



# 13<sup>th</sup> Check and COLA Study

Andy Blough  
Chief Actuary

October 24, 2023

(844) GO-INPRS  
[inprs.in.gov](https://inprs.in.gov)

# Supplemental Reserve Accounts (SRAs)

---

## Background

- As of June 30th, 2018, any postretirement benefit increases (including a 13th Check and/or COLA) granted by the General Assembly must be prefunded through available funds in segregated supplemental allowance reserve accounts (SRAs) for PERF DB, TRF Pre-'96 DB, TRF '96 DB, EG&C, and LE DB (IC 5-10.5-4-5).

## Previously

- Postretirement benefit increases (PBI) were granted by the General Assembly on an ad hoc basis
- Increases were paid out of plan assets
- No income sources were segregated for the sole purpose of PBI

## Recent History of PBIs:

- 2019 and 2020: 13th checks notwithstanding the SRAs
- 2021: 1% COLA effective 1/1/2022, with additional funding to the SRAs
- 2023: No increases granted

# 13<sup>th</sup> Check / COLA Study Description

---

- One possible design of many
- Proposal for postretirement benefit increases
  - 13<sup>th</sup> check structure\* (indexed to inflation) payable to current retirees
  - 1% COLA payable to future retirees
- Cavanaugh Macdonald Consulting based this analysis using June 30, 2022 actuarial valuations
  - Uses June 30, 2021 data
  - Effective date was therefore 7/1/2021
- Results should be viewed as estimates for comparison, not precise predictions



---

\*See the appendix for a definition of the 13<sup>th</sup> check structure.

# Funding Methodology

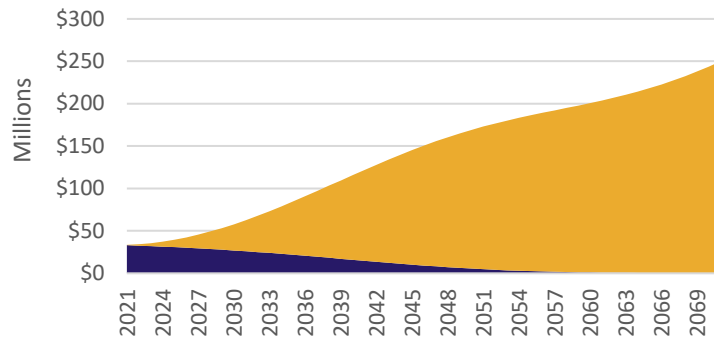
---

- Current SRA funding is based on the biennial budget cycle
  - Amounts are based on the 0.4% / 0.5% / 0.6% assumption
  - Constrained to 1% maximum surcharge
- Proposal is funded involves prefunding COLAs as well as collecting sufficient assets for indexed 13<sup>th</sup> checks
  - Leads to higher initial surcharge rates
  - Long-term surcharge rates decrease, but are still above the current COLA assumption

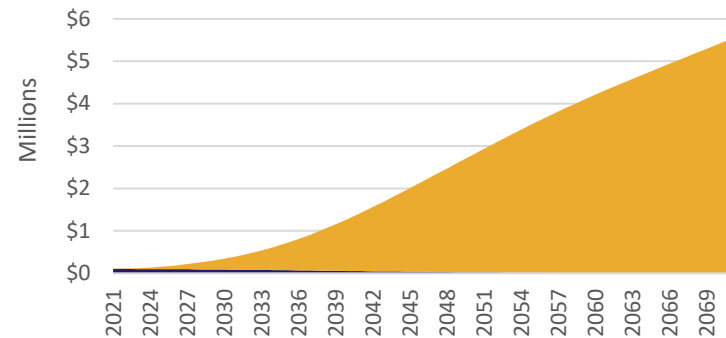
# 13<sup>th</sup> check and 1% COLA - Benefits

