon retirement. For example, a pension plan may promise employees that they will receive an annual retirement income determined in accordance with an agreed-upon formula (e.g., predetermined percentage of annual earnings x number of years of service).

The OCFA participates in the Orange County Employees' Retirement System (OCERS), a cost sharing multiple-employer, defined benefit pension plan. All OCFA regular, full-time and part-time employees become members of OCERS upon employment, and the OCFA makes periodic contributions to OCERS as part of the funding process. The contributions submitted to OCERS are divided into employer and employee contributions. The combination of these contributions and investment income from OCERS' investments are structured to fund the employees' retirement benefits by the time the employees retire.

The OCFA contributes to two employee categories identified as Safety members and General members.

<u>Safety Members' Retirement</u>

In October 2002, Safety members received the enhanced benefit formula of 3% @ 50. Initially, Safety members contributed 2% in 2002 and 4% starting in 2003. After October 2004, the contribution ended. Based on 2010 negotiations, Firefighter Safety employees hired prior to January 1, 2011, started a phased-in contribution in October 2010 of 2.5%, going up to 5% in 2011, 7.0% in 2012 and 9.0% in 2013. Chief Officer Safety members have a slightly different phase-in: 2.75% in 2011, 5.5% in 2012, 8.25% in 2013 and 9.0% in 2014. Employees hired after January 1, 2011, contribute 9.0% upon commencement of employment. Employees hired after July 1, 2012, contribute 9% upon commencement of employment and will be included in a lower tier plan with a benefit formula of 3% @ 55 if they have reciprocity. Without reciprocity, new employees will be included in the new tier plan required under the Public Employee Pension Reform Act (PEPRA), with a 2.7% @ 55 benefit formula contributing 9% of compensation earnable through June 30, 2014; thereafter, new employees' contributions will change to 50% of normal costs.

Effective January 1, 2018, employees hired prior to implementation of PEPRA will be required to begin contributing increased amounts for their employee share, until they reach the 50% of normal cost threshold. Under PEPRA, the annual increases for current Safety members cannot exceed 33% of their prior contribution rate (i.e., a firefighter contributing 9% prior to 2018 could not be required to contribute more than 11.97% in 2018 [9% * 1.33% = 11.97%]).

<u>General Members' Retirement</u>

In July 2004, an enhanced retirement benefit of 2.7% @ 55 went into effect for General members, with employees contributing 6.0% since inception. Effective January 2011, members of the Orange County Employees' Association (OCEA) agreed to phased-in increases to their contribution rate to 7.25% in January 2011, 8.50% in July 2011 and 9.0% in February 2012. Employees hired after July 1, 2011, contribute 9.0% upon commencement of employment, and will be included in a lower tier plan with a benefit formula of 2% @ 55 if they have reciprocity. Without reciprocity, new employees will be included in the new tier plan required under PEPRA, with a 2.5% @ 67 benefit formula contributing 9% of compensation earnable through December 18, 2014; thereafter, new employees' contributions will change to 50% of normal costs.

Effective January 1, 2018, employees hired prior to implementation of PEPRA will be required to begin contributing increased amounts for their employee share, until they reach the 50% of normal cost threshold. Under PEPRA, the annual increases for current General members cannot exceed 14% of their prior contribution rate (i.e., an employee contributing 9% prior to 2018 could not be required to contribute more than 10.26% in 2018 [9% * 1.14% = 10.26%]).

Retirement costs represent approximately $62.5 million or 22% of the Authority's FY 2013/14 General Fund budget. Each year, the Authority receives its retirement rates from OCERS. The total retirement rate has two components: the Normal Cost Component plus the current year's cost for the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost Component is the cost to pay for the current year's value of retirement benefits as earned. The UAAL Component is the accrued liability for past services which were not funded by prior contributions and investments.

Technically speaking, the UAAL is determined by the actuary and is the difference between the present value of accrued liabilities and the value of assets as of a specific date. This amount changes over time as a result of changes in accrued benefits, pay levels, rates of return on investments, changes in actuarial assumptions, and changes in the demographics of the employee base. As of December 31, 2012, OCERS is 62.52% funded with a UAAL of $5.6 billion. OCFA's portion of the UAAL is approximately 8.0%. The current equivalent single amortization period for OCFA's UAAL as calculated in the December 31, 2012 valuation is between 19 and 20 years for both General and Safety.

Based on the December 31, 2012 valuation by OCERS, the Authority's total UAAL was $473.7 million with $400.9 million or 85.0% attributed to Safety members and $72.8 million or 15.0% attributed to General members. The Safety member plans are currently 66.24% funded, and the General member plans are 56% funded. The OCFA reduces its UAAL over time as part of the annual required pension contribution to OCERS as shown below:

General (2.7% @ 55, 2.0% @ 55, and 2.5% @ 67 CalPEPRA combined)

Employer Rate	2012 Valuation	2011 Valuation
Normal Cost	13.93%	12.33%
UAAL	24.76%	20.43%
Total	38.69%*	32.76%

Safety (3.0% at 50, 3% @ 55 combined and 2.7% @ 57 CalPEPRA combined)

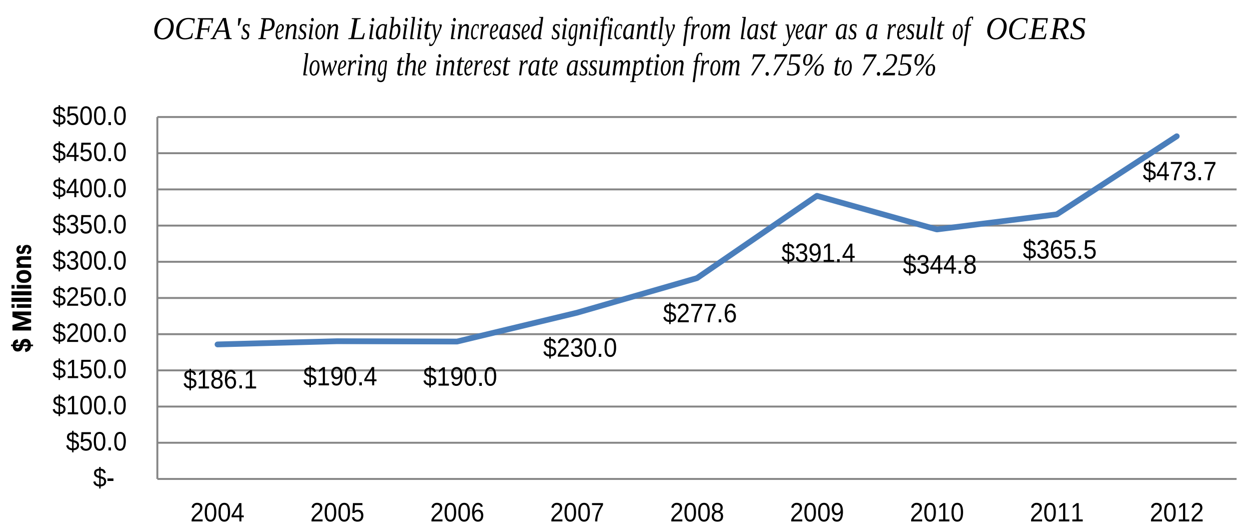
Employer Rate	2012 Valuation	2011 Valuation
Normal Cost	26.16%	23.49%
UAAL	26.84%	19.66%
Total	53.00%*	43.15%

*Note: Totals do not include the *Employee Rates*, which vary from employee to employee based on age of entry. *Employee Rates* range from 7.75%-14.81% for General members and 12.10%-19.32% for Safety members.

For fiscal perspective, each 1% increment in retirement contributions for General members equates to an annual budgetary cost of $209,553. Each 1% increment for Safety members equates to an annual cost of $1,117,561.

