

Why No COLA?

Retired members have asked why the Retirement Board has not granted members a Cost of Living Adjustment (COLA), now that the assets of the Plan have returned to the \$2.1 billion level they reached prior to the global financial crisis in 2008.

The answer is that strong investment performance since 2009 has indeed allowed us to re-build our asset base. However, the Plan's liabilities - - the amount owed in the future to all current and future retirees - - never fell from the \$2.1 billion level that it too reached in 2008. Instead, the liability level grows every single year, as every currently-working member accrues one more year of service credit toward his or her future retirement benefit. Our liabilities now total \$2.8 billion. This has created a gap of approximately \$700 million, with a resulting funded status for the Plan of approximately 75.5%. Because granting a COLA would increase the Plan's liabilities, it would also increase the size of that funding gap.

The Retirement Board members are certainly aware that household costs continue to go up for our retired members. Fortunately, most DERP retirees have also earned a monthly Social Security benefit, and COLAs have increased that amount by a cumulative 34% since the last DERP COLA in 2002. Regarding DERP, the Retirement Board's primary responsibility must be to safeguard the overall soundness of the Retirement Plan. Their top priority is therefore to make sure that the Plan continues to have in place the funds necessary to pay every dollar of benefits *already promised* to every current and future retiree.

This new reality means that it is unlikely that the Plan will soon have the extra funds necessary to pay for a COLA. Similarly, it is also likely that for some time, current City employees will need to continue to pay into the Plan each payday at a level near the 8.0% of pay they are contributing today. While this shared sacrifice by retired and working DERP members is challenging, its prudence is in keeping with the disciplined management that has always distinguished the Plan.