



FLORIDA RETIREMENT SYSTEM (FRS)

Major Costs, Risks Associated with Restoring FRS COLA

Facing overwhelming growth in annual pension costs in 2011, the legislature elected to suspend the Florida Retirement System’s cost-of-living adjustment (COLA) for state workers who retire after that date. This cost-saving measure was a major part of the state’s strategy to manage exploding public pension costs and try to get FRS back on track toward full funding. Since then, Florida has made some progress, but is still on a long path to achieving this goal. Now, a new proposal (House Bill 151) seeks to reinstate the costly COLA feature, which could again expose the state and taxpayers to unpredictable costs. It is crucial that policymakers explore this proposal’s potential costs and risks before setting the state’s pension funding progress back.

COLA Cost Could Exceed \$32 Billion

- The cost of a COLA on state budgets can be estimated, but Florida’s actual costs will depend on market returns and demographic outcomes.
- Policymakers who look beyond best-case scenarios when evaluating a COLA should see that potential economic recessions and market variances could lock Florida’s taxpayers into paying for this benefit for longer than planned and at higher costs.
- Pension Integrity Project modeling of FRS indicates that even with cost-saving measures in HB 151, the additional cost of bringing back COLAs could rise above \$32 billion over 30 years.

Total 30-year FRS Cost to Taxpayers (adjusted for inflation)

	Status Quo	Proposed COLA
Best Case Scenario (6.7% returns)	\$182 billion	\$206 billion
Recession Scenario (Dodd-Frank stress)	\$325 billion	\$357 billion

Source: Pension Integrity Project actuarial modeling of FRS

Florida Needs to Stay the Course

- State lawmakers, public employees, and taxpayers have all made sacrifices to ensure the long-term viability of FRS. These reforms, some passed recently, take time, however, and must be maintained to reach the eventual full-funding goal.
- FRS is still short of funding already promised pension benefits by \$42 billion. It is decades away from being able to fulfill the promises made to teachers, police, firefighters, and other public workers.
- Now is not the time to add more promises with unpredictable and potentially costly price tags.

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