The UAAL for OCFA

General and Safety Plans Combined



Two events have the greatest impact on plan funding: (1) plan changes, namely benefit formula changes and (2) differing actual experience requiring a modification in assumptions to reflect reality such as life expectancy. Other assumptions that impact the funding and UAAL include:

1. The assumed rate of return
2. The rate of increase in salaries
3. Member mortality
4. The age at which members choose to retire
5. How many members become disabled
6. How many members terminate their service earlier than anticipated

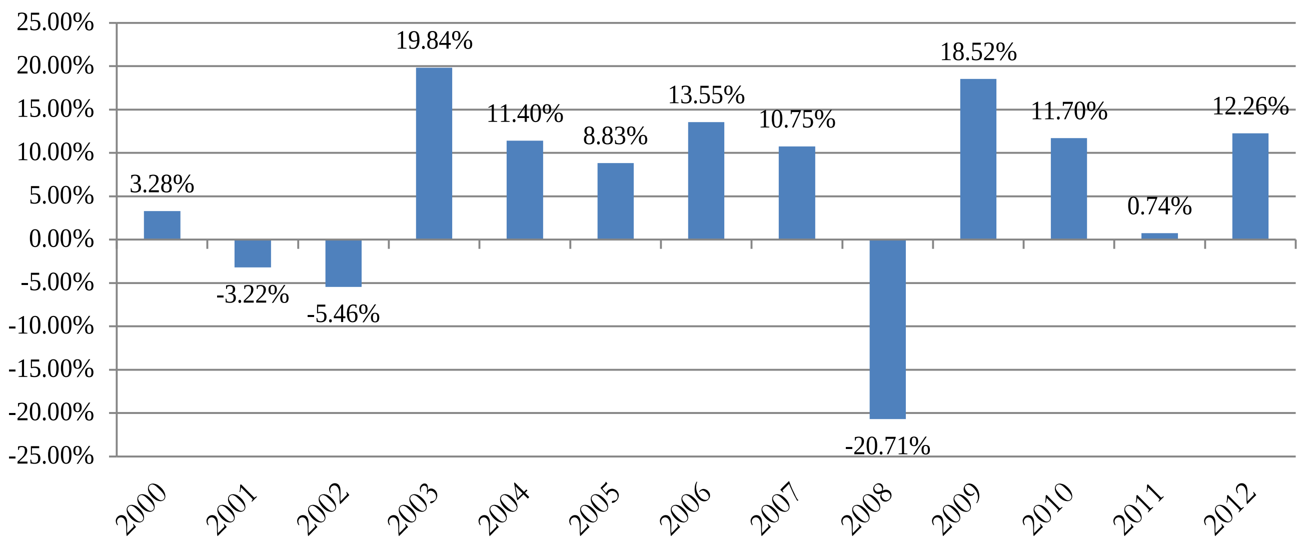
The assumed rate of return, also known as the discount rate, is a critical issue impacting OCFA's UAAL. The higher the discount rate, the lower the present value of pension assets needed to meet future pension obligations. A lower discount rate increases the current unfunded pension liabilities. This past year, the OCERS Board voted to lower the interest rate assumption from 7.75% to 7.25% which increased OCFA's annual retirement costs by $7.5 million. This increase is being phased in over a two-year period starting in FY 2014/15.

The following chart shows a history of OCERS' investment performance. The timeframe selected is slightly longer than the 10-year timeframe used in OCERS' Annual Report in order to capture a full range of various returns and also capture the most current year available. Although there have been years in which OCERS exceeded its assumed rate of return, the years in which OCERS incurred significant losses, such as the 21% loss in 2008, have a dramatic negative impact. OCERS' average return for the 13 years reflected below is 6.26%, which is below OCERS' assumed rate of return of 7.25%. When OCERS' actual return falls below its assumed rate of return, OCFA incurs higher retirement rates/costs.

OCERS' History of Performance

(Based on Fair Value)

The average rate of return over the last 13 years is 6.26%



OCERS' investment return also impacts the funding level of the entire system, as demonstrated in the following chart. After the 21% loss in 2008, OCERS UAAL increased and its funding level began to drop.

OCERS' Schedule of Funding Progress

(Dollars in Thousands)

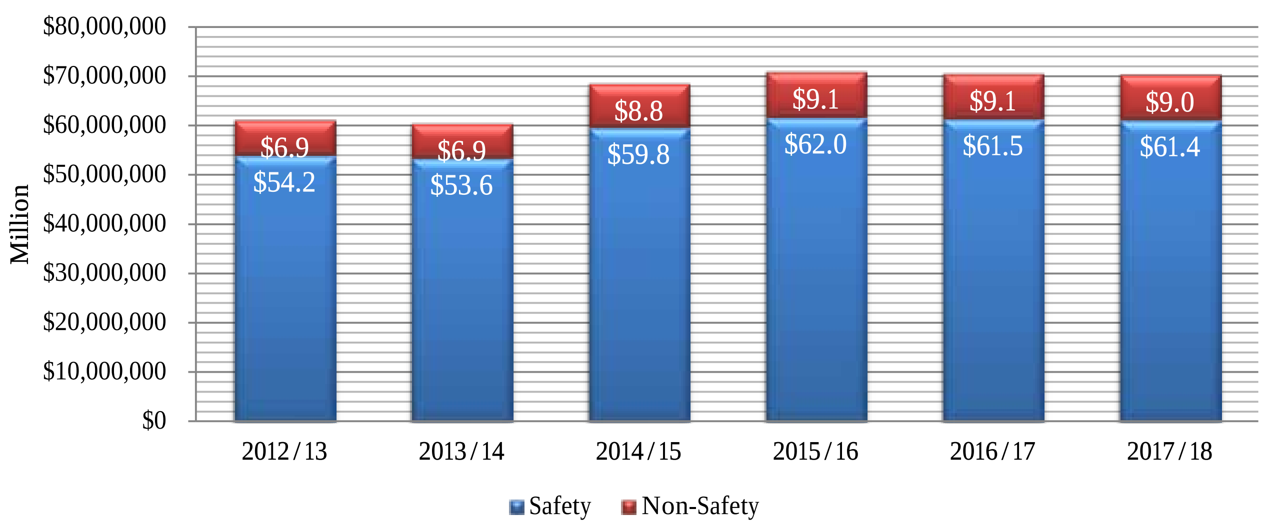
OCERS' funding level has declined recently

Actuarial Valuation Date December 31	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total Unfunded Actuarial Accrued Liability (UAAL) (b-a=c)	Funded Ratio (a/b)
2004	$5,245,821	$7,403,972	$2,158,151	70.85%
2005	5,786,617	8,089,627	2,303,010	71.53%
2006	6,466,085	8,765,045	2,298,960	73.77%
2007	7,288,900	9,838,686	2,549,786	74.08%
2008	7,748,380	10,860,715	3,112,335	71.34%
2009	8,154,687	11,858,578	3,703,891	68.77%
2010	8,672,592	12,425,873	3,753,281	69.79%
2011	9,064,355	13,522,978	4,458,623	67.03%
2012	9,469,208	15,144,888	5,675,680	62.52%

The chart below assumes OCERS will earn its assumed rate of return of 7.25% in future years.

OCFA's Projected Retirement Costs

Retirement rates appear stable, assuming OCERS earns 7.25%



Note: Retirement costs are net of employee contributions, recently implemented new tiers, and include savings from OCERS prepayment of 50% each year.

The analysis of long-term obligations, including pensions, is an important part of credit rating agencies' review of local governments. A number of these agencies have been downgraded due in part to pension funding issues.

OCFA has taken steps to increase employee contributions and reduce benefits by establishing new tiers, with the long-term goal to ensure adequate pension funding. However, other factors (such as OCERS' investment performance) are beyond the OCFA's control, yet these factors have a significant impact on determining retirement rates, and ensuring adequate funding.

To proactively address the OCFA's unfunded pension liability, staff has prepared a separate report for the Board of Directors outlining strategies for expediting payment of the OCFA's UAAL. In addition, staff has researched other options to assist in holding future pension cost increases down, such as potential actions relating to the Cost of Living Adjustments (COLAs) that retirees receive annually with their pensions. Exhibit A is a Briefing Paper describing background information on the pension COLA, how the COLA adjustment is determined each year, and provides a suggested option for transmittal to the County Board of Supervisors and OCERS Board of Retirement, for their consideration of potential cost-containment actions relating to Pension COLAs under the authority granted by the '37 Act.

NEW ACCOUNTING RULES

Currently, many governments disclose pension information in the footnotes of their financial statements and generally only report the contributions they are required to make in a given year, as well as what they actually paid. On June 25, 2012 the Government Accounting Standards Board (GASB) approved new standards that will affect how local governments report their obligation for pension benefits. Previously, no liability was recognized for a local government's obligation for pensions earned by employees as long as the local government paid the actuarially determined annual required contribution (ARC) for funding. Under GASB Statement 68, *Accounting and Financial Reporting for Pensions*, beginning with fiscal years ending June 30, 2014, most governments will begin reporting a liability in their financial statements for the unfunded portion of their retirement plans. Recognition in the financial statements alongside other liabilities such as outstanding bonds, claims and judgments, and long-term leases, will put the pension liability on an equal footing with other long-term obligations.

GASB also changed the formula states and local governments use to convert projected pension benefit payments into present value, based on an assumed "discount rate". The rate used will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments, as long as the plan's net position is projected to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve the return; or (b) a yield or index rate on tax-exempt 20-year, AA-or-higher rated municipal bonds to the extent that the conditions for use of the long term expected rate of return are not met. If the projected benefit payments are discounted using the lower rate, then the present value will be higher and the liability will be larger.

