How Benefit Enhancements Are Paid For - TRANSCRIPT
***Understanding Your Pension Fund* video series**

The TRS pension fund has one goal.

To provide you with a dependable source of retirement income for life.

In this series of videos, industry expert Joe Newton will answer some of the most commonly asked questions by our members.

Join us as we help you *understand your pension fund.*

Hi! I'm Joe Newton and I am an actuary at GRS - the independent actuarial firm that analyzes pension funds across the nation, including TRS.

That means I'm the one who calculates the indicators used to determine how healthy the TRS Pension Trust Fund is.

This is one in a series of videos where I explain some of the key factors and processes we use and follow to make sure the pension fund ***stays*** healthy. We want to make sure it has enough money for current and future retirees.

I'm often asked how **BENEFIT ENHANCEMENTS**, like Cost of Living Adjustments - **COLAs for short** - or supplemental payments should be paid for.

Keep in mind, COLAs and supplemental payments can only be considered by the Texas Legislature when the pension fund is "actuarially sound."

Actuarial soundness of the fund means that it is likely that the combination of money in the fund, along with *future* contributions, *will be* enough to pay the promised benefits.

In the past, there have been times when benefit enhancements have been **FINANCED,** through the pension trust fund without additional revenue. Financing in this case is **like when you take out a mortgage to buy a home.**

But when there is already an **UNFUNDED LIABILITY**, meaning there is currently not enough money in the Fund to cover promised benefits, then this is a lot like also financing an addition to the house on top of the mortgage already owed.

Of course, that just increases the amount of interest charged and requires someone in the future to pay much more. As an actuary, financing a benefit enhancement through the fund is just not recommended.

The best practice is to provide additional funding to the pension fund when the benefit enhancement is granted.

This could take the form of increasing today's contributions to pay for the cost of the COLA over a period of time.

Or, with available funding, the Texas Legislature could provide a lump sum amount that TRS can invest and use to pay for the COLA over time.

Lastly, in the case of supplemental payments, the enhancement should be paid for upfront.

In summary, since benefit enhancements are not free, industry best practice is to provide additional revenue to pay for the increased benefits, rather than financing or borrowing against the pension fund.