Plan 1 COLA Proposals

Description Of Issue

The SCPP revisited the Uniform Cost of Living Adjustment (COLA) in PERS and TRS Plan 1. Stakeholders seeking improvements to the COLA have proposed two possible changes. This issue raises three basic policy questions:

- ❖ Is the current COLA sufficient?
- ❖ Who most needs an improved COLA?
- ❖ What form should a new COLA take?

Policy Highlights

- ❖ The Uniform COLA helps maintain the value of pensions—though not equally for all members.
- ❖ The Uniform COLA and the Plans 2/3 COLA were designed to meet different policy objectives—direct comparisons may be misleading.
- ❖ The SCPP has adopted a policy on inflation protection (SCPP Goal #4).
- ❖ Benefit improvements for past service increase the Plans 1 UAAL and generally run counter to the principle of intergenerational equity.
- ❖ There are a variety of ways to target, implement, and design COLAs.

Stakeholder Proposals:

Stakeholders submitted two proposals to the SCPP regarding the Plan 1 COLA. The stakeholders later asked the Committee to consider revisions to their proposals. See the full report for details on the original stakeholder proposals.

- ❖ **Revised Short-Term Option: Grant Additional Increases To The Uniform COLA Based On Year Of Retirement.**
    - o Provides larger increases to members retired the longest.
    - o Does not precisely recover purchasing power.
    - o Impacts minimum benefits.

❖ **Revised Long-Term Option: Provide The Better Of The Uniform COLA Or A CPI-Based COLA Similar To The Plans 2/3 COLA.**
  - Generally prevents the further loss of purchasing power.
  - Does not diminish benefits.
  - Provides similar value for the CPI-based COLA, but a better overall COLA in the Plans 1 than the Plans 2/3.
  - Raises questions about contractual rights.

Committee Activity

Staff briefed the Committee on this issue in September and November. The Committee held a public hearing in December.

Recommendation To 2009 Legislature

None.

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Plan 1 COLA Proposals

In Brief

ISSUE

The SCPP revisited the COLA provided in PERS and TRS Plans 1. Stakeholders seeking improvements to the COLA have proposed two possible changes. The first modifies the design of the existing COLA by granting additional increases based on the year of retirement. The second establishes a new COLA policy of providing inflation-based increases.

MEMBER IMPACT

These proposals would affect very different member groups. The first would impact nearly 33,000 PERS and TRS Plan 1 members who retired prior to 1991. The second would impact over 114,000* PERS and TRS Plan 1 active, terminated vested, and retired plan members.*

**As of June 30, 2007.*

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Introduction

The SCPP revisited the post-retirement Cost-Of-Living-Adjustment (COLA) provided in Plan 1 of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). (The term "Plans 1" will be used throughout to refer to PERS and TRS Plan 1.) Stakeholders seeking improvements to the COLA have proposed possible changes.

This issue raises three basic policy questions:

- Is the current COLA sufficient?
- Who most needs an improved COLA?
- What form should a new COLA take?

This paper will explore the policy considerations around these questions and the challenges faced by policy makers when trying to retrofit a COLA into a plan that was not originally designed for one.

Current Situation

The primary COLA provided in the Plans 1 is the Uniform COLA. The Uniform COLA is a service-based COLA payable the first calendar year in which the recipient turns age 66 and has been retired for one year. The Uniform COLA is a fixed dollar amount multiplied by the member's total years of service. The dollar amount of the Uniform COLA increases by 3 percent every year on July 1. As of July 1, 2008, the Uniform COLA was $1.73 per month/per year of service. This amounts to an annual increase of $623 for a recipient with 30 years of service. Statute specifies that future increases to the Uniform COLA are not a contractual right.

An optional Consumer Price Index (CPI)-based automatic COLA is also available to the Plans 1 members who elect it at retirement. The Auto-COLA* provides an annual percentage increase in the retirement allowance. The increase is based on changes in the CPI** up to a maximum of 3 percent per year (essentially the same COLA as provided in the Plans 2/3). The Auto-COLA begins one year after retirement—regardless of age or service—and is in addition to any other COLAs received. Members who elect the Auto-COLA receive an actuarially reduced retirement allowance to offset the cost.

COLAs address how well a pension maintains its value, while minimum benefits address the adequacy of a pension.

The Plans 1 also provide minimum retirement benefits in addition to the COLAs discussed above. While COLAs address how well a pension maintains its value over time, minimum benefits address the adequacy of a pension and serve as a safety net. Minimum benefits increase every year—effectively providing a COLA to those at the minimum benefit level. Two minimums are provided: the Basic and the Alternative.