In addition to the OCFA's retirement plan administered by OCERS, the OCFA provides a post-employment medical retirement plan (Retiree Medical Plan) for certain employees. Employees hired prior to January 1, 2007 are in a *defined benefit plan* that provides a monthly grant toward the cost of retirees' health insurance coverage based on years of service. The Plan's assets are held in an irrevocable trust for the exclusive benefit of Plan participants and are invested by OCERS. As such, if OCERS does not earn its assumed rate of return of 7.25%, the UAAL increases. Current active employees hired prior to January 1, 2007, are required to contribute 4% of their gross pay toward the Retiree Medical Plan.

Based on an actuarial study prepared by Nyhart Epler as of July 1, 2012, the OCFA's Unfunded Actuarial Accrued Liability (UAAL) for the Retiree Medical defined benefit plan is $127.7 million, or $101.9 million excluding the implicit subsidy. The UAAL is impacted by future retirees, spouses of retirees, a 5% annual increase in the medical grant, the investment return of the trust and an implied subsidy.

What is the implicit subsidy?

The Government Accounting Standards Board (GASB), through Statement No. 45 requires public entities to reflect their liability for Other Post-Employment Benefits (OPEB), including benefits to retirees, in their annual financial statements.

When both active employees and retirees pay the same premiums, a hidden/"implicit" subsidy exists for retirees, because health care costs are typically higher for retirees than active employees. GASB requires that "implicit" subsidy to be included in the liability calculation even if the retiree participants pay for 100% of the premium.

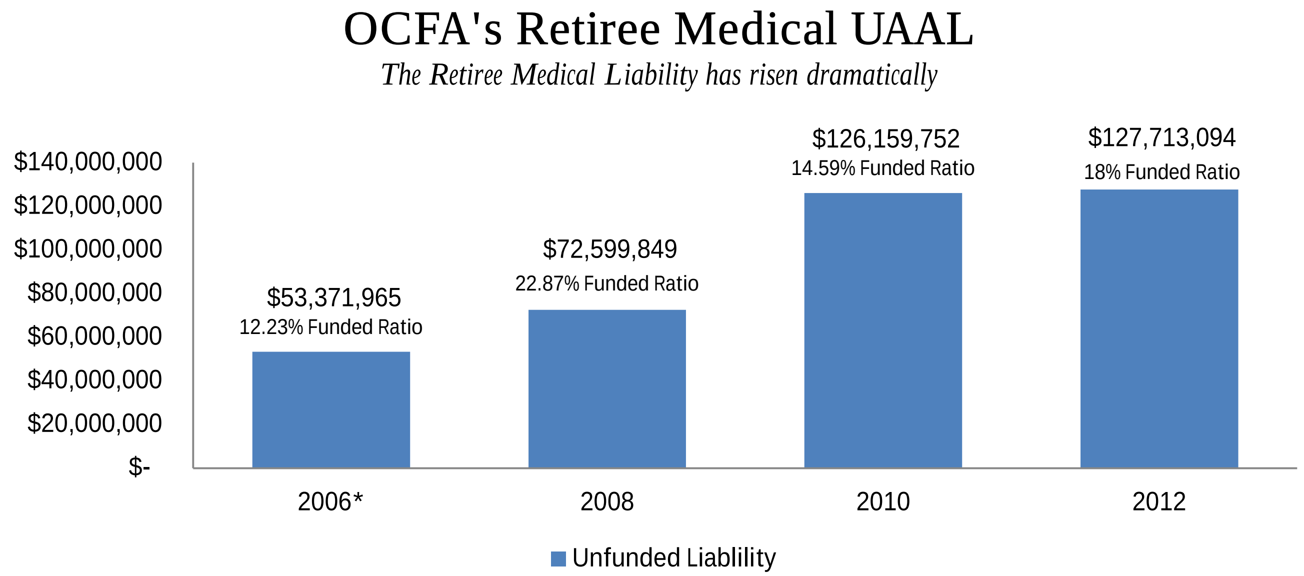
GASB's reasoning for requiring that the implicit rate subsidy be included in the calculation of OPEB liability is based on the following rationale:

1. The cost of health care increases with increasing age
2. In general, the cost of health care is higher for retirees than for active employees of the same age (retirees have more time to take advantage of health care)
3. If retirees pay the same premium as active employees, there is an implicit employer subsidy due to the blending of the claims experience

For example: assume the average cost of benefits is $100 for the total active and retired population. Currently, the employer requires the retirees to contribute the full cost of the plan or $100. After analyzing the claims experience, it is discovered that the retiree population's average cost is $175. The difference between the retiree's average cost and the combined population average cost, $75, is the employer's implicit rate subsidy.

How does this impact OCFA?

In the case of the OCFA's Retiree Medical Plan, we have both the "explicit'' subsidy portion (the retiree medical grant) for all retirees and the "implicit" subsidy portion for the Safety retirees since our firefighter group has the same pool and rate structure for both active and retired Safety employee's. (Because our General Non-Safety retirees are enrolled through CalPERS, a PEMHCA (Public Employees Medical and Hospital Care Act) community, no "implicit" subsidy calculation is required for this group of retirees.) Based on the 2012 valuation, 20% or $25.8 million of the total OPEB liability is due to the implicit subsidy for Safety members. The implicit subsidy was $21.8 million in 2010 and $14 million in 2008. In 2006, the implicit subsidy was not calculated.



*Did not include implicit subsidy.

The benefit provided under the OCFA's Retiree Medical Plan is a negotiated benefit included in the various Memorandums of Understanding and the Personnel & Salary Resolution for employees hired prior to January 1, 2007. The Retiree Medical Plan document itself contains provisions regarding the potential termination of the benefit. Specifically, the Plan states:

- Section 1.3 – Rights: This Plan does not create any vested right to the benefits provided hereunder on the part of any Employee, Retiree or any other person. As provided in Sections 5.4 and 5.5 hereof, this Plan may be amended or terminated at any time, in full or in part, by the Authority in its sole discretion.

- Section 5.4 – Termination of Plan: The Authority reserves the right at any time to terminate this Plan by action of its Board of Directors, in its sole discretion, without prior notice to any Participant or other person. Termination shall be subject to the meet and confer requirement of the Meyers-Milias-Brown Act and any other applicable law.

- Section 5.5 – Amendment of Plan: This Plan and any or all benefits provided hereunder may be amended at any time from time to time, in whole or in part, by the Board of Directors of the Orange County Fire Authority, in its sole discretion, without prior notice to any Participant or other person. Amendment shall be subject to the meet and confer requirements of the Myers-Milias-Brown Act and any other applicable law.

The OCFA has previously approached funding issues and plan sustainability issues relating to this Plan collaboratively with its labor groups in order to identify options for improving the funding status, as a much preferred option over discussions about termination of the Plan. Similar to previous approaches, following receipt of the 2012 Actuarial Study for this Plan, management met with representatives of all three labor groups to review the findings. We are currently in the process of gathering ideas from labor for options that may be considered in the future to improve the funding status of the Plan. After the ideas have been gathered, management believes an appropriate strategy would be to pursue a special actuarial study to evaluate the various options and associated impacts on plan funding, for potential negotiation with labor in the future.

COURT CASE ON ORANGE COUNTY'S RETIREE MEDICAL PLAN

Unlike pensions, which have long been held to be vested and protected under state law, retiree medical benefits have previously fallen under more of a gray zone. In December 2011, California's Supreme Court ruled that certain retirees' medical benefits are vested and thus protected from reduction by employers seeking modifications to reduce costs. They indicated that subsidizing medical insurance premiums is an implied contract. The Court also ruled that ordinances and resolutions of the employer are important source documents for determining the contractual nature of such other post-employment benefits.

However, in August 2012, the Santa Ana Federal Court judge ruled that retiree medical benefits could be capped and that the employer was no longer required to subsidize retiree medical benefits by pooling retirees with active employees.

DEFINED *CONTRIBUTION* RETIREE MEDICAL PLAN

For employees hired on or after January 1, 2007, the OCFA created a *defined contribution plan* that is administered by the International City Management Association Retirement Corporation (ICMA-RC). The Plan provides for the reimbursement of medical, dental and other healthcare expenses of retirees. Employees are required to contribute 4% of their gross pay. Account assets are invested as directed by the participant and all contributions, investment income, realized gains and losses are credited to the individual's account. Under this plan structure, there is no UAAL.

LEASE PURCHASE AGREEMENTS

A Lease Purchase Agreement is a form of long-term debt used by government agencies to acquire buildings, vehicles, equipment and other capital assets. Within this type of lease, a lessee can apply lease payments annually toward the purchase of the property. In December 2008, the OCFA entered into a ten-year Lease Purchase Agreement to purchase two helicopters and related equipment for a purchase price of $21.5 million. In 2011, OCFA refinanced the helicopters and lowered its interest rate from 3.76% to 2.58% saving $444,000 over the remaining six years of the lease. As of June 30, 2013, $12.9 million remains due, including interest and principal. The final maturity is in 2018.

