MISSISSIPPI PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

Inflexible COLA Impacting PERS' Financial Sustainability

Pension Debt Presents a Growing Challenge

- As of 2021, the Public Employees' Retirement System of Mississippi (PERS) reported being $19 billion short of what is needed in the fund today to meet all the promises made to current and future retirees.
- The current cost of living adjustment (COLA) accounts for a significant share of benefits—an estimated 27% of the system's payouts in 2021, up from 21% in 2011.

Current COLA Policy Not Operating as Intended

- While COLAs are meant to protect the purchasing power of retirees' pension payouts throughout retirement by tracking changes in the larger economy, the current PERS COLA grants a fixed 3% compounding annual benefit increase—regardless of consumer prices and inflation.
- By being locked to a fixed rate instead of floating with inflation, it effectively acts as an automatic, upward shift in benefits untethered to any actual change in consumer prices in the economy, which is the purpose of a COLA.

The PERS COLA is not tied to inflation, serving more as an autopilot annual pay raise for retirees than a way to maintain retiree's purchasing power throughout retirement.

- Save for the historical spike in 2021, consumer price increases fell below 3% for a decade, driving pension liabilities—including unfunded liabilities—artificially higher through the current "autopilot COLA" mechanism.
- The average CPI-based inflation rate over the last two decades (including 2021) was only 2.18%, compared to the current 3% PERS COLA rate.

2011 Public Employees Retirement System Study Commission

- Identified the PERS COLA as a long-term financial issue driving up cost.
- Recommended freezing the current COLA for three years and tying the rate to the Consumer Price Index thereafter with a cap set at the current 3% level.
- If annual COLAs had tracked with CPI since 2012, it would have saved the plan about $1.56 billion in benefit payments over the past 10 years.

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