Portland FPDR COLA

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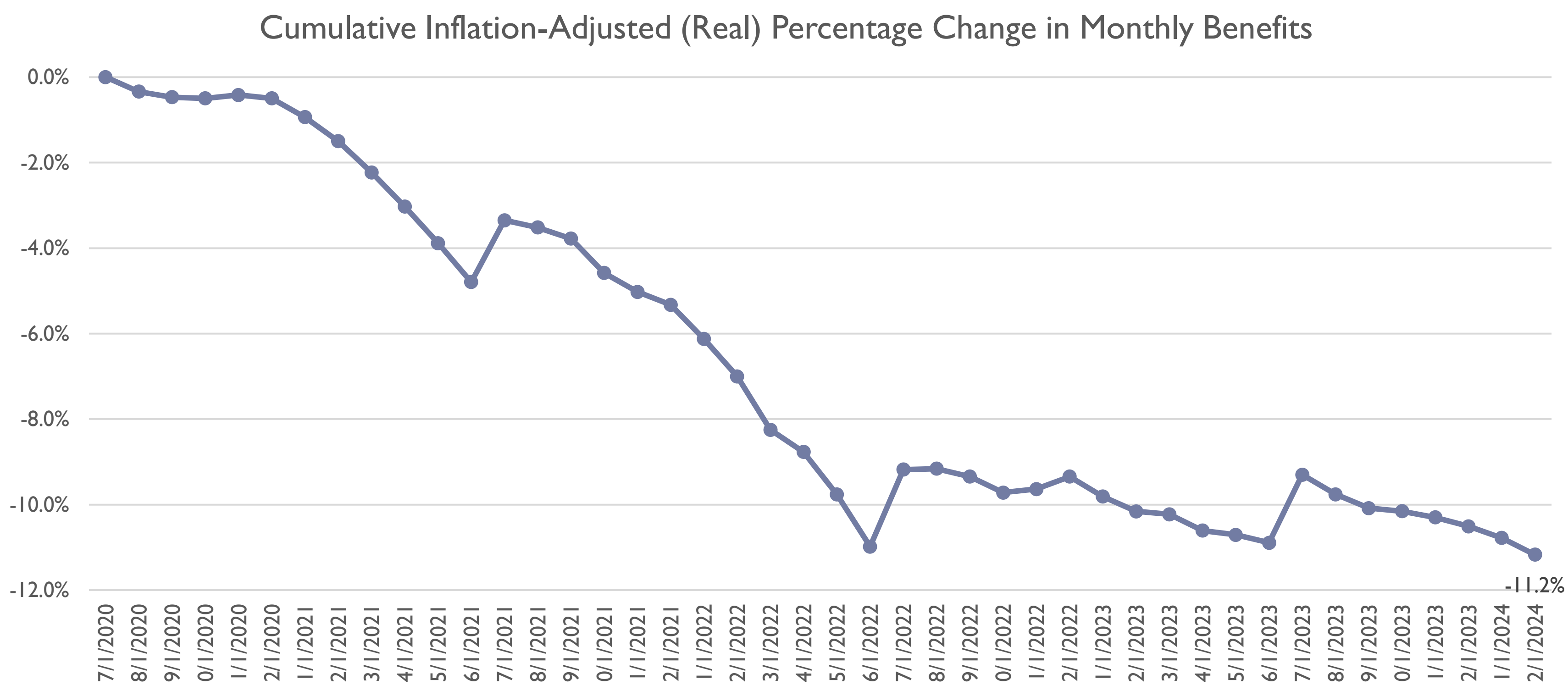
Opinions expressed herein reflect only the author's