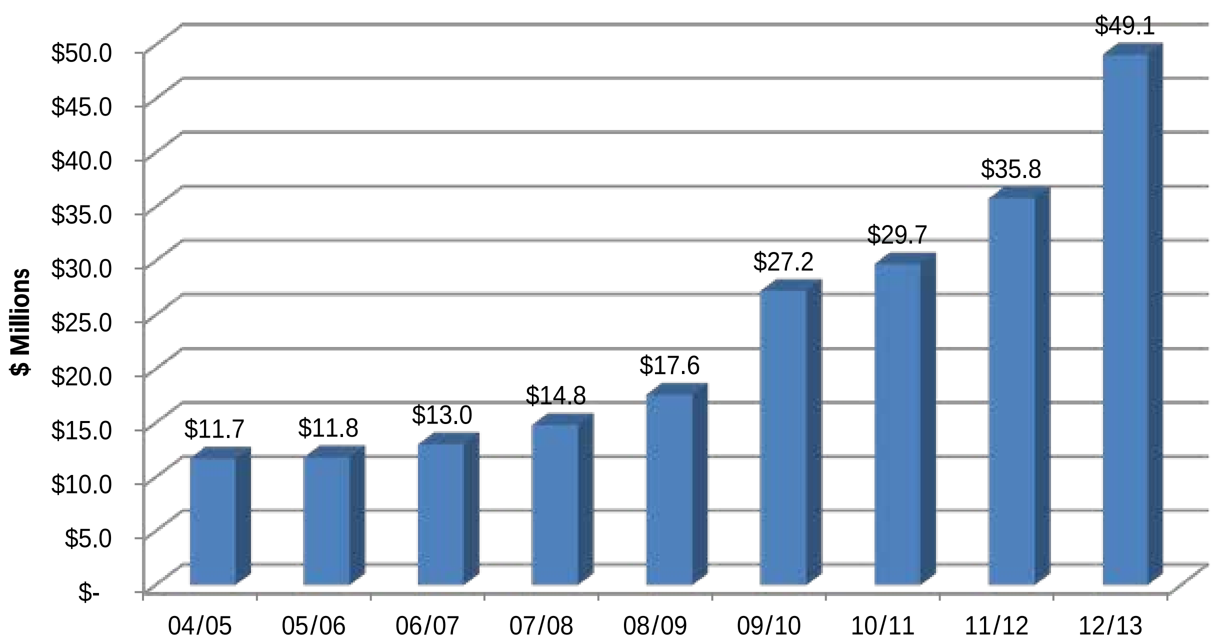
Considering the current low interest rate environment, and the associated low rate of return being earned on OCFA's investment portfolio, staff has completed a preliminary review to assess feasibility of paying off the outstanding lease obligation. Staff concluded that the early payoff of the obligation would have impacts on the OCFA's annual budget, annual cashflow, and potential requirement for issuance of a Tax and Revenue Anticipation Note (TRAN). Therefore, staff temporarily paused on the analysis, for further consideration during the FY 2014/15 budget development process.

In March 2002, OCFA implemented a workers' compensation self-insurance program. A separate fund called Fund 190: Self Insurance was established in May 2003 to track funding and expenditures for workers' compensation claims liability. The funding sources include revenue from the General Fund and interest earnings. The required funding levels are determined by an independent actuarial study. As of June 30, 2013, OCFA's total workers' compensation liability is $49.1 million. Although the workers' compensation program represents a large liability for OCFA, it is important to note that it is a ***fully-funded*** liability. OCFA has $49.1 million set-aside in reserves to pay this liability as the various medical claims and bills become due.

This liability reflects the present value of estimated outstanding losses at the 50% confidence level. A confidence level is the statistical certainty that an actuary believes funding will be sufficient. For example, a 50% confidence level means that the actuary believes funding will be sufficient in five out of ten years. The Workers' Compensation Funding Policy that was adopted by the Board on May 27, 2010, sets the funding level at 50% for outstanding losses and 60% for projected losses.

OCFA's Workers' Compensation Claims

OCFA's liability is growing requiring larger reserves to cover claims



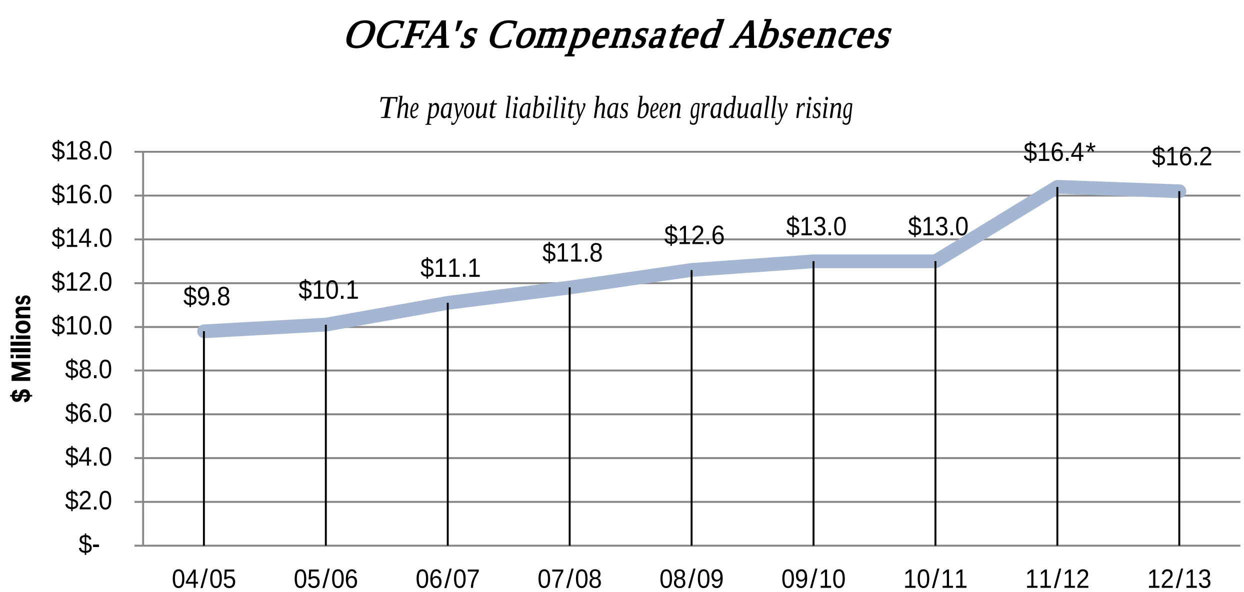
There are several contributing factors to the liability increase including workers' compensation reform that increased the statute of limitation for cancer from five to ten years; injury presumption for safety personnel; an aging workforce which contributes to a longer recovery time and higher permanent disability benefits; increased medical costs; and an increase to the workforce in 2012 with the addition of the City of Santa Ana. The City of Santa Ana reimburses the OCFA for injuries that initially occurred while the employee worked for the City.

In addition, the outstanding and growing liability reflected in the above chart reflects the fact that although the entire future cost of claims are recorded in the year of injury, the actual payment of that claim does not occur immediately. The cashflow payments for many workers' compensation cases occur slowly over time, with an average of up to 7-10 years. Therefore, it is a natural occurrence that the unpaid liability for a new self-insured system will grow for about 5-7 years as the unpaid liabilities stack on top of each other for those initial years. Upon maturity, the amount of unpaid liability should level out, and continued increases at that point in time are more likely purely driven by other forces, such as increased medical costs and/or increased claim activity.

ACCRUED COMPENSATED ABSENCES

Compensated absences are commonly described as paid time off made available to employees in connection with sick and vacation time. If employees do not use all of such compensated absences, a liability is accrued for the unused portion. The OCFA's policy allows employees to accumulate earned but unused sick and vacation pay benefits.

The majority of sick and vacation payouts occur at the time an employee retires. The OCFA has budgeted $3.0 million for sick and vacation payouts in FY 2013/14 based on historical trends and expected retirements. OCFA's total liability for compensated absences as of June 30, 2013 is $16.2 million.



*FY 11/12 corrected to include Santa Ana General Leave Balances. The City of Santa Ana reimburses the OCFA for uses of transferred Leave Balances.

Earlier this year, the OCFA City Managers' Budget and Finance Committee recommended that staff evaluate options for mitigating the budget and liability impacts of payouts for accumulated sick and vacation balances. Staff has begun requesting and gathering information from other jurisdictions that have taken action, or are pursuing creative strategies for reducing these liabilities.

