



COLA

COLA Updates

Cost of living



Patrick M. Charles, Assistant Deputy Director | PERAC
John Boorack, PERAC Actuary | PERAC

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Enhanced COLA and COLA Reserve Fund

- Chapter 137 of the Acts of 2026 (FY 2027 Budget).
- Mandated the establishment of a COLA Reserve Fund for the State and Teachers' Retirement Systems.
- Provides for Enhanced COLA payments for State and Teachers' Retirement Systems.
- LOCAL Option for all other systems.
- MEMO #23 of 2026 explains the Enhanced COLA and COLA Reserve Fund, also provides a sample timeline for adoption and implementation of the Enhanced COLA.



State and Teachers' Retirement Systems

- Establishes a COLA Reserve Fund into which a percentage of excess investment gains will be placed in order to fund the Enhanced COLA's and future COLA Base Increases.
- Enhanced COLA's will only be paid once the COLA Reserve Fund has enough assets to cover the actuarial liability of the benefits.
- After the Enhanced COLA is funded then the COLA Reserve Fund will be used to accrue assets for future \$1,000 base increases for the State and Teachers'.



Enhanced COLA Eligibility

- Criteria is the same for all retirement systems.
- Must have retired prior to July 1, 2020.
- Retirement Allowance must be below 80% of the **average salary** in the retirement system.
- Superannuation retirees must have had at least 20 years of creditable service.
- Disability retirees have no minimum creditable service requirement.



Enhanced COLA

- Three separate levels of Enhanced COLA's.
- These are mandated for the State and Teachers' systems but are local options for all other systems.
- Must be adopted individually at the local level.
 - Tier 1 pays an extra \$100 annually to members who have been retired from 10-14 years.
 - Tier 2 pays an extra \$200 annually to members who have been retired from 15-19 years.
 - Tier 3 pays an extra \$300 annually to members who have been retired for 20 or more years.



Does a System Need to Adopt All Three Tiers?

- A system may adopt the Enhanced COLA provisions all at once or one at a time.
- Each tier requires a separate vote and separate legislative approval.
- **KEEP IN MIND** that if you adopt two or more tiers at the same time then both must be fully funded before the Enhanced COLA may be paid.
- Each system should have their actuary prepare a cost analysis of each tier so the Board may make a decision on which tiers to adopt, if any.



What Happens if Individual Tiers are Adopted

- System adopts ONLY tier 1, which pays \$100 for being retired between 10-14 years.
 - Benefit is paid in years 10-14 but then stops.
- The tiers provide payment only for specific periods of time and do not continue, except Tier 3 will continue until the retirement allowance ceases to be paid.



COLA Reserve Fund (1)

- Must be adopted in order to prefund any of the Enhanced COLA tiers.
- 7.5% of any excess investment gain will be annually transferred to the COLA Reserve Fund as determined by the systems actuary.
- Excess investment gain is any amount over the actuarially assumed rate of return for the system.
 - This will vary from system to system as the actuarially assumed rate varies.



COLA Reserve Fund (2)

- Each year the Actuary of the system will determine or update the cost of the Enhanced COLA benefit.
- The actuary will certify how much to transfer to the COLA Reserve Fund if anything.
- The Actuary will certify if there are sufficient assets in the COLA Reserve Fund to fully fund the approved Enhanced COLA.
- If there are sufficient assets then the assets from the COLA Reserve Fund are transferred to the Pension Reserve Fund and the Enhanced COLA can be paid beginning with the next annual COLA.



Enhanced COLA & COLA Reserve Fund

- A system must adopt the COLA Reserve Fund if it adopts any of the Enhanced COLA tiers.
- A system is NOT permitted to absorb the liability for the Enhanced COLA.
- NO Enhanced COLA's may be paid until the COLA Reserve Fund has been credited with an amount sufficient to fully fund the adopted tier(s).



What Happens When Enhanced COLA is Funded

- Once sufficient assets have accrued in the COLA Reserve Fund to pay for the adopted Enhanced COLA tier(s) then the assets are transferred to the Pension Reserve Fund.
- No further excess investment gains will be placed in the COLA Reserve Fund.
- The COLA Reserve Fund should have a zero-balance going forward.
 - If the board subsequently adopts another tier, then the COLA Reserve Fund would be reactivated until that tier was funded.



