Why inflation matters

- Inflation is a building block underpinning actuarial assumptions for payroll growth and investment return.

- Sustained inflation below expected levels typically corresponds with payroll growth and investment returns below expected levels.

- Reducing a plan’s inflation assumption usually increases the cost of the plan.
Annual inflation rate and 10-year average for years ended in June, 1993-2017

Change in distribution of inflation assumptions, FY 06 to FY 16

Public Plan Database, Public Fund Survey
Median inflation assumption and expected rate of inflation
Change in distribution of nominal investment return assumptions, FY 01 to FY 18

Public Fund Survey, NASRA Jul-17

*preliminary
Change in average assumptions: nominal investment return, inflation, and real rate of return

Public Plan Database, Public Fund Survey