■ 13th Check Current Inpay   ■ 1% COLA Future Inpay

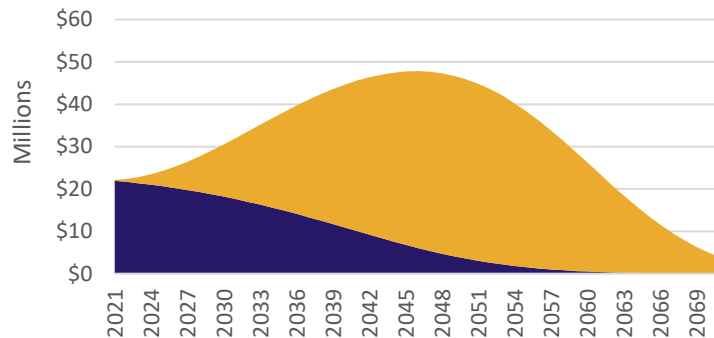
PERF - Supplemental 13th Checks and  
1% COLA



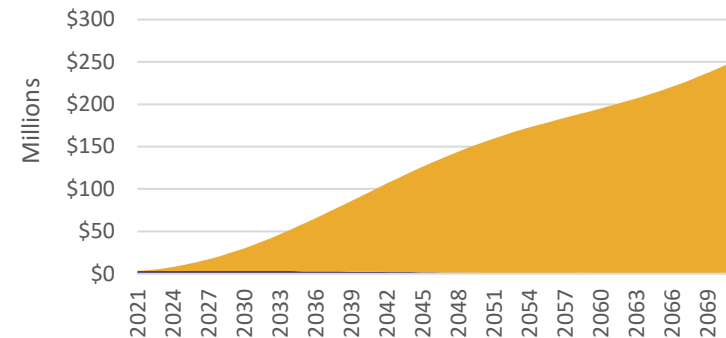
EG&C - Supplemental 13th Checks and  
1% COLA