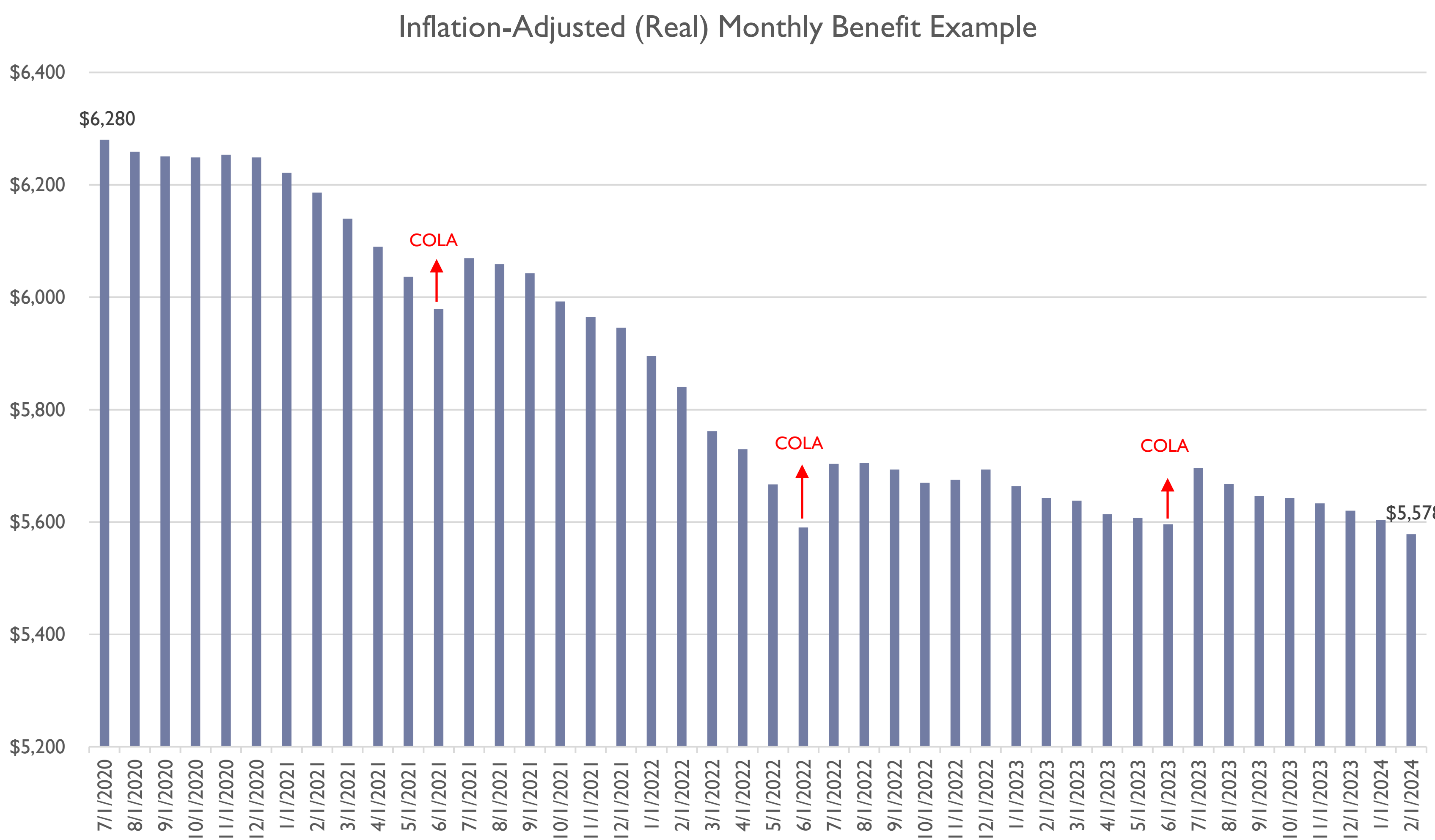
Benefit Policy: Cost of Living Adjustments

- **The Charter gives the Board the sole discretion over Cost of Living Adjustments (COLAs), but caps them at 2%**
  - Actual inflation has exceeded 2% recently



For an FPDR 2 retiree during the period shown. Portland City Charter Section 5-312 https://www.portland.gov/charter/5/3
Bureau of Labor Statistics R-CPI-U-RS