The Basic Minimum is $38.92*** per month multiplied by the member's total years of service. The Alternate Minimum is $1,092.73*** a month for recipients who:

a) Have at least 25 years of service and have been retired at least 20 years.

b) Have at least 20 years of service and have been retired at least 25 years.

The Basic Minimum increases every year by the dollar amount of the Uniform COLA. (For example, the Basic Minimum increased from $37.19 to $38.92 in 2008. The $1.73 increase was the amount of the Uniform COLA for that year.) The Alternate Minimum is not tied to the Uniform COLA and increases by 3 percent each year.

**First available in 1990.*
***Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for Seattle-Tacoma-Bremerton (STB).*
****As of July 1, 2008.*

Example

Figure 1 illustrates the impact of the Uniform COLA on three retirees with 30 years of service and different monthly pensions. In this example, Retiree 3 receives the Basic Minimum benefit—which increases by the Uniform COLA amount each year.

Figure 1

Uniform COLA Example: 30 Years of Service				
	Pension Before COLA	2008 Uniform COLA ($1.73*30)=51.90	Pension After COLA	Percent Increase
Retiree 1	$1,500.00	$51.90	$1,551.90	3.46%
Retiree 2	$3,000.00	$51.90	$3,051.90	1.73%
Retiree 3	$1,115.70 (Basic Minimum)	$51.90	$1,167.60 (Basic Minimum)	4.65%

The Uniform COLA provides proportionately higher increases for annuitants with smaller pensions.

This example shows how the Uniform COLA provides proportionately higher increases (and greater purchasing power protection) for annuitants with smaller pensions. This is because the Uniform COLA is a fixed dollar amount and not based on a percentage of the pension.

History

To understand where today's COLA policy came from, it is helpful to look at the history of COLA policy from different perspectives. The broader perspective is how COLA policy has changed within the context of plan design. A more narrow focus is how the Legislature has addressed COLAs within the Plans 1.

COLA Policy Has Changed Over Time

When the Plans 1 were first created over 60 years ago, they did not provide for post-retirement COLAs. COLAs may not have been provided for a variety of reasons:

The Plans 1 were not originally designed to provide a COLA.

- Inflation was relatively low from 1940 until the early 1970s.
- Members were not expected to live many years in retirement.
- The plans were intended to provide more of a reward for service than replacement income.

Eventually, changing times began to challenge this design. Periods of high inflation, increasing life spans, and increasing expectations for retirement all called into question the adequacy of the Plans 1 design. These challenges led to a rethinking of the basic purpose of retirement plans.

The Plans 2 were designed from the onset to provide a COLA.

Responding to challenges with the Plans 1 design, the Plans 2 were created in 1977. The Plans 2 were designed from the onset to be income replacement plans and to provide a post-retirement COLA. Part of this design was the establishment of a normal retirement age of 65—substantially higher than the retirement ages in Plans 1. The higher retirement age made the COLA more affordable and increased the likelihood the COLA would reasonably protect the value of the pension over the recipient's life.

The Plans 2 income replacement and COLA policy was carried forward into the design of the Plans 3 when those plans were created in the late1990s.

Benefits For Plans 1 Retirees Have Increased Over Time

COLA policy also changed within the Plan 1 design to a more limited extent. Responding to concerns about the adequacy of benefits and the impact of inflation, policy makers made several efforts over the years to increase benefits for retirees in the Plans 1. These efforts continued even after they closed.

The Legislature has employed a variety of different approaches in their efforts to increase retiree benefits:

Various approaches have been used to increase retiree benefits.

- ❖ Establishing minimum benefits and periodically increasing them to reflect changes in the cost-of-living.
- ❖ Granting various ad-hoc benefit increases.
- ❖ Granting increases based on earnings realized by plan assets.
- ❖ Providing an optional, CPI-based COLA from retirement paid for by members.
- ❖ Providing automatic COLAs (including Uniform).

Appendix A provides a history of post-retirement benefit increases in the Plans 1. Some highlights from this history are provided in **Figure 2,** below.

Figure 2

Key Post-Retirement Benefit Adjustments in The Plans 1	
Year	Increase
1961	Minimum benefit established.
1970-1986	Various ad-hoc COLAs (3% - 6%) and Minimum benefit increases.
1987	3% automatic annual increase in Minimum benefit.
1989	CPI-based automatic COLA (up to 3%) for retirees whose purchasing power at age 65 drops more than 40%.
1995	Uniform COLA replaces CPI-based COLA.
1998	Gain-sharing established. Provided possible even-year increases in the Uniform COLA depending on investment earnings.
2008	Gain-sharing ended. Replaced by one-time increase to Uniform COLA.