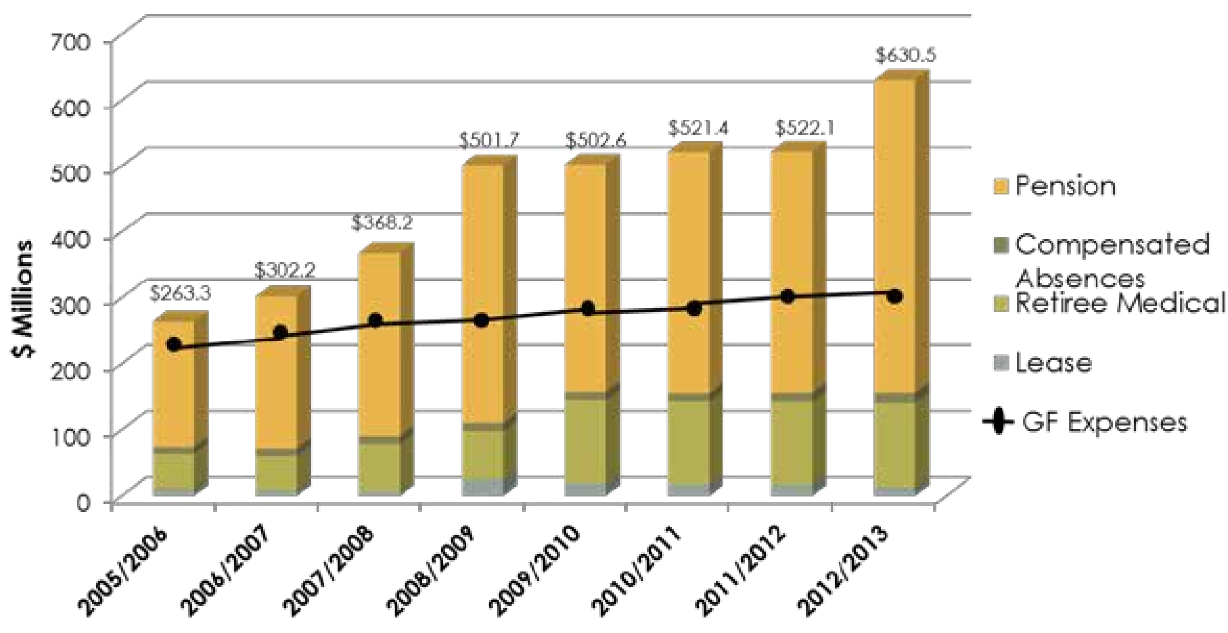
III. SUMMARY

OCFA's total long term, unfunded liabilities as of June 30, 2013 are as follows:

	$ Amount in Millions	*% of Total*
Defined Benefit Pension Plan	$473.7	75.1%
Defined Benefit Retiree Medical Plan	127.7	20.3
Helicopter Lease Purchase Agreement	12.9	2.0
Accrued Compensated Absences	16.2	2.6
Total	$630.5	100.0%

Over the last eight years, OCFA's total long term, unfunded obligations have increased by $367.2 million or 139%.

OCFA Total Unfunded Liabilities



Note: Workers Compensation was removed from the chart above since it is fully funded by a reserve fund.

ACTIONS UNDERWAY

1. Staff is working with the OCERS' actuary, The Segal Company, to analyze several options to expedite the pay down of OCFA's pension liability.
2. A Deployment Study has been initiated to thoroughly examine OCFA's methods of delivering emergency services, seeking opportunities to become more efficient with limited resources, while also ensuring long-term liabilities can be funded appropriately.

3. Authorization has been obtained to negotiate an Alternative Dispute Resolution process for disputed workers' compensation cases, also known as a Carve-Out program.

Recommended actions pending approval of this staff report include:

1. Direct staff to transmit a copy of the report to the County Board of Supervisors and the OCERS Board of Retirement, for their consideration of potential cost-containment actions relating to Pension Cost of Living Adjustments (COLAs) under the authority granted by the '37 Act.
2. Direct staff to pursue a special actuarial study relating to the OCFA's Retiree Medical Defined Benefit Plan to evaluate options for potential plan amendments which could improve plan funding, subject to future negotiation with OCFA's labor groups.
3. Direct staff to evaluate the financial feasibility of paying off the outstanding lease financing obligations associated with the OCFA's helicopters, as part of the 2014/15 budget development process.
4. Direct staff to evaluate options for mitigating the budget and liability impacts of payouts for accumulated sick and vacation balances, subject to future negotiation with OCFA's labor groups.

PAST ACTIONS

The economic downturn over the last few years has had a severe impact on revenues. As a result, the OCFA has already taken several steps to manage its long-term obligations:

1. Implemented a trigger formula connecting future pay raises for all OCFA employees to OCFA's financial health.
2. Implemented lower retirement formulas for all labor groups.
3. Implemented increased employee retirement contributions, phasing in to 9% for all labor groups.
4. Refinanced the helicopter lease to lower the interest rate.
5. Established a cash flow reserve, enabling annual prepayment of retirement contributions to achieve a discount.
6. Provided a study to the Board of Directors regarding the feasibility of Pension Obligation Bonds.
7. Provided a study to the Board of Directors regarding the feasibility of changing automatic Cost of Living Allowance (COLA) increases for pensions.

CONCLUSION

As long-term liabilities continue to rise, OCFA must continue to strategically balance present-day needs with future commitments. The goal is for OCFA's budget over the long-term to be able to fund all of its long-term liabilities.

Some of the components of this management include:

1. Continue to find ways to reduce long-term costs
2. Fully fund pensions and other liabilities annually
3. Explore ways to save money on healthcare

4. Pursue legislative changes for matters such as automatic pension COLA’s etc.

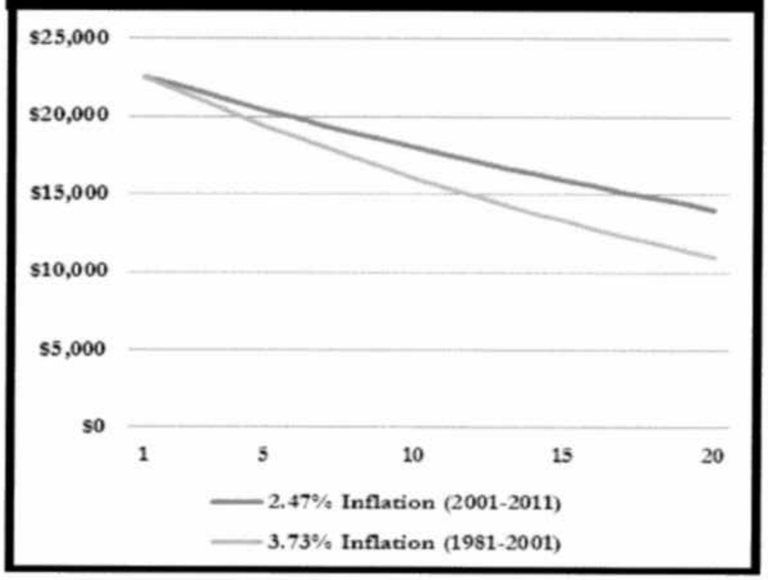
NASRA ISSUE BRIEF:
Cost-of-Living Adjustments

June 2012

NASRA

Cost-of-living adjustments (COLAs) in some form are provided on most state and local government pensions. The purpose of a COLA is to offset, or reduce, the effects of inflation on retirement income. Considerable variation exists in the way COLAs are designed, and in many cases they are determined or affected by other factors. COLAs add both value and cost to a pension benefit. COLAs are receiving increased attention as many states look to make adjustments to the cost of benefits amid challenging fiscal conditions and the current low-inflationary environment. This brief presents a discussion about the purpose of COLAs, the different types of COLAs offered by government retirement systems, and an overview of recent state legislative COLA actions.

Figure 1: Impact of 20 Years of Inflation on Purchasing Power of $22,600



COLA Purpose

Most state and local governments provide a COLA for the purpose of offsetting or reducing the effects of inflation, which erodes the value of retirement income, as illustrated in Figure 1. Using the actual average inflation rate for two time periods (2001-2011 and 1981-2001), after 20 years, the real (inflation-adjusted) average U.S. public pension benefit in 2010 of $22,600 falls to $14,052 (62 percent of its value) or $10,976 (49 percent of its value), depending upon the actual rate of inflation.

This depreciation can affect the sufficiency of retirement benefits, particularly for those who have no means to supplement their income due to disability or advanced age. Social Security beneficiaries are provided an annual COLA to maintain recipients' purchasing power. Similarly, most state and local governments provide an inflation adjustment to their retiree pension benefits. This is particularly important for those public employees – including nearly half of public school teachers and most public safety workers – who do not participate in Social Security. Unlike Social Security, however, state and local retirement systems typically pre-fund the cost of a COLA over the working life of an employee to be distributed annually over the course of his or her retired lifetime.