TRF Pre-'96 - Supplemental 13th  
Checks and 1% COLA

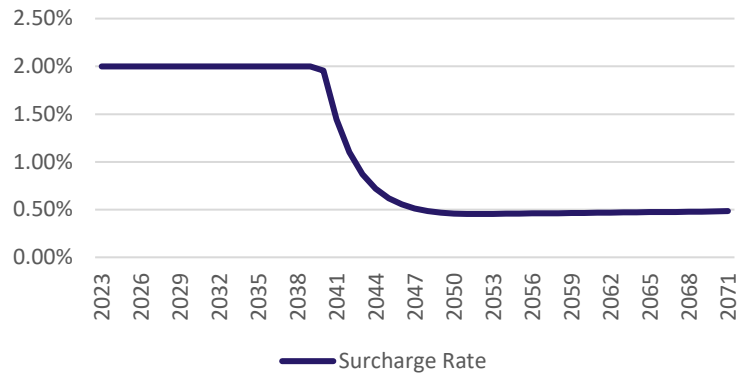


TRF '96 - Supplemental 13th Checks  
and 1% COLA

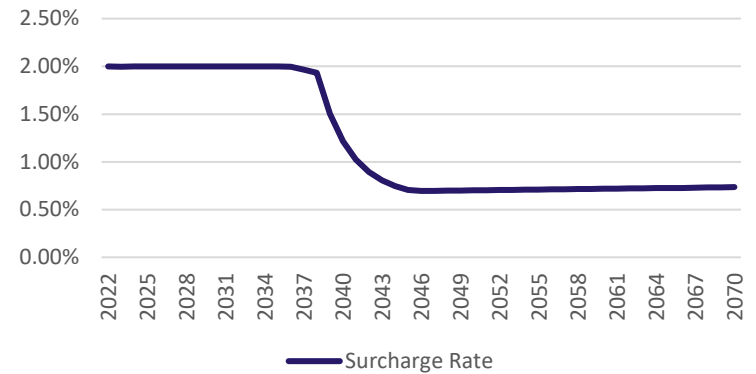


# 13<sup>th</sup> check and 1% COLA – Surcharge Rates

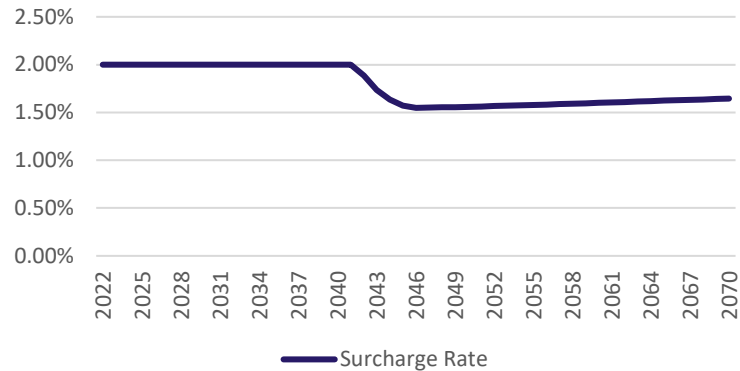
PERF - Surcharge Rate



TRF '96 - Surcharge Rate

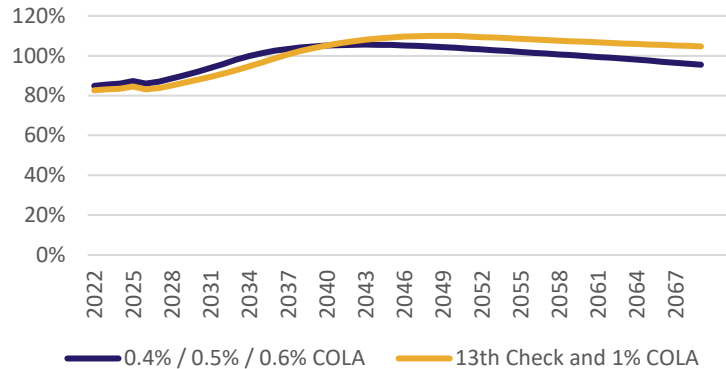


EG&C - Surcharge Rate