SCPP Action Taken On Plans 1 COLA Policy

The SCPP studied the issue of purchasing power for Plans 1 retirees in 2003 and 2004, and received an update on the issue in 2005.

The SCPP has made several recommendations on COLAs in the Plans 1 that have been adopted by the Legislature.

The SCPP has made several recommendations on COLAs in the Plans 1.

2003*

- $1,000 Alternative Minimum benefit for members with 25+ years of service and retired 20+ years.

2004*

- $1,000 Alternative Minimum benefit for members with 20+ years of service and retired 25+ years.
- Increase the amount of the Alternative Minimum by 3 percent each year.
- One-time increase in the Uniform COLA.
- Provide the Uniform COLA to members who will turn age 66 during the calendar year.

Indicates year first recommended. Some proposals were recommended in more than one year. See **Appendix A for year enacted.*

Policy Analysis

Other Washington Plans

The Plans 2/3 provide a CPI-based COLA.

Washington's Plans 2/3 provide a CPI-based COLA. This COLA is designed to maintain the purchasing power of retiree benefits and is consistent with the underlying income replacement design of the plan. The Plans 2/3 COLA is an annual percentage increase in the retirement allowance beginning one year after retirement. The increase is based on changes in the CPI* up to a maximum of 3 percent per year.

As discussed in the **History** section, the Plans 2/3 COLA is tied to a normal retirement age of 65 (or 62 with 30 years of service). Members who retire prior to the normal retirement age still receive the COLA after one year—but on an actuarially reduced benefit.

**Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for Seattle-Tacoma-Bremerton (STB).*

Peer Systems

Washington's peer systems provide automatic CPI-based or fixed-percent COLAs.

All of Washington's peer systems provide an automatic post-retirement COLA in their open plans (see **Figure 3**). Five of those systems provide COLAs that are CPI-based with varying caps from 2 to 6 percent. The remaining systems provide fixed percent increases ranging from 1.5 to 3.0 percent. Systems where members are not covered by Social Security tend to provide larger COLAs. Most COLAs begin after one year of retirement; Florida and Idaho provide prorated COLAs for those retired less than one year.

Several of the peer systems provide protection against specific losses of purchasing power. Benefits in the California systems cannot fall below a minimum percent (75 or 80 percent) of the original benefit's purchasing power. Benefits in the Seattle system cannot fall below 60 percent of their original purchasing power. This is similar to a 1992 COLA provision that protected Plans 1 members from the loss of more than 40 percent of their age 65 benefits' purchasing power.

Figure 3

COLA Provisions by Select Retirement Systems*	
System	**COLA**
Cal PERS	CPI based, 2% max (75% purchasing power min.)
Cal STRS	2% simple (80% purchasing power min.)
Colorado PERA**	CPI up to 3%
Florida (FRS)	3%
Idaho (PERSI)	CPI based, 1% min, 6% max,
Iowa (IPERS)	Simple, 3% max, tied to investment surplus
Minnesota (MSRS)	CPI based, 2.5% max + investment surplus
Missouri (MOSERS)**	80% of change in the CPI, 5% max
Ohio (OPERS)**	CPI based, 3% max
Oregon PERS**	CPI based, 2% max
Seattle (SCERS)	1.5% (60% purchasing power min.)

**For new hires. Source: Member handbooks published on system administrators' websites as of 8/28/2008.*

***Not covered by Social Security.*

Some state plans only provide ad-hoc COLAs.

While all of Washington's peer systems provide automatic CPI-based or fixed percent COLAs, some states do not. According to the 2007 Public Fund Survey (a national survey of 126 retirement plans representing all 50 states), 26 state plans provide COLAs only on an ad-hoc basis. Also, 15 state plans provide COLAs that are in some part based on investment earnings. The remaining plans (nearly two-thirds) generally provide automatic CPI-based or fixed-percent COLAS.

Providing Adequate Benefits And Protecting Purchasing Power Are Different Policy Objectives

COLA policy has largely been driven by adequacy of benefits and purchasing power concerns.

COLA policy in the Plans 1 has largely been driven by the twin concerns of adequacy of benefits and purchasing power protection. Though there is some overlap, the two are very distinct concepts from a plan-design perspective and have different policy implications.

