PROTECTING PURCHASING POWER

WHAT WE'RE DOING NOW

Permanent benefit increases (PBIs) help reduce the impact of inflation on TRSL retirement benefits. However, PBIs can only be granted when there is enough money to pay for them, and with legislative approval.

HOW PBIs ARE FUNDED

PBIs are funded through a gain-sharing arrangement where a portion of the System's excess investment earnings are used for benefit increases.

Over the long-term, TRSL expects to earn an actuarial return of 7.25% to fund regular, monthly benefits; returns over 7.25% are considered excess earnings.

One-half of excess earnings over a statutorily determined dollar amount (hurdle) are deposited into the PBI Experience Account—an account that holds funds solely to pay PBIs.

Because of the current funding model, in any given year, there's no guarantee when or if any deposits will be made to the Experience Account.

HOW THIS IMPACTS RETIREES

Under current law, the ability to put money in the Experience Account is completely tied to market performance, which is unpredictable. As a result, it is difficult to determine when a PBI will be paid. In 2022, TRSL retirees received a 2.0% PBI for the first time in six years.

Legislators have recognized this and have been working with TRSL and other state retirement systems to find a new funding model that will allow for more regular benefit increases to help preserve the purchasing power of state pension dollars.

MORE ABOUT THE STATUTORY HURDLE

The first $200 million of excess earnings must be applied to long-standing retirement debt, generally referred to as the unfunded accrued liability (UAL). The $200 million amount increases as TRSL's actuarial value of assets increases. As of FY 2022, this amount is $298.3 million. Excess earnings are those earnings over the statutory hurdle.

A NEW APPROACH

As proposed in **Senate Bill 18**, the gain-sharing funding model would end, and employers would directly fund PBIs. Essentially, funding would become a part of the annual employer contribution rate, and deposited into a new PBI funding account.

Contributions employers pay toward regular, monthly benefits have been declining in recent years, and are projected to continue to fall as the unfunded accrued liability (UAL) is paid off. Capturing a portion of these decreases to fund PBIs is a clear and transparent method that will likely allow for PBIs to be granted on a more regular basis.

Starting in 2024, deposits to the PBI funding account would equal one-half of the decrease in the total employer contribution rate, growing over time until PBI deposits reach 2.5% of payroll. As a cost protection measure for employers, PBI deposits could not exceed 2.5%, and the total employer contribution rate would be capped.

ACHIEVABLE GOALS

- ✓ **Predictable:** New funding source is expected to allow for a 2% PBI every two to three years.
- ✓ **Manageable:** As employer retirement costs decrease, implementation of the Senate Bill 18 funding model, with built-in employer safeguards, provides a workable framework for PBI funding.
- ✓ **Straightforward:** Proposed funding design means clarity for retirees, employers, and legislators about payment of future PBIs and their cost.

FAQs

Answers to questions about the PBI funding model as proposed in Senate Bill 18

Will PBIs be automatic?

No, PBIs would not be an automatic benefit. They would only be granted when there are enough funds in the PBI funding account to pay for them.

Additionally, granting a PBI will still require two-thirds legislative approval, and they can be vetoed by the governor.

What happens to the current PBI Experience Account and the money in it?

Initially, the Experience Account and the new PBI funding account will exist side by side. The Experience Account would be phased out with any remaining balance transferred to the new PBI funding account.

Will eligibility criteria for a PBI change under the proposed model?

Yes, but not right away. When the first PBI is paid from the new PBI funding account, eligibility criteria for age and years retired would go up.

Regular retirees would need to be age 62 and retired two years to receive a PBI. **Disability retirees** would need to be retired at least two years regardless of age.

PBI eligibility also extends to **beneficiaries of retirees** that would have met the above criteria, if alive; and **survivors of non-retired members** who have received a benefit for at least two years and whose benefit was derived from the service of a deceased member who would have been age 62.

How much will PBIs be?

PBIs will be limited to 2% of the first $60,000 of the retirement benefit.

Can a PBI over 2% be granted?

While it is expected that PBIs could be paid every two to three years, the most the TRSL Board of Trustees could recommend would be a 2% PBI, subject to available funds.

However, through legislative enactment, lawmakers could choose to authorize a PBI in excess of 2%, subject to gubernatorial approval.

Will the proposed funding model add new debt to the system?

No, it will not. No new debt will be added to the system under the proposed model.

As with the current gain-sharing model, PBI funding under the proposed model is distinct from funding regular, monthly benefits earned over the course of an employee's career. Funds for the actuarial cost of PBIs must be available before the legislature can grant a PBI—that will not change with the proposed model.

Will money be deposited in the new PBI funding account every year, and will there be a limit on how much can be deposited in the account?

Deposits to the PBI funding account would occur every year, unless one of the employer safeguards prevents a deposit.

Safeguards include reducing or foregoing a PBI deposit if it would cause the total employer contribution rate to exceed the established cap, and limiting the PBI funding account balance to the cost of paying two PBIs.

Under the proposal, when can the new PBI funding account be debited (money paid out of the account)?

The ability to debit the PBI funding account would be the same as with the current Experience Account—for investment losses and payment of a PBI. Also, just like the Experience Account, the PBI funding account could not fall below zero.