

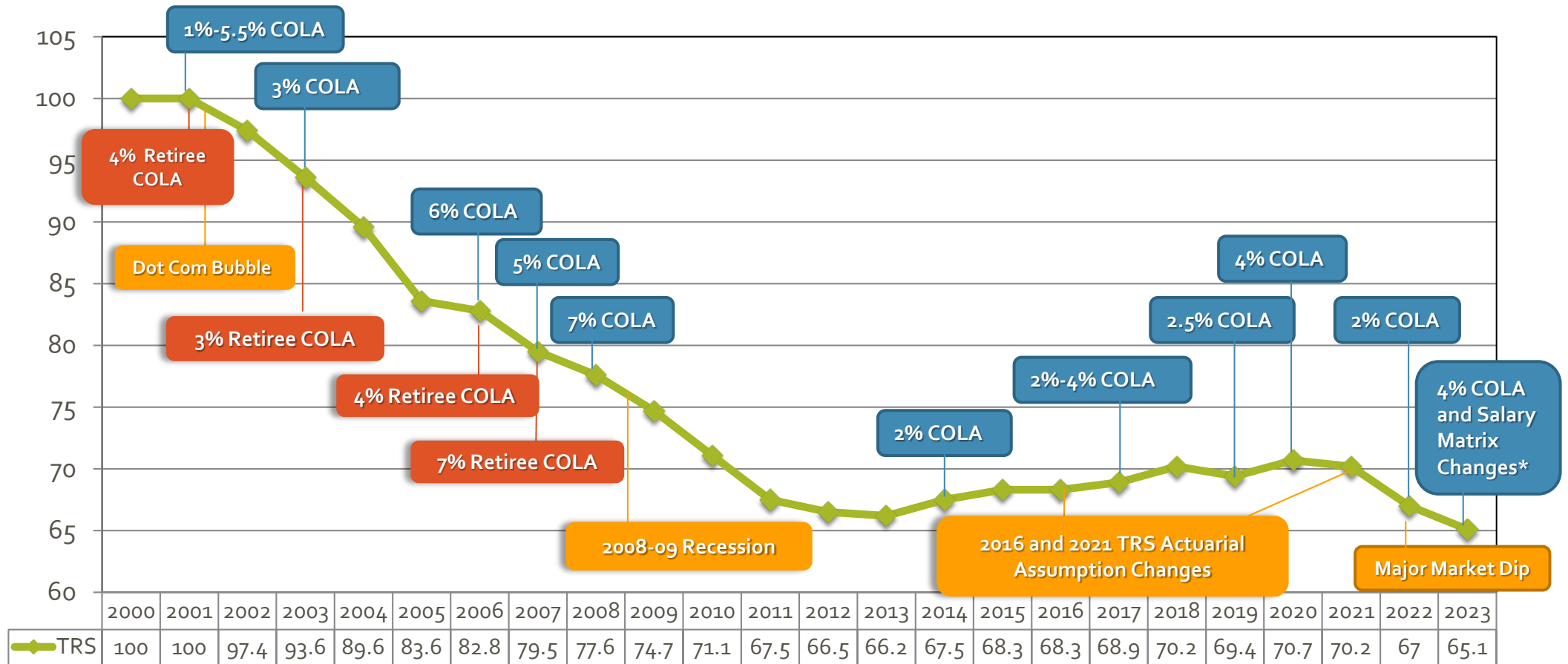
RETIREE COST- OF-LIVING ADJUSTMENTS



*House Ways and Means Education
Presentation
February 12, 2025*



TRS Funded Ratio 2000-2023



* The 4% COLA and salary matrix changes were effective October 1, 2022, but were reflected in the FY22 actuarial valuation.

** The 2% COLA that was effective October 1, 2023, which is not charted above, is reflected in the FY23 actuarial valuation.



Retiree Cost-of-Living Adjustments

- Retiree cost-of-living adjustments (COLAs) are periodic adjustments to pension benefits to offset the effect of inflation on retirement income.
- COLAs are either automatic or ad hoc:
 - Automatic COLAs are included in the plan design and are funded over the retiree's career. 74 state pension plans provide automatic retiree COLAs.
 - Ad hoc COLAs are not pre-funded and are granted by a governing body, such as the state legislature. 27 state pension plans provide ad hoc retiree COLAs, if any.





