**PERA Releases 2020 Financial Report**

**Investment Return Good; Other Factors Reduce 2022 COLA**

On Friday, June 18, PERA released its Comprehensive Annual Financial Report for calendar year 2020. Also released was PERA’s “Popular Annual Financial Report,” a shorter version of the full 275-page document. Both can be found via [www.copera.org](http://www.copera.org).

**How did PERA investments do in 2020?**

PERA’s return on investments for calendar 2020 was 17.4%. That was far higher than the PERA Board’s long term annual average return target of 7.25% for accomplishing full funding by 2048.

Senate Bill 200 of 2018 (SB 200) tied PERA’s Annual Financial Reports to projections of whether PERA was on track toward full funding of liabilities by 2048, and to “Automatic Adjustments” to PERA contributions from employees and employers, and benefit payments to retirees. The adjustments reflect whether PERA is making appropriate progress toward that full funding date.

**If investment return was good, why did the COLA get adjusted downward?**

Despite very good investment returns in 2020 (17.4%) and 2019 (20.3%), and a higher-than-7.25% long term annual average investment return, other factor updates in 2020 caused the projection that PERA was not on track for full funding by 2048. Thus, PERA announced that the Automatic Adjustment process would cause the retiree COLA to change from this July’s 1.25% to 1.0% in July of 2022.

**What factors other than investment return impact the Automatic Adjustment?**

In addition to investment returns, the Automatic Adjustment process also considers new data on expectations for inflation, whether the number of PERA employees is growing, whether salaries of PERA employees are increasing, and how PERA retiree life expectancy is changing.

In its policy deliberations during the past year, the PERA Board reviewed updated perspectives on those additional factors. The PERA Board…

— lowered expected inflation rate from 2.4% to 2.3%.

— lowered expected annual employee salary growth from 3.5% to 3.0% (Reduces fund income).

— lowered expected annual number-of-employees growth from 1.0-1.25% to 0.25-1.0% (Reduces fund income).

— changed retiree life expectancy to reflect new demographic data. (Increases benefit payment cost).

The net impact of all the 2020 information resulted in an increase in PERA liabilities, triggering the Automatic Adjustments for increased contributions from employers and employees and a reduction in retiree benefit payments.

**What’s good about the Automatic Adjustment Provision of Senate Bill 18-200?**

Changes that produce increased contributions and lower COLAs certainly create difficulties for employees, employers, and retirees. However, there is benefit in not needing legislative action every year to make the financial adjustments that keep the retirement fund healthy. Automatically keeping the fund headed toward full funding and the reliable delivery of a dependable Defined Benefit plan is an important accomplishment. Also, the Automatic Provision causes financial adjustments to be shared in a planned and agreed-upon manner among employees, employers, and retirees.

**How much can the COLA be reduced?**

If future developments continue to trigger downward adjustments, the retiree COLA could drop to 0.75% and 0.5% in subsequent years, but SB 200 stipulates that the COLA cannot drop below 0.5%. That could happen only if new legislation is passed. Positive funding projections could cause the COLA to adjust upward in 0.25% steps, but not above 2.0%.