Common COLA Types and Features

The way in which public pension COLAs are calculated and approved varies considerably. Appendix A presents a listing of COLA provisions for many state retirement plans, illustrating the variety that exists in COLA plan designs. In general, COLA types and features are differentiated in the following ways:

Automatic vs. Ad hoc

An overarching distinction among COLAs is whether they are provided automatically or on an ad hoc basis. An ad hoc COLA requires the governing body to decide upon a postretirement benefit increase. By contrast, an automatic COLA occurs without action, and is typically predetermined by a set rate or formula. In some cases, ad hoc COLAs are accompanied by other factors, such as a maximum unfunded liability amortization period.

Simple vs. Compound

Another distinction between COLA types is whether the increase is applied in a simple or compound manner. Under a simple COLA arrangement, each year's benefit increase is calculated based upon the employee's original benefit at the time of his or her retirement. Under a compound COLA arrangement the annual benefit increase is calculated based upon the original benefit as well as any prior benefit increases. Some COLAs are both, in that they may be "simple" until the retiree reaches a certain age or year retired, at which point COLA benefits are calculated using a compound method.

Inflation-based

Many state and local governments provide a post-retirement COLA based on a consumer price index (CPI), which is a measure of inflation. Most provisions like this restrict the size of the adjustment, such as by "one-half of the CPI" and/or "not to exceed three percent." The most recognized CPI measures are calculated and published by the U.S. Bureau of Labor Statistics (BLS), and the CPI measures used by most public pension plans are either the CPI-U (based on all urban consumers) and the CPI-W (urban wage earners and clerical workers). Some states use state-specific inflation measures to determine the amount of their COLA.

Performance-based

Some public pension plans tie their COLA to the plan's funding level or investment performance. In one statewide system, for example, the COLA is a range tied to CPI based on the funding level of the plan. Annuitants with another state system receive a permanent benefit increase tied to their length of service when the fund's actuarial investment return exceeds the assumed rate of eight percent.

Delayed-onset or Minimum Age

Another characteristic contained in some automatic COLAs is to delay its onset, either by a given number of years, or until attainment of a designated age. A COLA may also take on any of the characteristics stated above and will become available to a retiree once he or she meets the designated waiting period or age requirements.

Limited Benefit Basis

Some retirement systems award a COLA calculated on a portion of a retiree's annual benefit, rather than the entire amount. For example, one system provides a COLA of three percent applied to only the first $18,000 of benefit. The multiplying factor can also be tied to an external indicator, such as CPI, and factors such as delayed onset may also be present.

Self-funded Annuity Option

Some state retirement plans offer post-retirement benefit increases through an elective process known as a self-funded annuity account. Under this design a member effectively self-funds his or her COLA by choosing to receive a lower monthly annuity in exchange for a fixed rate COLA to be paid annually upon retirement.

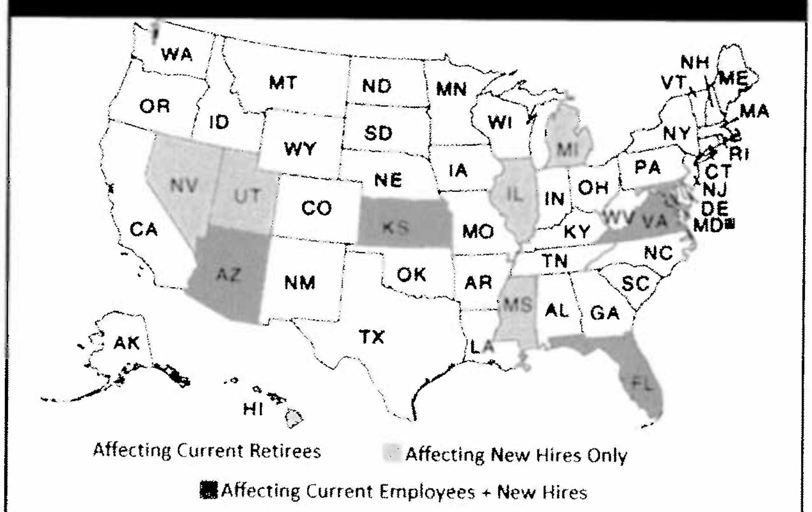
Reserve Account

Other public retirement systems pay COLAs from a pre-funded reserve account. This is a variation on the COLA tied to investment performance since the reserve account is funded with excess investment earnings. Under this scenario a COLA is provided from the funds set aside in the reserve account. Sometimes there is a stipulation attached that the fund itself must reach a certain size for any COLA to be granted in a given year.

COLA Costs

The cost of a COLA, expressed as a percentage of active member payroll, predictably depends on the level of the COLA benefit. Such factors as its size; the portion of the benefit to which the COLA applies; whether or not the COLA is paid annually or sporadically; whether the adjustment is simple or compounded, and other features, all affect its cost. It has been estimated that an automatic COLA of one-half of an assumed CPI of three percent, compounded, will add 11 percent to the cost of

Figure 2: State Retirement Systems Undergoing COLA Legislative Changes, 2009-2011



the retirement benefit. An automatic COLA of three percent, compounded, will add 26 percent to the cost of the benefit.[1]

The Governmental Accounting Standards Board (GASB) requires public pension plans to disclose assumptions regarding COLAs, including whether the COLA is automatic or ad hoc, and to include the cost of COLAs in projections of pension benefit payments.

Unlike automatic COLAs, the cost of ad hoc COLAs typically is not funded in advance, but rather increases the plan's unfunded liability or amortization period, or both, (or reduces an actuarial surplus) and increases future costs. GASB considers an ad hoc COLA to be "substantively automatic" when a historical pattern exists of granting ad hoc COLAs or when there is consistency in the amount of changes to a benefit relative to an inflation index.

Recent Changes to COLAs

As part of efforts to contain costs and to ensure the sustainability of public pension plans, and in response to the current period of historically low inflation, many states recently have made changes to COLA provisions by adjusting one or more of the elements mentioned above[2] (see Figure 2). As described in Appendix A, since 2009, eleven states have changed COLAs affecting current retirees, five states have addressed current employees' benefits, and six states have changed the COLA structure only for future employees. The legality of these modifications in several states has been, or is, being challenged in court as noted.

Conclusion

The effects of a COLA can be consequential both in protecting purchasing power and in adding costs to a plan. As states consider measures to ensure the sustainability of their pension plans for both those currently retired or employed and future generations of workers, policymakers are reexamining all aspects of benefit design and financing, including the way COLAs are determined and funded. Just as high periods of inflation in the past placed pressure on states to add or adjust COLAs upward, the recent low rates of inflation, combined with sluggish state and local revenues and poor investment returns, have spurred action to reduce COLA levels. Some states have included provisions that would enable COLAs to increase should inflation grow or funding status or fiscal conditions improve.

See also

Gary Findlay, "Addressing Inflation in the Design of Defined Benefit Pension Plans"
http://wikipension.com/images/7/73/Addressing_Inflation_in_the_Design_of_Defined_Benefit_Pension_Plans.pdf

Gabriel, Roeder, Smith & Company, "Postemployment Cost-of-Living Adjustments: Concepts and Recent Trends," April 2011, http://www.gabrielroeder.com/news/pdf_insight/Insight2011_04.pdf

National Association of State Retirement Administrators, "Overview of variations to typical cost-of-living adjustments among public retirement systems," http://wikipension.com/images/c/cf/Variations.pdf

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[1] Gabriel, Roeder, Smith & Company, "Postemployment Cost-of-Living Adjustments: Concepts and Recent Trends," April 2011, http://www.gabrielroeder.com/news/pdf_insight/Insight2011_04.pdf
[2] National Conference of State Legislatures

Appendix A: COLA Provisions by State-Level Plan and Recent Changes

Plan	COLA Provision	Recent Changes
Alaska PERS	Automatic, lesser of 75% of CPI or 9%, simple, for those age 65 and above; lesser of 50% of CPI or 6% for those age 60 or with 8 or more years of service (annuitant must reside in-state to receive the COLA)	
Alaska Teachers	Automatic, lesser of 75% of CPI or 9%, simple, for those age 65 and above; lesser of 50% of CPI or 6% for those age 60 or with 8 or more years of service (annuitant must reside in-state to receive the COLA)	
Alabama ERS	Ad hoc as approved by the legislature	
Alabama Teachers	Ad hoc as approved by the legislature	
Arkansas PERS	Automatic 3% compounded	
Arkansas Teachers	Automatic 3% compounded	
Arizona Public Safety Personnel	Sliding scale of 2.0% to 4.0%, contingent on investment earnings above 10.5%	Increased investment return threshold needed to fund a COLA from 8.0% to 10.5%
Arizona SRS	Up to 4% annually, contingent on excess earnings above 8%	
California PERS	Automatic based on CPI up to 2%, compounded	
California Teachers	Automatic 2% simple, plus adjustments designed to maintain retirees' purchasing power made through a "supplemental benefits maintenance account" financed with an employer contribution of about 2.5% of worker pay	
Colorado Affiliated Local	Based on election of individual participating employers	
Colorado Fire & Police Statewide	Ad hoc as approved by board	
Colorado Municipal	Varies by date of hire, automatic 2% unless negative investment return in previous year, then lesser of average monthly CPI-W or 2%, compounded	Changed from automatic 3.5%; legal challenge to this change was upheld by state district court and is under appeal to state supreme court
Colorado School	Varies by date of hire, automatic 2% unless negative investment return in previous year, then lesser of average monthly CPI-W or 2%, compounded	Changed from automatic 3.5%; legal challenge to this change was upheld by state district court and is under appeal to state supreme court
Colorado State	Varies by date of hire, automatic 2% unless negative investment return in previous year, then lesser of average monthly CPI-W or 2%, compounded	Changed from automatic 3.5%; legal challenge to this change was upheld by state district court and is under appeal to state supreme court
Connecticut SERS	Minimum of 2% up to a maximum 7.5% calculated based on the following formula: 60% of the annual increase in the CPI-W up to 6% and 75% of the annual increase in the CPI-W over 6%	