Adequacy of benefits relates to how well a pension *meets expectations* around a standard of living. In contrast, purchasing power protection relates to how well a pension *retains value* over time. To illustrate the difference: the pension of a highly-paid retiree might lose considerable value over time and still be considered "adequate," while the pension of a low-paid retiree might retain its full value over time but be considered "inadequate."

Purchasing power protection is addressed through COLAs.

Adequacy of benefits may be addressed through a variety of means including changing benefit formulas or establishing minimum benefits. Purchasing power protection is addressed through COLAs. The remainder of this paper will focus on policies around purchasing power protection.

The Uniform COLA And Plans 2/3 COLA Were Designed To Meet Different Objectives

Discussions of COLA policy in the Plans 1 often involve comparisons between the Uniform and the Plans 2/3 COLA. These COLAs were designed to meet different policy objectives. Direct comparisons between them can be misleading.

The Uniform COLA is designed to meet four primary policy objectives within fiscal constraints:

The Uniform COLA provides more purchasing power protection to members with lower salaries.

- Provide a larger dollar increase to members with more service.
- Provide more purchasing power protection to members who retire with lower salaries.
- Provide a COLA at the same age that Plans 2/3 members qualify for an unreduced COLA.
- Provide legislators a simple mechanism to grant ad-hoc COLAs.

These objectives are consistent with the reward-for-service design of the Plans 1 and reflect trade-offs between adequacy of benefits and purchasing power protection. Tying the Uniform COLA to the Plans 2/3 unreduced retirement age may reflect a desire to maintain consistency between the plans in the starting age for unreduced COLAs. The design of the Uniform COLA also provides a simple mechanism for legislators to grant ad-hoc COLAs—the most recent example being the 40 cent (per month/per year of service) increase granted in 2008.

In contrast to the Uniform COLA, the Plans 2/3 COLA is designed to maintain the value of members' pensions in an environment of moderate inflation. The Plans 2/3 COLA

The Plans 2/3 COLA is designed to maintain purchasing power for all retirees.

does not favor any one group of retirees. Retirees with relatively high salaries and high benefits receive the same protection from inflation as lower-salary, lower-benefit retirees. This is consistent with the underlying income-replacement design of the plan.

The Uniform and the Plans 2/3 COLA both provide inflation protection consistent with their respective plan designs. While the Plans 2/3 COLA generally does a better job of maintaining the value of the pension than the Uniform COLA, there are exceptions. Some Plans 1 retirees may receive proportionately larger increases under the Uniform COLA than they would under the Plans 2/3 COLA. These would tend to be recipients of minimum benefits or low-wage, high-service retirees.

Existing Policies Impact This Issue

There are three key policies that are relevant to a discussion of this issue:

- Inflation protection.
- Intergenerational equity.
- Amortization of Plan 1 unfunded liabilities.

The SCPP adopted a policy goal directly related to inflation protection.

The SCPP adopted a policy goal directly related to inflation protection. The goal is: "to increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, while providing long-term benefit security to retirees." The Legislature has taken actions that support this goal by providing various automatic COLAs not included in the original design of the Plans 1. This includes the Uniform COLA and automatic increases in minimum benefits.

A desire that retiree benefits should have some form and degree of protection from inflation is also evident in the creation of the Plans 2/3. These plans included a CPI-based automatic COLA in the original plan design.

Intergenerational equity requires benefits to be funded over the working lifetime of the member.

Another policy that impacts this issue is the Legislature's funding policy based on the concept of intergenerational equity. The policy is to fund, to the extent feasible, benefit increases for Plans 1 members over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service [RCW 41.45.010 (4)].

Benefit increases granted to retired members are inconsistent with the concept of intergenerational equity. Why? None of the cost can be funded over their working lifetimes since they are already retired. Instead, the cost is generally born by taxpayers who never received services from the members.

Providing benefit improvements for active Plans 1 members consistent with intergenerational equity presents policy makers a challenge as well. Active members in the Plans 1 are generally close to retirement. This leaves limited opportunity to fund the cost of improved benefits over the remainder of their working lifetimes. Therefore, the source of contributions to fund benefit improvements increasingly becomes taxpayers who never received services from these members.

The cost of Plans 1 benefit improvements not funded over the members' working lifetimes is passed along to Plans 2/3 employers. All Plans 2/3 employers are required to make additional contributions to pay for these Plans 1 benefits.

Benefit improvements for past service increase the Plans 1 UAAL.

Benefit improvements for past service increase the Unfunded Actuarial Accrued Liability (UAAL) for the Plans 1. The UAAL exists because benefits already earned by Plans 1 members have not been fully paid for. Current funding policy requires that the UAAL in the Plans 1 be fully paid by June 30, 2024 [RCW 41.45.010(2)]. The level of benefit improvements that can be financed over the remaining amortization period may serve to constrain policy options.