Alabama Retiree COLAs

- Retiree COLAs are not included in the plan design for ERS and TRS.
- Retiree COLAs have been granted through acts passed by the Alabama Legislature without pre-funding the actuarial liability for the COLAs.
- Once the retiree COLA was granted, the actuarial liability for the COLA was added to RSA's unfunded liability. The liability was then funded through the unfunded liability portion of the employer contribution over the amortization period.
- The last retiree COLA was granted in 2006 for FY2007.
- Since then, the Legislature has periodically granted one-time retiree bonuses, which are funded either by a lump sum payment or a one-year increase in the employer contribution rate. **These one-time bonuses do not increase the unfunded liability.**





TRS Retirees and Their Benefits by Age*

as of the 9/30/23 TRS Actuarial Valuation

Age	Number of Members	Total Annual Benefits	Average Annual Benefits
Under 50	280	\$9.89M	\$35,332
50-54	2,481	\$87.70M	\$35,348
55-59	4,756	\$167.87M	\$35,297
60-64	10,950	\$313.76M	\$28,654
65-69	19,403	\$510.32M	\$26,301
70-74	21,727	\$529.66M	\$24,378
75-79	17,358	\$403.66M	\$23,255
80-84	9,952	\$226.50M	\$22,759
85-89	5,130	\$110.14M	\$21,470
90-94	2,164	\$44.02M	\$20,341
95 & Over	668	\$11.81M	\$17,686
Total	94,869	\$2.4B	\$25,460

*Does not include beneficiaries.



History of Currently Paid Retiree COLAs

Fiscal Year	ERS	TRS	Cost to RSA as of 9/30/23
1979	\$30-\$60 monthly increase	\$30-\$60 monthly increase	\$125,285,981
1981	5% COLA	5% COLA	\$91,981,044
1983	\$1 per month of service	\$1 per month of service	\$220,268,096
1986	\$2 per month of service	\$2 per month of service	\$238,359,950
1989	\$1 per month of service	\$1 per month of service	\$282,692,006
1991	\$1 per month of service	\$1 per month of service	\$303,973,796
1994	1.28% COLA	1.28% COLA	\$401,150,134
1995	2.5% COLA	2.5% COLA	\$631,979,393
1997	2% COLA	2% COLA	\$516,831,752
1999	4% COLA	4% COLA	\$1,189,192,339
2001	4% COLA	4% COLA	\$750,902,469
2003	3% COLA	3% COLA	\$552,141,208
2006	4% COLA	4% COLA	\$806,356,047
2007	7% COLA	7% COLA	\$1,462,853,132
Total:			\$7,573,967,347





History of Alabama Retiree Bonuses

Fiscal Year	ERS	TRS	Cost
2008	One-time bonus equal to \$1 per month of service	One-time bonus equal to \$2 per month of service	\$44,716,435
2009	One-time bonus equal to \$1 per month of service		\$8,096,443
2015	One-time bonus equal to \$2 per month of service or \$300 minimum		\$12,058,248
2018	One-time bonus equal to \$1 per month of service	One-time bonus equal to \$1 per month of service	\$35,061,181
2022	One-time bonus equal to \$2 per month of service	One-time bonus equal to \$2 per month of service	\$76,599,407
Total:			\$176,531,714





ERS and TRS Retiree COLA Unfunded Liability

COLA Amount	COLA Effective Date	Estimated Increase to Unfunded Liability
4%	10/1/2000	\$330.9M
3%	10/1/2002	\$448.8M
4%	10/1/2005	\$510.0M
7%	10/1/2006	\$923.8M
Totals:		\$2.2B added to the unfunded liability



Cost to Fund a 1% Retiree COLAs and a \$1 Per Month of Service Bonus

Amount	Total Cost as of FY23 Actuarial Valuation
TRS 1%	\$236.0M
ERS 1%	\$50.2M
TRS \$1 per month of service	\$31.6M
ERS \$1 per month of service	\$7.5M

These amounts are the present value of the total liability and if fully funded would not increase the unfunded liability of the plans.



What a Retiree Receives from a 1% COLA and a \$1 per Month of Service Bonus

Retiree Scenarios	1% COLA Annually	One-Time \$1 per Month of Service Bonus
20 Years; 25K	\$250	\$240
25 Years; 30K	\$300	\$300
30 Years; 50K	\$500	\$360
35 Years; 75K	\$750	\$420



Retiree Trust Funds

- In 2021 and 2022, the Legislature created the Education Retirees' Trust Fund (Act 2021-464) and the State Employee Retirees' Trust Fund (Act 2022-349).
- The trusts were created to fund retiree bonuses through deposits that could grow through investment by RSA.
- The acts prohibit funding the trusts from Education Trust Fund and/or General Fund revenues.
- No monies have been allocated to the trusts.

