Cycle of Activity for COLA Reserve Fund and Enhanced COLA for Local Systems

After adoption of an Enhanced COLA tier or tiers

- Valuation is completed on the normal cycle or sooner if so desired (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] after the valuation conducted after adoption (or as soon thereafter that all investment information is available)

- The actuary of the system 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 already transferred to the COLA Reserve Fund) as of December 31, subtracting the amount expected by the assumed rate of return.

April

- 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 of the system determines if the funding in the COLA Reserve Fund is sufficient to meet the actuarial cost for *all* locally adopted tiers of the Enhanced COLA, however many that may be: one, two or three.

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

If Yes

- The entire balance of the COLA Reserve Fund – including any amount in excess of the cost of the Enhanced COLA - is transferred to the Pension Reserve Fund for the payment of the Enhanced COLA.
- Enhanced COLA is paid in July with the regular COLA.
- The COLA Reserve Fund has a zero balance.
- The COLA Reserve Fund is permanently inactive if all three tiers had been adopted.
- The COLA Reserve Fund is dormant and inactive if less than three tiers had been adopted. If in the future a subsequent tier is adopted, the COLA Reserve Fund is reactivated.

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 Pension COLA Fund would lose 5%. If there is a gain of 5%, the COLA Reserve Fund would gain 5%.

July

- 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 retirement board does not authorize the regular COLA, the Enhanced COLA is still paid.

Fall (if the Enhanced COLA is not paid in July)

- The law calls for an annual determination of the actuarial cost of the Enhanced COLA. Valuation is completed for those systems that conduct annual valuations (which includes the average annual salary in the respective system). Where the vast majority of local systems do not conduct annual valuations, the actuary can use judgment on using the prior year’s actuarial cost figure or using available information to update it.

March 31[2] the next year (or as soon thereafter that all investment information is available)

- The actuary of the system determines the new balances of the COLA Reserve Fund based on the calendar year returns.
- The actuary of the system 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 already deposited in the COLA Reserve Fund) as of December 31, subtracting the amount expected by the assumed rate of return.

April the next year

- 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 of the system determines if the funding in the COLA Reserve Fund – between the balance and any new transfer - is sufficient to meet the actuarial cost for *all* locally adopted tiers of the Enhanced COLA, however many that may be: one, two or three.

[2] In leap years, this will be March 30

If Yes

- The entire balance of the COLA Reserve Fund – including any amount in excess of the cost of the Enhanced COLA - is transferred to the Pension Reserve Fund for the payment of the Enhanced COLA.
- Enhanced COLA is paid in July with the regular COLA
- The COLA Reserve Fund has a zero balance.
- The COLA Reserve Fund is permanently inactive if all three tiers had been adopted.
- The COLA Reserve Fund is dormant and inactive if less than three tiers had been adopted. If in the future a subsequent tier is adopted, the COLA Reserve Fund is reactivated.

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%.

Once a tier, or tiers, of the adopted Enhanced COLAs have been paid, the cycle stops with the COLA Reserve Fund becoming dormant with a zero balance. Until the locally adopted Enhanced COLAs have been paid, the cycle continues to repeat. The COLA Reserve Fund grows until it can pay the actuarial cost of the locally approved Enhanced COLA.