COLA Policy May Impact Human Resource Policies

COLA policy in the Plans 1 may have an impact on human resource policies around post-retirement employment and retention.

The lack of a COLA for Plans 1 members prior to age 66 may encourage post-retirement employment. Returning to work after retirement may seem an attractive option for those who wish to accumulate additional assets to offset future inflation and other post-retirement expenses. This may lead to greater pressure for expanded post-retirement employment opportunities. In 2001, the Legislature expanded the post-retirement employment program for the Plans 1. The expansion allows Plans 1 retirees to work significantly more hours than Plans 2/3 retirees without having their pensions suspended.

On the flip side, providing a COLA in the Plans 1 prior to age 66 may encourage more Plans 1 members to retire at earlier ages. Such an outcome may conflict with employers' desire to retain their most experienced workers.

Several Factors May Impact Purchasing Power

Policy makers seeking to answer questions about the need for an improved COLA in the Plans 1 may also turn to an economic approach. An economic approach to COLA policy considers the impact of inflation on the purchasing power of retiree pensions. When balanced with the overall policy considerations, an economic analysis may provide additional focus for further policy discussion.

Purchasing power is a measure of how well a pension retains its value over time.

Purchasing power is a measure of how well a pension retains its value over time. Purchasing power is measured by comparing the change in the member's pension over time with the amount of inflation over the same time period. Purchasing power is impacted by three factors:

- Inflation after retirement.
- Length of retirement.
- Post-retirement COLAs.

Inflation is the driving force behind the decline in the relative value of a pension over time. Members who retire during periods of high inflation will generally lose more purchasing power than members who retire during periods of relatively low inflation. See **Appendix B** for a history of inflation.

Likewise, members who are retired for a longer period of time are likely to lose more purchasing power due to post-retirement inflation than members who are retired for shorter periods. Earlier retirement ages and increasing life spans are significant factors in the loss of purchasing power experienced by some members.

Post-retirement COLAs help maintain purchasing power.

Post-retirement COLAs offset the effects of inflation and help maintain purchasing power. The Legislature has provided numerous COLAs in the Plans 1 (see **Appendix A**). Members who receive less in COLAs will generally lose more purchasing power over time than members who receive more in COLAs.

Figures 4 and 5 show the purchasing power for PERS and TRS Plans 1 service retirees by year of retirement. The Original Benefit line shows the purchasing power had no COLAs been provided. The Current Benefit line shows the purchasing power after factoring in all COLAs. The differences in purchasing power between the systems reflect the impact of COLAs received.

Figure 4
Purchasing Power of PERS 1
Service Benefits in 2008

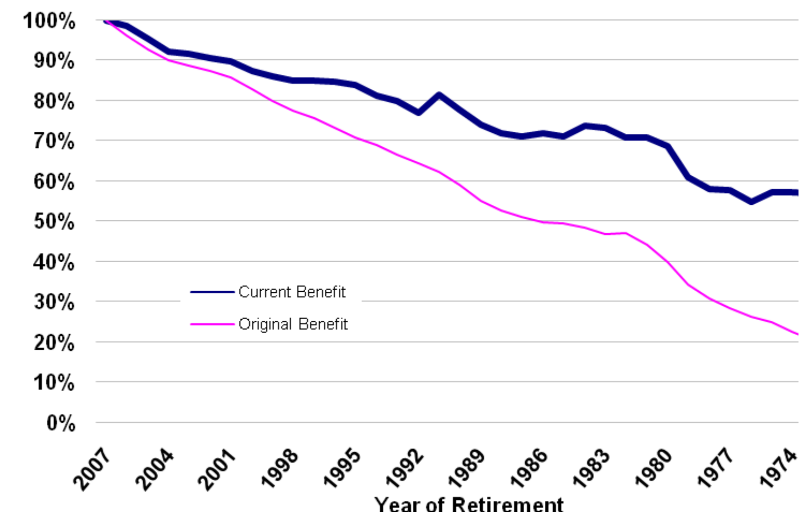
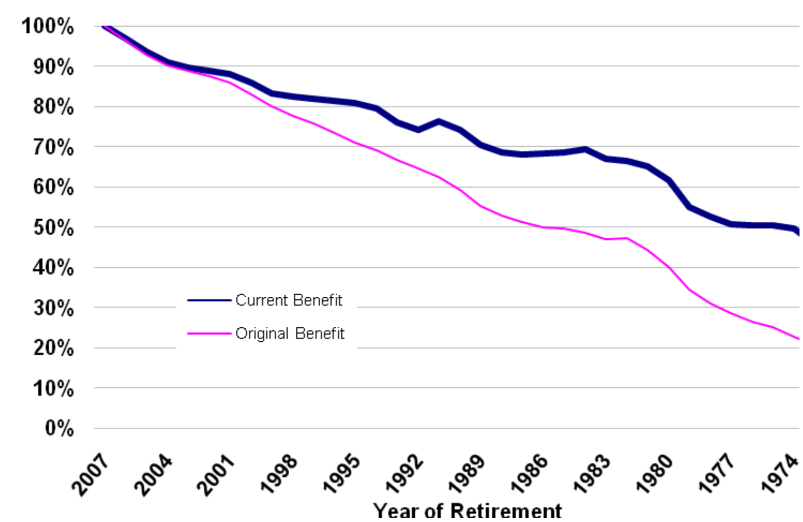


