Cycle of Activity for COLA Reserve Fund and Enhanced COLA for State and Teachers

Fall 2026

- Valuation is completed (which includes the average annual salary in the respective system)

- With the valuation, a determination is made as to the actuarial cost of the Enhanced COLA

March 31[1], 2027 (or as soon thereafter that all investment information is available)

- The Actuary certifies the amount of excess investment income, if any. This amount is the market rate of return during a calendar year on the balance of total assets of the system as of December 31, subtracting the amount expected by the assumed rate of return.

April 2027

- If there is excess investment income above the assumed rate of return, 7.5% of that amount is transferred to the COLA Reserve Fund before the required transfer of the balance of the investment income account is transferred to the Pension Reserve Fund per Ch. 32, Sec. 22 6 (iii)

- The Actuary determines if the funding in the COLA Reserve Fund is sufficient to meet the actuarial cost of all three tiers of the Enhanced COLA.

[1] 90 days after the calendar year end. In a leap year, this would be March 30.

If Yes

- The amount of funds sufficient to pay the actuarial cost of the Enhanced COLA are transferred to the Pension Reserve Fund for the payment of the Enhanced COLA
- Enhanced COLA is paid in July with the regular COLA.
- Any balance beyond that amount remains in the COLA Reserve Fund to continue accruing toward future COLA base increases
- The balance remains an asset of the system, but is not counted in the valuation of the system until transferred to the Pension Reserve Fund.
- It is invested in the same manner as all other funds.
- The COLA Reserve Fund then grows or decreases at the same rate as the total returns of the entire system regardless of a deposit of "excess investment income." If there is a loss of 5%, the COLA Reserve Fund would lose 5%. If there is a gain of 5%, the COLA Reserve Fund would gain 5%.

If No

- The excess investment income remains in the COLA Reserve Fund.
- It remains an asset of the system but is not counted in the valuation of the system until transferred to the Pension Reserve Fund.
- It is invested in the same manner as all other funds.
- The COLA Reserve Fund then grows or decreases at the same rate as the total returns of the entire system regardless of a deposit of "excess investment income." If there is a loss of 5%, the COLA Reserve Fund would lose 5%. If there is a gain of 5%, the COLA Reserve Fund would gain 5%.

July 2027

- As mentioned in the table above, if sufficient funds exist in the COLA Reserve Fund, the Enhanced COLA would be paid with the regular COLA. In the event the Legislature does not authorize the regular COLA, the Enhanced COLA is still paid.

Fall 2027

- Valuation is completed (which includes the average annual salary in the respective system)

- With the valuation, a determination is made as to the actuarial cost of the Enhanced COLA (or if it has been paid, the actuarial cost of a $1,000 COLA base increase)

March 30[2], 2028 (or as soon thereafter that all investment information is available)

- The Actuary determines the new balances of the COLA Reserve Fund based on the calendar year returns.

- The Actuary certifies the amount of excess investment income, if any. This amount is the market rate of return during a calendar year on the balance of total assets of the system (including any funds that may have been already deposited in the COLA Reserve Fund) as of December 31, subtracting the amount expected by the assumed rate of return.

April 2028

- If there is excess investment income above the assumed rate of return, 7.5% of that amount is transferred to the COLA Reserve Fund before the required transfer of the balance of the investment income account is transferred to the Pension Reserve Fund per Ch. 32, Sec. 22 6 (iii)

- The Actuary determines if the funding in the COLA Reserve Fund – between the balance and any new transfer - is sufficient to meet the actuarial cost of all three tiers of the Enhanced COLA (or if it has been paid, the actuarial cost of a $1,000 COLA base increase)

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[2] Since 2028 is a leap year, this date is March 30.

If Yes

- The amount of funds sufficient to pay the actuarial cost of the Enhanced COLA (or $1,000 COLA Base increase) are transferred to the Pension Reserve Fund for the payment of the Enhanced COLA (or new COLA base)
- Enhanced COLA is paid in July with the regular COLA (or COLA paid on new COLA base)
- Any balance beyond that amount remains in the COLA Reserve Fund to continue accruing toward future COLA base increases
- The balance remains an asset of the system, but is not counted in the valuation of the system until transferred to the Pension Reserve Fund.
- It is invested in the same manner as all other funds.
- The COLA Reserve Fund then grows or decreases at the same rate as the total returns of the entire system regardless of a deposit of "excess investment income." If there is a loss of 5%, the COLA Reserve Fund would lose 5%. If there is a gain of 5%, the COLA Reserve Fund would gain 5%.

If No

- The excess investment income remains in the COLA Reserve Fund.
- It remains an asset of the system, but is not counted in the valuation of the system until transferred to the Pension Reserve Fund.
- It is invested in the same manner as all other funds.
- The COLA Reserve Fund then grows or decreases at the same rate as the total returns of the entire system regardless of a deposit of "excess investment income." If there is a loss of 5%, the COLA Reserve Fund would lose 5%. If there is a gain of 5%, the COLA Reserve Fund would gain 5%.

The cycle continues to repeat. The COLA Reserve Fund grows until it can pay the actuarial cost of the Enhanced COLA. Once that is paid, the cycle continues in perpetuity as the COLA Reserve Fund will continue to accrue funds to pay the actuarial costs of $1,000 COLA base increases. When the actuary determines there are sufficient funds to pay for the cost of the $1,000 COLA base increase, it automatically takes effect for the year's July COLA payment.