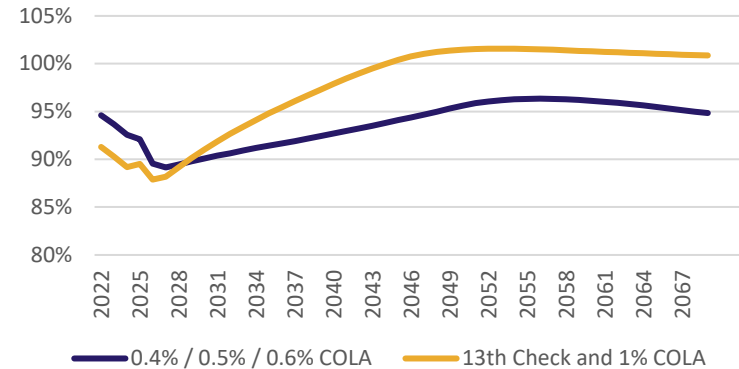


# 13<sup>th</sup> check and 1% COLA – Projected Funding

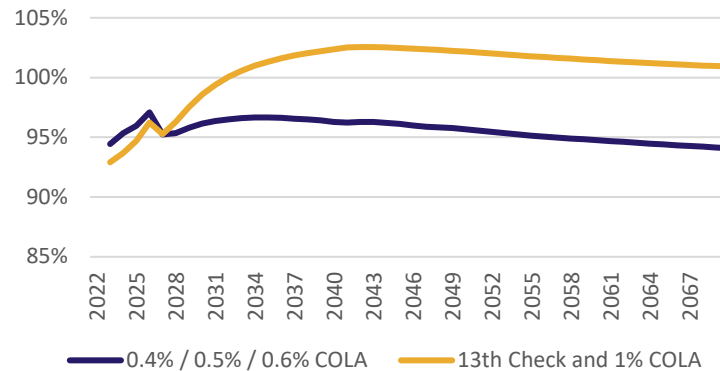
PERF - Funded Ratio



TRF '96 - Funded Ratio

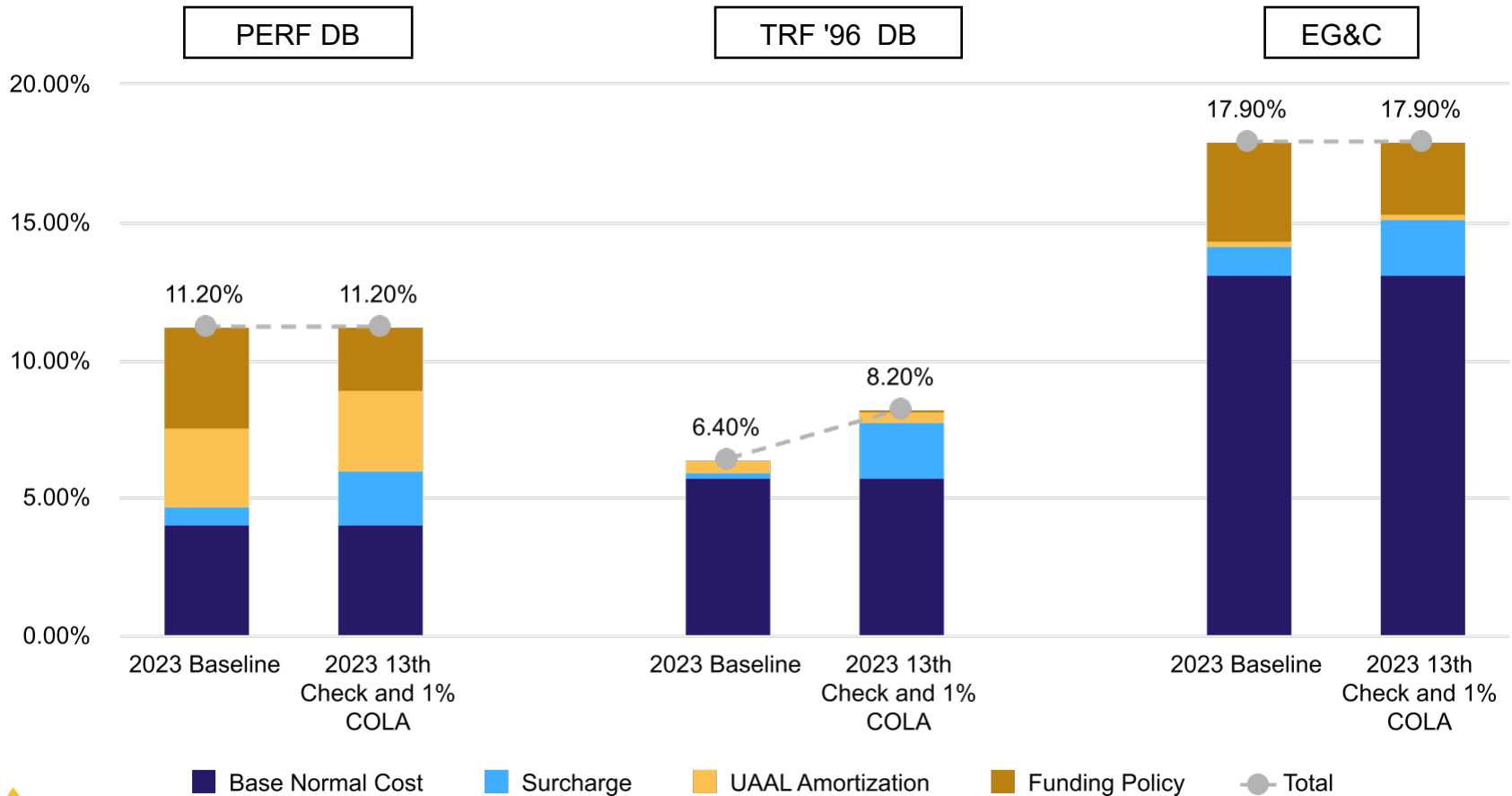


EG&C - Funded Ratio



# Contribution Rates - Illustration

6/30/2023 Baseline and Estimated 13th Check & COLA  
Scenario Contribution Rate Breakout