Plan	COLA Provision	Recent Changes
Connecticut Teachers	For members who retired before 9/92, automatic, based on CPI, with 3% minimum and 5% max, compounded; for those after 9/92, no COLA is provided	
DC Police & Fire	Automatic based on CPI, up to 3%, compounded	
DC Teachers	Automatic based on CPI, up to 3%, compounded	
Delaware State Employees	Ad hoc as approved by the general assembly	
Florida RS	Automatic 3%, compounded. Per legislation approved in 2011, no additional COLA credits will accrue after 6/30/11.	
Georgia ERS	Ad hoc as approved by the ERS board	
Georgia Teachers	Automatic 1.5% every 6 months as long as CPI increases, compounded	
Hawaii ERS	Automatic 2.5% simple; 1.5%, simple, for new hires after 6/30/12	The automatic COLA was reduced from 2.5% to 1.5%, simple, for those who become members of the system after 6/30/2012
Iowa PERS	Non-guaranteed post-retirement payment from a reserve account established from excess investment earnings	
Idaho PERS	Automatic 1% compounded (as long as CPI rises at least 1%), plus investment-based increase	
Illinois Municipal	Automatic 3%, simple, for those hired before 1/1/11; for those hired after 12/31/10, lesser of 3% or half of CPI, simple	Legislation in 2010 reduced the COLA for new hires after 12/31/10 from automatic 3%, simple
Illinois SERS	Automatic 3%, compounded, for those hired before 1/1/11; for those hired after 12/31/10, lesser of 3% or half of CPI, simple	Legislation in 2010 reduced the COLA for new hires after 12/31/10 from automatic 3%, compounded
Illinois Teachers	Automatic 3%, compounded, for those hired before 1/1/11; for those hired after 12/31/10, lesser of 3% or half of CPI, simple	Legislation in 2010 reduced the COLA for new hires after 12/31/10 from automatic 3%, compounded
Illinois Universities	Automatic 3%, compounded, for those hired before 1/1/11; for those hired after 12/31/10, lesser of 3% or half of CPI, simple	Legislation in 2010 reduced the COLA for new hires after 12/31/10 from automatic 3%, compounded
Indiana PERF	Ad hoc as approved by the legislature	
Indiana Teachers	Ad hoc as approved by the legislature	
Kansas PERS	Ad hoc as approved by the legislature; the new cash balance for employees hired after 12/31/14 provides for an optional self-funded COLA as an annuity payment option at retirement	In 2012, the auto 2% COLA is removed for those hired after 6/30/09; also established optional self-funded COLA in new cash balance plan for those hired after 12/31/14 [1]

[1] Legislation creating Kansas PERS Tier 3 passed in 2012 eliminated the Tier 2 COLA. The only employees eligible to receive the Tier 2 COLA are those who were retired and returned to work on or after 6/30/09 and who will retire before 7/1/12.

Plan	COLA Provision	Recent Changes
Kentucky County	Automatic, tied to CPI, not to exceed 1.5% after 12 months of retirement, compounded	
Kentucky ERS	Automatic, tied to CPI, not to exceed 1.5% after 12 months of retirement, compounded	
Kentucky Teachers	Automatic 1.5% compounded	
Louisiana SERS	Contingent upon funded status of system and/or actuarial return; must be approved by the Legislature; lesser of 2% or CPI-U, plus up to 1% additional depending on actuarial return	
Louisiana Teachers	Subject to approval by the legislature and contingent upon funding available in COLA account consisting of excess investment returns; COLA lesser of 3% or CPI-U if investment returns meet or exceed actuarial assumption; if investment returns are less than actuarial assumption, COLA lesser of 2% or CPI-U, if system at least 80% funded; COLA applies only to first $70,000 of benefit, indexed to CPI; participants may elect retirement option providing an actuarially reduced benefit with auto annual 2.5% COLA beginning at age 55	
Massachusetts SERS	Ad hoc, typically based on CPI up to 3% applied to first $13,000 of benefit, subject to legislative approval and enactment	Effective 2011, increased benefit to which COLA applies from first $12,000 of benefit to $13,000
Massachusetts Teachers	Ad hoc, typically based on CPI up to 3% applied to first $13,000 of benefit, subject to legislative approval and enactment	Effective 2011, increased benefit to which COLA applies from first $12,000 of benefit to $13,000
Maryland PERS	Automatic based on CPI, capped at 2.5% based on attainment of 7.75% rate of actuarial investment return. If that threshold is not met, COLA is 1%	For service credit earned after 6/30/2011, COLA was lowered from CPI up to 3%, compounded, to CPI capped at 2.5%, or 1%, depending on investment return
Maryland Teachers	Automatic based on CPI, capped at 2.5% based on attainment of 7.75% rate of actuarial investment return; if that threshold is not met, COLA is 1%	For service credit earned after 6/30/2011, COLA was lowered from CPI up to 3%, compounded, to CPI capped at 2.5%, or 1%, depending on investment return
Maine Local	Based on individual employer election. If provided, based on CPI up to 4%	
Maine State and Teacher	COLA is suspended through 7/1/14, after which it will be based on the CPI up to 3% applicable to the first $20,000 of benefit, indexed for inflation	Effective 7/1/2011, the COLA of CPI up to 4%, compounded, was suspended for three years, after which the cap and portion of the benefit to which the COLA applies will be reduced
Michigan Municipal	Employers may elect to provide a COLA, on a one-time basis or as an automatic adjustment	
Michigan Public	Automatic 3% simple	Employees hired after 6/30/10

Plan	COLA Provision	Recent Changes
Schools		participate in a hybrid plan that does not provide a COLA
Michigan SERS	Automatic 3% simple up to $300 annually	
Minnesota PERF	1.0%, compounded, until the plan funding level reaches 90%; 2.5% thereafter	Reduced auto-COLA from 2.5% in 2010; change was affirmed by a state judge in 2011
Minnesota State Employees	Automatic 2.0% compounded, until the plan's funding level reaches 90%, after which it will increase to 2.5%	Reduced auto-COLA from 2.5% in 2010; change was affirmed by a state judge in 2011
Minnesota Teachers	Suspended through 2012, after which COLA will be automatic 2.0% compounded, until the plan's funding level reaches 90%, when it returns to 2.5%	Reduced auto-COLA from 2.5% in 2010; change was affirmed by a state judge in 2011
Missouri DOT and Highway Patrol	80% of increase in CPI, up to 5%, compounded	
Missouri Local	Contingent upon investment return, with a max of the lower of 4% or cumulative CPI since retirement	
Missouri PEERS	Automatic, compounded at 2% if CPI-U is between 0% and 5%; 5% if CPI-U is 5% or higher, and no COLA is given if CPI-U is less than 0%; subject to a lifetime cap of 80%	In 2011, the Board changed the automatic, compounded COLA from based on CPI, not to exceed 5%, to either 0%, 2%, or 5%, depending on whether the CPI is negative, positive and below 5%, or over 5%, respectively; subject to a lifetime cap
Missouri State Employees	80% of CPI up to 5% compounded; members hired before 8/28/97 receive a minimum of 4% and a maximum of 5% compounded, up to 65% of original benefit, and then 80% of CPI up to 5% thereafter	
Missouri Teachers	Automatic, compounded at 2% if CPI-U is between 0% and 5%, 5% if CPI-U is 5% or higher, and no COLA is given if CPI-U is less than 0%; subject to a lifetime cap of 80%	In 2011, the Board changed the automatic, compounded COLA from based on CPI, not to exceed 5%, to either 0%, 2%, or 5%, depending on whether the CPI is negative, positive and below 5%, or over 5%, respectively
Mississippi PERS	Automatic 3%, simple, until age 55, then compounded thereafter; for new hires after June 2011, onset of compounding is delayed until age 60	For new hires after June 2011, onset of compounding is delayed until age 60, from 55
Montana PERS	Automatic 3% compounded	
Montana Teachers	Automatic 1.5% compounded beginning 3 years after onset of annuity	
North Carolina Local Government	Ad hoc as approved by the legislature	
North Carolina Teachers and State Employees	Ad hoc as approved by the legislature	