Figure 5
Purchasing Power of TRS 1
Service Benefits in 2008



Purchasing power for Plans 1 members who retired at the same time may vary widely from the group average due to post-retirement increases. The Plans 1 have provided numerous post-retirement benefit increases that were not designed to uniformly recover purchasing power. These include increases to minimum benefits, certain ad-hoc COLAs, and Uniform COLA increases. These increases impact members within the same group differently. Generally, the increases have served to recover more purchasing power for retirees with lower pensions.

The Uniform COLA Helps Maintain The Value Of Pensions

Some Uniform COLA recipients will continue to lose purchasing power.

A closer look at how the current Uniform COLA impacts purchasing power is relevant to a discussion of purchasing power within the Plans 1. The Uniform COLA helps maintain the value of a recipient's pension from age 65. Because the Uniform COLA is a dollar amount per year of service, it provides the greatest inflation protection for members who retired with the smallest salaries (This includes members who worked lower-paying jobs, and members who retired many years ago when wages were generally lower.) Members who retire prior to age 65 may lose a significant amount of purchasing power in their pension before they receive their first Uniform COLA increase. Once they receive the Uniform COLA, the impact on purchasing power will vary. Some recipients (lower-salaried) may maintain or even recover lost purchasing power during some years, while others (higher-salaried) will face a continued erosion of purchasing power.

COLA Policy Is A Balance

COLA policy reflects a balance between various concerns.

As discussed earlier in this paper, current COLA policy in the Plans 1 reflects a balance between various concerns:

- Inflation protection.
- Adequacy of benefits.
- Intergenerational equity.
- Funding.
- Human resources.

Policy makers may wish to consider whether or not the current balance is appropriate when evaluating the sufficiency of the Plans 1 COLA.

Key Questions In Shaping New COLA Policy

The first part of this paper has explored the question of whether or not the current COLA in the Plans 1 is sufficient. If policy makers feel the COLA needs improvement, they may next consider who most needs an improved COLA and what form the COLA should take. Answers to these key questions will help shape any new COLA policy.

COLAs Can Be Targeted

COLAs may be directed to individuals with the greatest perceived need.

It is likely that substantial improvements to the Plans 1 COLA will face fiscal constraints. Policy makers may then choose to direct limited COLA dollars to those individuals who they perceive as having the greatest need for a COLA. COLAs can be targeted to recipients based on loss of purchasing power, years retired, years of service, or size of benefit. If policy makers desire to maintain purchasing power they will likely target COLAs based on purchasing power or years retired. If the desire is to reward long careers, then COLAs will likely be targeted to members with many years of service. If the concern is adequacy of benefits, then COLAs will likely be targeted to members with the lowest pensions.

Besides directing dollars to recipients with the most need, targeting COLAs may serve other policy needs such as controlling costs or maintaining equity across the plans.

COLAs May Be Implemented Many Different Ways

COLAs may be ad-hoc or automatic.

The form that an improved COLA takes depends on the goals of policy makers. COLAs may be implemented in a variety of ways to achieve specific policy objectives. COLAs may be implemented on a one-time or ongoing basis, and the payment may take many forms.

Ad-hoc COLAs are one-time increases given to retirees. Ad-hoc COLAs can be very effective at making up for past inflation, but usually do little to address future inflation. Ad-hoc COLAs can give policy makers the most flexibility in reacting to specific situations and in controlling costs. When COLAs are ad-hoc, there is often little or no pre-funding—effectively making them pay-as-you-go benefit improvements.