# Summary

---

- Scenario gives indexed 13<sup>th</sup> checks to current retirees, 1% COLA to future retirees
- Costs and impacts are meant to be illustrative
- Known funding goal allows for prefunding and better attribution of costs
- Higher costs due to increased benefits, but anticipated to decrease from the initial amounts over time as benefits are prefunded

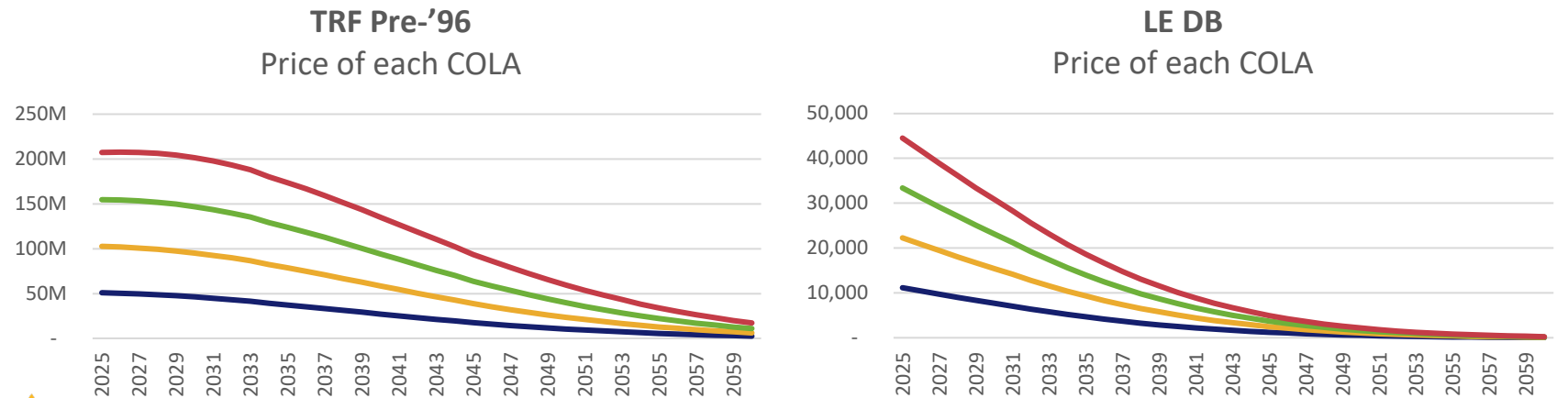
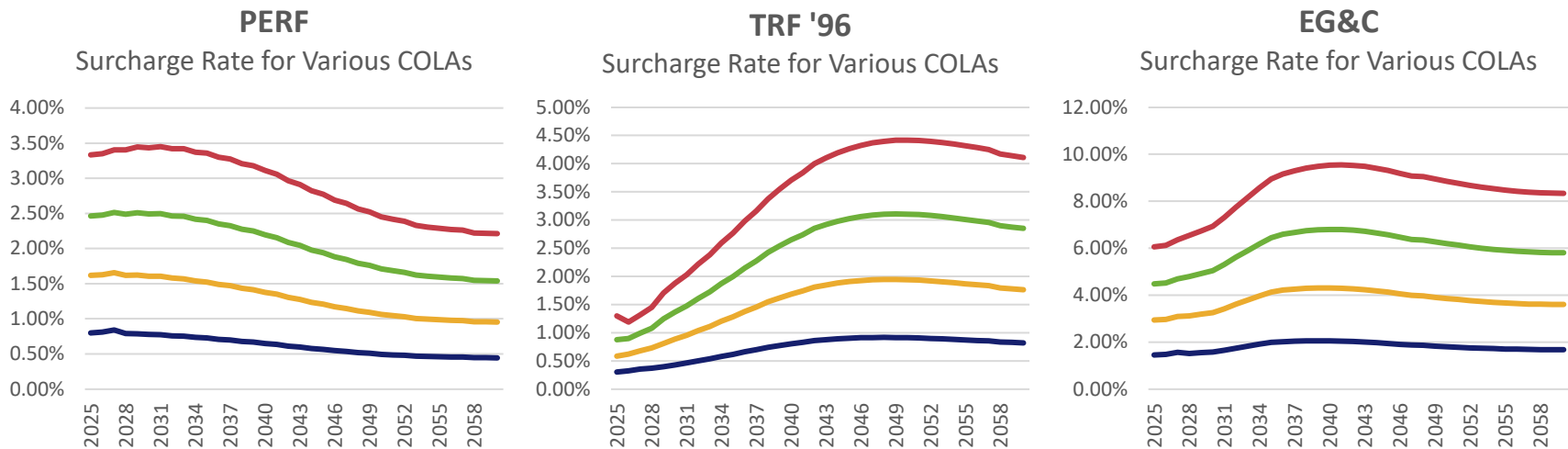