Plan	COLA Provision	Recent Changes
North Dakota PERS	Ad hoc as approved by the legislature	
North Dakota Teachers	Ad hoc as approved by the legislature	
Nebraska Schools	Based on CPI, up to 2.5%, compounded	
New Hampshire Retirement System	Ad hoc as approved by the legislature's fiscal committee	
New Jersey PERS	COLA suspended until the plan funding level reaches 80%, after which a panel will assess the prudence of paying a COLA	Legislation approved in 2011 suspended the automatic COLA that was based on 60% of CPI; change is under legal challenge
New Jersey Police & Fire	COLAs suspended until the plan funding level reaches 80%, after which a panel will assess the prudence of paying a COLA	Legislation approved in 2011 suspended the automatic COLA that was based on 60% of CPI; change is under legal challenge
New Jersey Teachers	COLAs suspended until the plan funding level reaches 80%, after which a panel will assess the prudence of paying a COLA	Legislation approved in 2011 suspended the automatic COLA that was based on 60% of CPI; change is under legal challenge
New Mexico PERA	Automatic 3% compounded	
New Mexico Teachers	Automatic based on CPI, compounded. When the change in CPI is more than 2%, the COLA is one-half the CPI, but not less than 2%, nor more than 4%. Member must be at least 65 years of age to receive a COLA	
Nevada Police Officer and Firefighter	After 3 years of receiving benefits, auto 2% annually, rising gradually to 5% annually, compounded, after 14 years of receiving benefits; the compounded COLA is capped by the lifetime CPI for the period of retirement, i.e., it may not exceed inflation	2009 legislation reduced the COLA ceiling to the 12-year amount of 4% annually for those who become members on or after 1/1/10
Nevada Regular Employees	After 3 years of receiving benefits, auto 2% annually, rising gradually to 5% annually, compounded, after 14 years of receiving benefits; the compounded COLA is capped by the lifetime CPI for the period of retirement, i.e., it may not exceed inflation	2009 legislation reduced the COLA ceiling to the 12-year amount of 4% annually for those who become members on or after 1/1/10
New York State Teachers	Automatic, based on one-half of the increase in the annual CPI, applied to first $18,000 of annual pension, compounded; must be 62 and retired for 5 years, or 55 and retired for 10 years, to receive COLA; COLA is a minimum of 1% and a maximum of 3%	
NY State & Local ERS	Automatic, based on one-half of the increase in the annual CPI, applied to first $18,000 of annual pension, compounded: must be 62 and retired for 5 years, or 55 and retired for 10 years, to receive COLA; COLA is a minimum of 1% and a maximum of 3%	
NY State & Local Police & Fire	Automatic, based on one-half of the increase in the annual CPI, applied to first $18,000 of annual pension, compounded: must be 62 and retired for 5 years, or 55 and retired for 10 years, to receive	

Plan	COLA Provision	Recent Changes
	COLA; COLA is a minimum of 1% and a maximum of 3%	
Ohio PERS	Automatic 3%, simple	
Ohio Police & Fire	Automatic 3%, simple	
Ohio School Employees	Automatic 3% simple	
Ohio Teachers	Automatic 3% simple	
Oklahoma PERS	Ad hoc as approved by the legislature; subject to required funding	The Legislature approved a provision in 2011 requiring future COLAs to be funded, which effectively rules out COLAs for the foreseeable future. Prior to this legislative action, a 2% COLA had regularly been approved
Oklahoma Teachers	Ad hoc as approved by the legislature; subject to required funding	The Legislature approved a provision in 2011 requiring future COLAs to be funded, which effectively rules out COLAs for the foreseeable future. Prior to this legislative action, a 2% COLA had regularly been approved
Oregon PERS	Automatic, based on CPI, up to 2%, compounded	
Pennsylvania School Employees	Ad hoc as approved by the general assembly	
Pennsylvania State ERS	Ad hoc as approved by the general assembly	
Rhode Island ERS	Effective 7/1/12, the COLA will be compounded based on a 5-year smoothed investment return less 5.5% with a 0% floor and 4% cap, applied to first $25,000 of benefit, indexed; application of the COLA is delayed until later of Social Security eligibility, normal retirement age under the plan, or 3 years after retirement	In late 2011, legislature revised COLA provisions from automatic 3% compounded, effective 7/1/12. The change is under legal challenge
Rhode Island Municipal	Effective 7/1/12, the COLA will be compounded based on a 5-year smoothed investment return less 5.5% with a 0% floor and 4% cap, applied to first $25,000 of benefit, indexed; application of the COLA is delayed until later of Social Security eligibility, normal retirement age under the plan, or 3 years after retirement	In late 2011, legislature revised COLA provisions from automatic 3% compounded, effective 7/1/12. The change is under legal challenge
South Carolina Police	Automatic, based on CPI up to 2% annually	
South Carolina RS	Automatic, based on CPI up to 2% annually	
South Dakota PERS	Indexed to CPI and funded status, with a minimum of 2.1%, when plan funding level is below 80%, and a maximum of 3.1%, when plan is funded above 100%	In 2010, legislature revised COLA provision from automatic 3.1%
TN Political Subdivisions	Participating employers may choose from 1 of 3 options: a) no COLA; b) automatic based on CPI, up to 3%, compounded, or c) same as b), except simple	

Plan	COLA Provision	Recent Changes
TN State and Teachers	Automatic based on CPI, up to 3% compounded	
Texas County & District	Ad hoc, approved by individual employers	
Texas ERS	Ad hoc as approved by the legislature; per state constitution, plan's amortization period must be less than 31 years for legislature to approve a COLA	
Texas LECOS	Ad hoc as approved by the legislature; per state constitution, plan's amortization period must be less than 31 years for legislature to approve a COLA	
Texas Municipal	Based on individual employer election; employers may choose no COLA or based on 30%, 50%, or 70% of CPI, compounded	
Texas Teachers	Ad hoc, as approved by the legislature; per state constitution, plan's amortization period must be less than 31 years for legislature to approve a COLA	
Utah Noncontributory	For those hired before 7/1/11, automatic based on CPI up to 4%, simple; for those hired after 6/30/11, based on CPI up to 2.5%, simple	Legislature reduced maximum COLA for those hired after 6/30/11 from 4% to 2.5%
Virginia Retirement System	Automatic based on CPI for the first 3%, and one-half of the next 4% of CPI, with an annual cap of 5%, compounded; effective 1/1/13, non-vested active members will have future COLAs based on the first 2% of CPI and one-half of the next 1%, with an annual cap of 3%, compounded	Effective 1/1/2013, non-vested members will have future COLAs capped at 3% rather than 5%; for early retirees, COLA onset is delayed until July 1 one year following retirement
Vermont State Employees	Automatic based on CPI, up to 5%, compounded	
Vermont Teachers	Automatic based on one-half of CPI, up to 5%, compounded	
Washington LEOFF Plan 1	Automatic, full CPI, compounded	
Washington LEOFF Plan 2	Automatic based on CPI, up to 3% compounded	
Washington PERS 1	None	Legislature eliminated automatic COLA of 3% in 2011; change is currently under legal challenge
Washington PERS 2/3	Automatic, based on CPI, up to 3%, compounded	
Washington School Employees Plan 2/3	Automatic, based on CPI, up to 3%, compounded	
Washington Teachers Plan 1	None	Legislature eliminated automatic COLA of 3% in 2011; change is currently under legal challenge
Washington	Automatic based on CPI up to 3%, compounded	

Plan	COLA Provision	Recent Changes
Teachers Plan 2/3		
Wisconsin Retirement System	Based on investment returns, and can increase and decrease, but not below base benefit	
West Virginia PERS	Ad hoc as approved by the legislature	
West Virginia Teachers	Ad hoc as approved by the legislature	
Wyoming Public Employees	Effective 7/1/12, the COLA is removed until the actuarial funded ratio reaches 100 percent "plus the additional percentage the retirement board determines is reasonably necessary to withstand market fluctuations"	Prior to 7/1/12, COLA was automatic tied to CPI up to 3%. Effective 7/1/12, the COLA is removed until the actuarial funded ratio reaches 100 percent "plus the additional percentage the retirement board determines is reasonably necessary to withstand market fluctuations"

Please note: COLA provisions listed above are subject to change as new information becomes available.