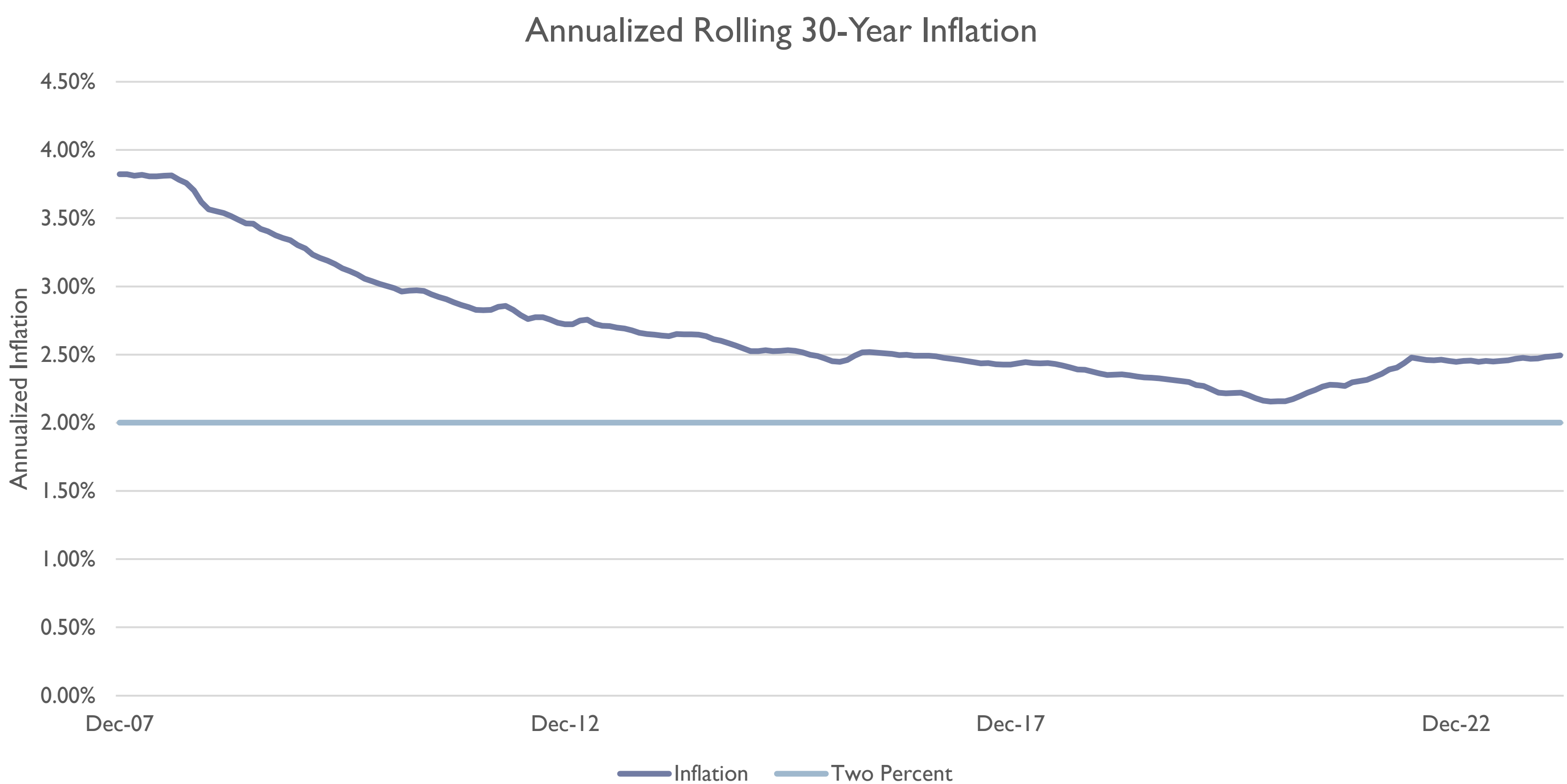
FPDR 2 Retired Member COLA Example



Hypothetical FPDR 2 retiree with a $6,280 monthly benefit in July 2020 during the period shown. Bureau of Labor Statistics R-CPI-U-RS

