COLA Changes – What You Need to Know

How is the Cost-of-Living Adjustment (COLA) Changing?

On **June 30, 2017**, HB 49 was passed by the Ohio legislature. This bill:

1. Changed SERS' 3% fixed COLA to a COLA based on CPI-W with a cap of 2.5% and a floor of 0% beginning January 1, 2018
2. Gave the Board the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W; however, any adjustment above or below CPI-W could only be enacted if the system's actuary determines it would not materially impair the fiscal integrity of the system, or is necessary to preserve the fiscal integrity of the system

On **October 9, 2017**, the SERS Board voted 6-2 to:

1. Implement a three-year COLA suspension for all SERS retirees and benefit recipients beginning January 1, 2018
2. Authorize staff to seek legislation that will delay the start of COLA increases for future retirees and benefit recipients until the fourth anniversary of their allowance or benefit, which assures that future retirees are treated similarly to current retirees and benefit recipients with respect to COLAs

On **November 29, 2017**, the Ohio legislature passed SB 8, which gave SERS' Board the authority to determine the COLA onset for future retirees. For benefits effective April 1, 2018 and after, benefit recipients will have to wait until the fourth anniversary of their allowance or benefit before they receive a COLA.

Why are these COLA Changes Necessary?

Why were these changes necessary?

While SERS is not in financial crisis, the COLA changes are necessary to address immediate financial challenges and long-term funding goals.

Immediate Financial Challenges

a. At its present funding level, SERS has little cushion to weather another major financial recession. Following the Great Recession, SERS' funding decreased from 82% in 2008 to 63% in 2012. As of June 30, 2016, SERS was 67% funded over 28 years.

b. SERS' funding policy states that employer contributions cannot be used to support health care until pension funding reaches 70%. While the Health Care Fund has other sources of revenue, funding from employer contributions is historically one of the largest sources of income for health care.

Long-Term Funding Goals

a. Ultimately, SERS' funding policy states that the long-term goal is to get to 90% funded.

b. To speed up the funding progress, the Board changed the funding policy so that all 14% of employer contributions would be used to fund pensions with nothing going to health care until the pension fund reached 70% funded. An increased amount of employer contributions can be devoted to health care when funding achieves the 80% and 90% levels.

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What caused SERS' financial challenges?

1. Rising life expectancy rates have increased SERS' unfunded liabilities to the point that investment returns can no longer cover the increases. Structural changes to the pension fund must be made to address these increases. People are living longer in retirement than they paid into the system, and the system was not structured to handle this imbalance.
2. In 2012, SERS addressed life expectancy on the active member side by increasing retirement ages for future retirees.
3. Because life expectancy rates have continued to rise after members have retired, 60% of SERS' accrued liabilities are attributable to retirees. The only way to address the liabilities associated with retirees is to change the COLA.
4. Decreasing these unfunded liabilities will increase SERS' funded status.
5. A lower investment return environment is projected for the foreseeable future.

How will this COLA Change Affect You?

A three-year COLA suspension is in effect for retirees for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W (the measure of inflation used by Social Security), not greater than 2.5%, with a floor of 0%.

In addition, effective April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility.

Benefits that originate from the same member account will not have more than a four-year waiting period in total. An example of this would be if a member retires, choosing a joint life plan with a spouse as beneficiary, and passes away two years after the retirement date. The spouse's waiting period shortens to two years.

All SERS pension increases should be reported to Social Security if you are receiving Social Security benefits based on your spouse's Social Security earnings.