In contrast, automatic COLAs are ongoing increases and usually benefit both active and retired members. Automatic COLAs can be very effective at protecting benefits against future inflation, but may do little to address lost purchasing power due to past inflation. Automatic COLAs may be preferred from the member viewpoint since they are ongoing and don't require continual action by policy makers. However, for the same reasons, it may be more difficult to fine-tune an automatic COLA for a specific situation. Because automatic COLAs are ongoing and more forward-looking, they offer greater opportunities for pre-funding. Pre-funding reduces the contributions required for a benefit improvement since more of the cost of the improvement is paid for by future investment returns.

COLA payments may take many forms. Some of these include:

COLA payments may take many forms.

- Percentage based on a CPI.
- Fixed percentage.
- Flat dollar amount.
- Dollar amount per year of service.

CPI-based COLAs are the most direct way to protect a benefit against inflation since the COLA is based on actual, measured inflation. CPI-based COLAs provide the same inflation protection to all recipients regardless of the size of their pension. CPI-based COLAs often have an annual cap to control costs. However, an annual cap means that recipients will lose purchasing power when inflation exceeds the cap.

Fixed percentage COLAs (i.e., 2 or 3 percent) protect against a set amount of inflation while controlling costs. They provide the same amount of inflation protection to all recipients regardless of the size of their pension. However, recipients will lose purchasing power when inflation exceeds the fixed percent.

Flat dollar amount COLAs (i.e., $100/month) provide proportionally greater increases to recipients with smaller pensions. While they may do little to protect purchasing power for retirees with larger pensions, flat dollar amount COLAs are an effective way to address adequacy of benefit concerns.

Dollar amount per year of service COLAs (i.e., $10/month/year of service) provide larger increases to members with more service and proportionally larger increases to members who retired with lower salaries. This type of COLA is a blend between adequacy of benefits and reward for service policies. It may do little to protect the purchasing power of high-salaried retirees. The Uniform COLA is an example of this type of COLA in the Plans 1.

COLAs might be impacted by IRS requirements.

Any of the COLA designs mentioned above might be impacted by Internal Revenue Service (IRS) requirements. Some designs might result in COLAs that do not conform to IRS requirements for tax-qualified plans or must be administratively reduced to comply with IRS requirements. This is more likely to be an issue with COLAs designed to make up for long periods of past inflation. Policy makers may wish to consult tax counsel before making significant changes in COLA policy.

Policy Makers Have Flexibility In Crafting COLA Policy

Policy makers have a great deal of flexibility in crafting new COLA policy for the Plans 1. Policy makers may target, implement, and design COLAs in a variety of ways to support their policy objectives. Any new COLA policy may be constrained by fiscal and IRS considerations.

Conclusion

The issue of COLAs in the Plans 1 raises three basic questions for policy makers.

- Is the current COLA sufficient?
- Who most needs an improved COLA?
- What form should a new COLA take?

In considering these questions, policy makers will likely balance a wide variety of concerns including inflation protection, adequacy of benefits, intergenerational equity, funding, and human resources. The current Plans 1 Uniform COLA reflects trade-offs between these various concerns.

Any change to the Uniform COLA will likely involve further trade-offs. Given likely fiscal constraints, policy makers may choose to direct limited COLA dollars to recipients with the greatest perceived need.

Stakeholder Proposals

Stakeholders proposed both a short-term and long-term option. They later revised both options.

Stakeholders are seeking improvements in the COLAs provided to PERS and TRS Plan 1 retirees. The stakeholders have proposed both a short-term and a long-term option. The short-term option modifies the design of the existing Uniform COLA by granting additional increases based on the year of retirement. The long-term option establishes a new COLA policy by providing a CPI-based COLA.

Following the initial Committee briefing on this issue, stakeholders submitted revised COLA proposals to the Committee for consideration. Both the original and revised proposals are discussed below.

Original Stakeholder Proposals

The original short-term option modified the design of the existing Uniform COLA by granting additional increases based on the year of retirement. The original long-term option replaced the Uniform COLA with a CPI-based COLA similar to the Plans 2/3 COLA.

Preliminary pricing of the original proposals was provided at the September meeting.

Proposal 1: Original Short-Term Option

Increase the 2009 Uniform COLA by the following additional amounts based on year of retirement:

Year Retired	Increase Amount ($ per month/per year of service)
1985-1990	$0.75
1980-1984	$1.00
1979 and earlier	$1.50

This option has several broad policy implications that are discussed in more detail below. These include:

- ❖ Modifies existing COLA policy.
- ❖ Provides larger increases to members retired the longest.
- ❖ Does not precisely replace purchasing power.
- ❖ Impacts minimum benefits.