COLA

Determine the Cost of the Enhanced COLA



Winnieland Retirement System





Determine Cost of the Enhanced COLA

- Actuary will determine full cost of the Enhanced COLA
 - Lump sum cost to fully fund the Enhanced COLA
 - Or the appropriate tier if adopted separately
 - Present Value of **ALL** payments expected to be made under the Enhanced COLA
 - It is **NOT** just the annual cost to pay the Enhanced COLA
- Will need to be recalculated each year until sufficient funds accumulate in the COLA Reserve Fund
 - Actuary can use the prior year analysis if a valuation is not scheduled to be performed in a given year



Cost of the Enhanced COLA

For the Winnieland Retirement System:

- Tier 1 (\$100) if retired between 10-14 years
 - \$1.26 million
- Tier 2 (\$200) if retired between 15-19 years
 - \$2.73 million
- Tier 3 (\$300) if retired between 20+ years
 - \$5.84 million
- Total cost if all 3 Tiers adopted
 - \$9.83 million



Excess Investment Earnings (1)

- 7.5 % of earnings above the system's current investment return assumption transferred to COLA Reserve Fund
 - Determined on a Market Value Asset (MVA) basis
- Use the return net of investment related expenses
 - PERAC's published returns are **GROSS** returns



Excess Investment Earnings (2)

- Simplifying Assumptions
 - Net Cash Flow = \$0 (Net receipts = Net disbursements)
 - All cash flows assumed to occur mid-year
 - Investment Return Assumption is 7.0% (net of investment expenses)
 - MVA on 1/1/26 is \$800,000
 - Market Value Return: 10% (net of investment expenses)



Excess Investment Earnings (3)

- Actual MVA 1/1/27 \$880,000
 - $\$800,000 \times (1+10\%) + \$0 \times (1+(10\%/2))$
- Expected MVA 1/1/27 \$856,000
 - $\$800,000 \times (1+7\%) + \$0 \times (1+(7\%/2))$
- Excess Return = \$24,000
 - $\$880,000 - \$856,000$
- Transfer to COLA Reserve Fund = \$1,800
 - $\$24,000 \times 7.5\%$



Excess Investment Earnings (4)

- This chart shows how the COLA Reserve would grow ignoring the cost of the Enhanced COLA

Year	Assumed Return	MVA @ BOY	MVA @ EOY	Excess Returns	Amount to Transfer to CRF	CRF @ BOY	MVA for Funding Purposes
2026	10%	\$800,000	\$880,000	\$24,000			\$800,000
2027	2%	\$880,000	\$897,600	\$0	\$1,800	\$1,800	\$878,200
2028	12%	\$897,600	\$1,005,312	\$44,880	\$0	\$1,836	\$895,764
2029	-3%	\$1,005,312	\$975,153	\$0	\$3,366	\$5,422	\$999,890
2030	15%	\$975,153	\$1,121,426	\$78,012	\$0	\$5,260	\$969,893
2031	12%	\$1,121,426	\$1,255,977	\$56,071	\$5,851	\$11,900	\$1,109,526
2032		\$1,255,977			\$4,205	\$17,533	\$1,238,464



Excess Investment Earnings (5)

- This chart shows the difference between the MVA and the value of assets used for funding purposes along with the funding status before reflecting the cost of the enhanced COLA

Year	MVA @ BOY	MVA for Funding Purposes	Actuarial Accrued Liability	UAL (using MVA)	FR (using MVA)	UAL (using Funding MVA)	FR (using Funding MVA)
2026	\$800,000	\$800,000	\$1,200,000	\$400,000	66.7%	\$400,000	66.7%
2027	\$880,000	\$878,200	\$1,248,000	\$368,000	70.5%	\$369,800	70.4%
2028	\$897,600	\$895,764	\$1,297,920	\$400,320	69.2%	\$402,156	69.0%
2029	\$1,005,312	\$999,890	\$1,349,837	\$344,525	74.5%	\$349,947	74.1%
2030	\$975,153	\$969,893	\$1,403,830	\$428,678	69.5%	\$433,937	69.1%
2031	\$1,121,426	\$1,109,526	\$1,459,983	\$338,558	76.8%	\$350,457	76.0%
2032	\$1,255,977	\$1,238,464	\$1,518,383	\$262,386	82.7%	\$279,919	81.6%



Excess Investment Earnings (6)

- This chart shows the MVA and the value of assets for funding purposes after transferring money from the CRF to the PF because there is sufficient funds to cover the cost of the Enhanced COLA