Historical CPI Inflation

- Over rolling 30-year periods, inflation has not fallen below 2%



Bureau of Labor Statistics R-CPI-U-RS

For Consideration

- The City should request its actuary provide an analysis of two types of concurrent potential changes to benefit policy and funding policy
  1. The costs of replacing the Charter's 2% cap on COLAs with actual Consumer Price Index (CPI) inflation, conditioned on exceeding a specified Funded Ratio
     - If Funded Ratio falls below the specified threshold, the existing 2% cap would remain in place
     - If Funded Ratio exceeds the specified threshold, the Board would be able to grant a COLA up to actual CPI inflation
  2. The cost savings of a Comprehensive Actuarial Funding Policy

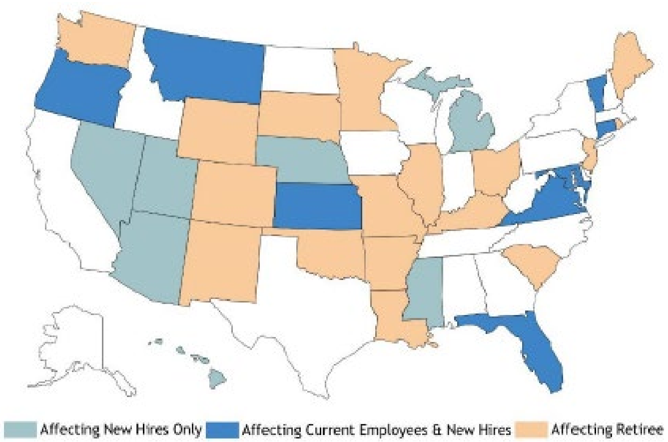
Funded Ratio=Total Assets/Total Liability

Appendix

NASRA on COLAs

- Social Security comes with a COLA, but about one quarter of employees of state & local governments participate in public pensions in lieu of Social Security, which makes COLAs particularly important
- COLA implementation has considerable variation across public plans
  - Automatic vs. Ad-hoc
  - Simple vs. Compound
  - Inflation-based (full/partial/no sensitivity)
  - Performance-based
    - Reserve account
  - Delayed-onset
  - Limited Benefit Basis (e.g. COLA on first $13,000 of benefits)
  - Self-funded annuity options (participant can elect COLA in exchange for a lower benefit level)
- COLA changes have been an active area of legislative change over 2009-2022:

	Linked to inflation	Linked to investment or funding condition	Fixed percentage or other factor	Total
Automatic	47	14	11	72
Ad-hoc	5	0	23	28
Total	52	14	34	100



NASRA https://www.nasra.org/cola https://www.nasra.org/socialsecurity

Many States Tied COLAs to Funding

State	COLA Tied to:	State	COLA Tied to:
Arizona	Funded Ratio (FR)	New Mexico	FR
Colorado	Contributions	Ohio	FR Projection
Georgia	FR & Returns	Oklahoma	FR
Kentucky	FR	Rhode Island	FR
Louisiana	FR & Contributions	South Dakota	FR
Minnesota*	FR	Tennessee	Cost and UAL
Montana	FR	Texas	FR Projection
New Jersey	FR	Wyoming	FR