13<sup>th</sup> Check and COLA Study

---

# Appendix

# COLA Scenarios – Rates and Amounts



COLAs are assumed to be granted each year at the specified rates.  
Source: Analysis from Cavanaugh Macdonald Consulting, LLC. Please see the letter dated June 21, 2023, for additional information and limitations.

## Current COLA Assumption

---

- Because SRA funds must grant the same COLA or 13<sup>th</sup> check, they all use the same assumption
  - 0.4% per year through 1/1/2033
  - 0.5% per year from 1/1/2034 – 1/1/2038
  - 0.6% per year from 1/1/2039 onward
- COLA assumption is set as the maximum amount that the least-funded SRA can support
  - Currently TRF Pre-'96, but will change to PERF
  - Annual lottery revenue is \$30M

# 13<sup>th</sup> Check Indexing

---

- 13<sup>th</sup> check levels are assumed to grow with assumed inflation (2% per year)
- The following table illustrates this assumption:

Service Level	2021	2030	2040	2050
5 - 10 years	\$150	\$179	\$219	\$266
10 – 20 years	\$275	\$329	\$401	\$488
20 – 30 years	\$375	\$448	\$546	\$666
30+ years	\$450	\$538	\$656	\$799

# Additional Notes and Disclaimers

---

The analyses overviewed in this presentation is based upon models completed by Cavanaugh Macdonald Consulting, LLC for members of the Commission on Pension Management Oversight to address items requested by the members of the commission. This overview does not provide a full description of the underlying plans' funding situations and should not be considered comprehensive.

The cost estimates contained in this presentation are generally based on the data, methods, and provisions used in the June 30, 2022, actuarial valuations for the indicated funds. Cavanaugh Macdonald Consulting, LLC, will be creating a letter documenting this analysis and INPRS will make it available upon request to members of the Commission on Pension Management Oversight or their staff.

In order to prepare the results in this report, we have utilized appropriate actuarial models that were developed for this purpose. These models use assumptions about future contingent events along with recognized actuarial approaches to develop the needed results. The comments and analysis contained in this presentation are not intended to give exact calculations of costs. They should be considered to be estimates. The emerging costs will vary from those presented in this presentation to the extent that actual experience differs from that projected by the actuarial assumptions. These models use assumptions about future contingent events along with recognized actuarial approaches to develop the needed results. This cost analysis has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statement of Actuarial Opinion of the American Academy of Actuaries. We have not explored any legal issues with respect to the proposed plan analysis. We are not attorneys and cannot give legal advice on such issues.

Brent A. Banister and Virginia Fritz are consulting actuaries with Cavanaugh Macdonald Consulting, LLC. Robert (Andy) Blough is the Chief Actuary of the Indiana Public Retirement System. We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We are available to answer any questions or provide additional information as needed.