Year	Cost of Enhanced COLA	CRF @ BOY	MVA for Funding Purposes	Total MVA @ BOY	Amount to Transfer from CRF to PF	Revised MVA for Funding Purposes
2026			\$800,000	\$800,000		\$800,000
2027	\$9,800	\$1,800	\$878,200	\$880,000	\$0	\$878,200
2028	\$9,800	\$1,836	\$895,764	\$897,600	\$0	\$895,764
2029	\$9,800	\$5,422	\$999,890	\$1,005,312	\$0	\$999,890
2030	\$9,800	\$5,260	\$969,893	\$975,153	\$0	\$969,893
2031	\$9,800	\$11,900	\$1,109,526	\$1,121,426	\$11,900	\$1,121,426
2032		\$0	\$1,255,977	\$1,255,977	\$0	\$1,255,977



Excess Investment Earnings (7)

- This chart shows the difference between the MVA and the value of assets used for funding purposes along with the funding status after reflecting the cost of the enhanced COLA

Year	MVA @ BOY	MVA for Funding Purposes	Actuarial Accrued Liability*	UAL (using MVA)	FR (using MVA)	UAL (using Funding MVA)	FR (using Funding MVA)
2026	\$800,000	\$800,000	\$1,200,000	\$400,000	66.7%	\$400,000	66.7%
2027	\$880,000	\$878,200	\$1,248,000	\$368,000	70.5%	\$369,800	70.4%
2028	\$897,600	\$895,764	\$1,297,920	\$400,320	69.2%	\$402,156	69.0%
2029	\$1,005,312	\$999,890	\$1,349,837	\$344,525	74.5%	\$349,947	74.1%
2030	\$975,153	\$969,893	\$1,403,830	\$428,678	69.5%	\$433,937	69.1%
2031	\$1,121,426	\$1,121,426	\$1,469,783	\$348,357	76.3%	\$348,357	76.3%
2032	\$1,255,977	\$1,255,977	\$1,528,574	\$272,597	82.2%	\$272,597	82.2%



Excess Investment Earnings (8)

- Once sufficient funds have accumulated to fund all adopted tiers of the Enhanced COLA, the **entire** CRF balance would be transferred to the Pension Fund
 - The cost attributed to the Enhanced COLA will now become part of the actuarial accrued liability for funding purposes



Example of Enhanced COLA Payments

- This chart shows how the Enhanced COLA would be paid in conjunction with regular COLAs

Year	Number of Years Retired	80% of Average Salary from Most Recent Val.	Annual Benefit Before COLAs	Regular COLA (\$15,000 Base)	Enhanced COLA	Annual Benefit After COLAs
2026	10	\$50,000	\$49,000	\$450	\$100	\$49,550
2027	11	\$50,000*	\$49,550	\$450	\$100	\$50,100
2028	12	\$50,500	\$50,100	\$450	\$100	\$50,650
2029	13	\$50,500*	\$50,650	\$450	\$0	\$51,100
2030	14	\$53,500	\$51,100	\$450	\$100	\$51,650
2031	15	\$53,500*	\$51,650	\$450	\$200	\$52,300
2032	16	\$55,000	\$52,300	\$450	\$200	\$52,950



Example of Enhanced COLA Payments (2)

Year	Number of Years Retired	80% of Average Salary from Most Recent Val.	Annual Benefit Before COLAs	Regular COLA (\$15,000 Base/ \$20,000 beg. 2033)	Enhanced COLA	Annual Benefit After COLAs
2033	17	\$55,000*	\$52,950	\$450	\$200	\$53,600
2034	18	\$57,000	\$53,600	\$450	\$200	\$54,250
2035	19	\$57,000*	\$54,250	\$450	\$200	\$54,900
2036	20	\$59,000	\$54,900	\$450	\$300	\$55,650
2037	21	\$59,000*	\$55,650	\$450	\$300	\$56,400
2038	22	\$62,000	\$56,400	\$450	\$300	\$57,150
2039	23	\$62,000*	\$57,150	\$450	\$300	\$57,900
2040	24	\$65,000	\$57,900	\$600	\$300	\$58,800
2041	25	\$65,000*	\$58,800	\$600	\$300	\$59,700
2042	26	\$70,000	\$59,700	\$600	\$300	\$60,600



Conclusion

- Treatment of CRF is different for State/Teachers and local systems
 - Local systems can only use CRF to fund the Enhanced COLA
- Little variance in Funded Ratio while CRF accumulates funds
- Rough rule of thumb is you need to exceed assumed return by approximately 15%-18% in aggregate to accumulate sufficient funds in CRF
 - Varies based on funded ratio of system
 - Would expect to take between 4-6 years



QUESTIONS?

For further questions, please contact us at:

- **Patrick Charles:** patrick.m.charles@mass.gov
- **John Boorack:** john.boorack@mass.gov