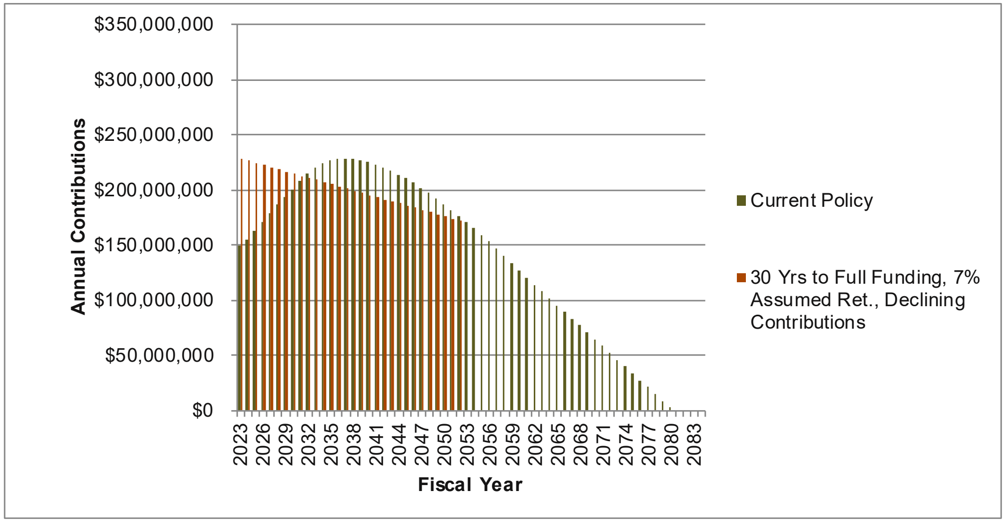
- About one third of states have automatically tied COLAs to funding

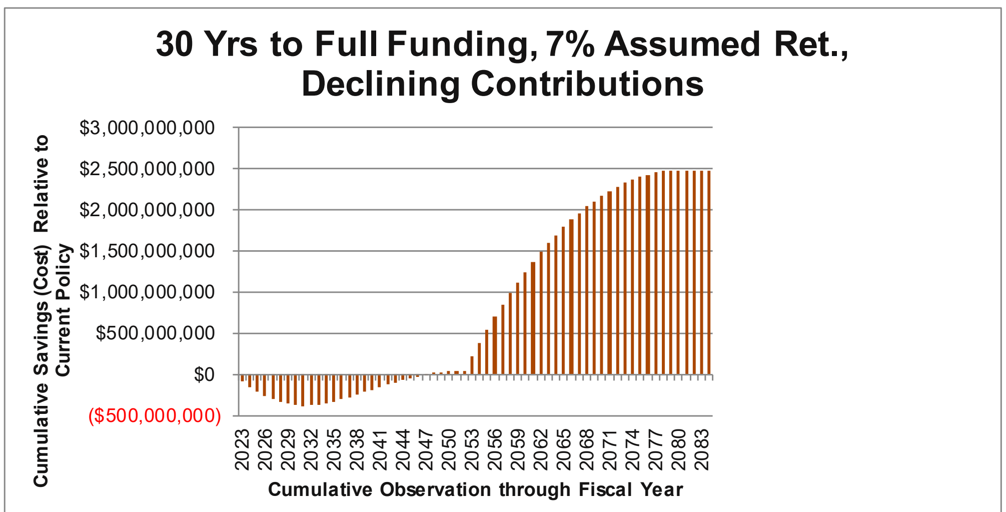
*Minnesota removed tie in 2018. UAL is Unfunded Accrued Liability. UAL=Total Liability-Total Assets. Funded Ratio=Total Assets/Total Liability. Source: NASRA https://www.nasra.org/colabrief https://www.nasra.org/content.asp?admin=Y&contentid=219

For Consideration

- The City should request its actuary provide an analysis of a Comprehensive Actuarial Funding Policy covering the following
- Inputs
  - Various amortization periods
  - Pension Obligation Bonds
  - Combinations of the above
- Outputs
  - Cumulative long-term cost savings
  - Analysis of the impact of FPDR on property tax compression, including in worse-case scenarios
    - This may require collaboration with the City Economist or an economic consulting firm given that it has not been done before

Current Policy (Green) vs. Illustrative Alternative (Red)





- This alternative is expected to reduce costs by $2.5 billion over the plan's life
  - Annual costs are lower than the Current Policy by year 10
  - Cumulative costs never reach $400 million
  - This alternative policy reaches breakeven by year 22

Author's calculations. Milliman biennial actuarial valuation report and Actuarial Valuation & Levy Adequacy Analysis presentation, as of June 30, 2022. FPDR One and Two shown.