Modifies Existing COLA Policy.

This option is consistent with the reward-for-service design.

This option would establish a new policy objective within the existing Uniform COLA design. The new policy would grant different COLAs based on year of retirement. This differs from the current Uniform COLA design of granting the same increase to all members with the same service. However, it is consistent with the reward-for-service design of the Plans 1 since the COLA amount is still based on years of service—within each group. No additional increases are provided for members who retired after 1990. However, policy makers may feel less need to provide an additional COLA to these members since they had the option of purchasing the CPI-based Auto-COLA at retirement.

Provides Larger Increases To Members Retired Longest.

Some members who have been retired longer have not necessarily lost more purchasing power.

This option grants larger COLA increases to members who have been retired longer. Some members who have been retired longer have not necessarily lost more purchasing power after past COLAs are factored in. To more precisely replace lost purchasing power would require measuring purchasing power on an individual basis—which may be more complex to administer.

Does Not Precisely Recover Purchasing Power.

Targeting COLAs on a group basis does not precisely recover an individual's lost purchasing power. The purchasing power of individuals within the group varies due to past COLAs. This means that some members will benefit more than others in any group approach. The large differences between the steps of the increases further increase this discrepancy for some members. As an extreme example, a member who retired in 1979 will receive a COLA that is 50 percent larger than a member who retired in 1980—even though inflation was only 16.1 percent between 1979 and 1980. While this approach does not precisely recover purchasing power for an individual, it is relatively easy to administer and does provide larger increases to groups that have lost more purchasing power.

Impacts Minimum Benefits.

This proposal has implications for minimum benefit policy because the Basic Minimum is tied to the Uniform COLA amount. The proposal would result in recipients of the Basic Minimum receiving different total benefit amounts based on the year they retired. Some policy makers may view this as effectively creating four different Basic Minimum benefits based on year of retirement. Others may view this as providing an additional COLA for those who have been retired longer, on top of the Basic Minimum. However this is viewed, it raises certain policy questions.

Some may view this as effectively creating four different Basic Minimum benefits.

Minimum benefits are intended to provide an adequate standard of living for recipients. Policy makers may question whether it is appropriate to effectively establish different standards of living based solely on length of retirement. For example, does someone retired for 30 years require a larger pension to maintain an adequate standard of living than someone retired for only five years? The Legislature set a precedent for providing higher minimum benefits based on years retired when it established the Alternate Minimum benefit in 2004. Policy makers exploring this option may wish to consider if the Basic Minimum should continue to be linked to the Uniform COLA or if a different increase mechanism would be preferable.

Proposal 2: Original Long-Term Option

Replace the Uniform COLA with a CPI-based COLA similar to the Plan 2/3 COLA:

- CPI up to 3 percent maximum a year.
- Starts one year after retirement.
- Retroactive or prospective.

This option has several broad policy implications which are discussed in more detail below. These include:

- ❖ Establishes a new COLA policy.
- ❖ Generally prevents the further loss of purchasing power.
- ❖ Diminishes benefits for some members.
- ❖ Provides a better COLA in the Plans 1 than in the Plans 2/3.

Establishes A New COLA Policy.

This option is more consistent with an income replacement design.

This option would establish a new* COLA policy for the Plans 1 of basing COLAs on actual inflation—regardless of service or salary. This policy is more consistent with an income replacement plan design such as the Plans 2/3. It is also a departure from the current policy to provide more inflation protection to members who retired with lower salaries.

***A CPI-based COLA was provided from 1989-1994. The COLA began after a member lost more than 40 percent of purchasing power from age 65.*

Generally Prevents Further Loss Of Purchasing Power.

Fully retroactive increases might have implications for plan qualification.

Providing this COLA on a prospective basis will generally prevent the further erosion of purchasing power for current and future retirees—as long as long-term inflation averages less than 3 percent. Making it retroactive will enable retirees to recover lost purchasing power, but will be more expensive. Providing COLA increases retroactive to retirement will likely result in relatively large increases for some retirees (i.e. doubling the pension) and might have implications for plan qualification under IRS requirements.

Diminishes Benefits For Some Members.

Diminishing benefits raises questions around contractual rights.

The Uniform COLA will provide larger increases for some retirees—whether the new CPI-based COLA is applied prospectively or retroactively. Members who would likely benefit more under the Uniform COLA design include those who retired with relatively low salaries or who are receiving the Basic Minimum benefit. Diminishing benefits raises questions around contractual rights protections. Statute specifies that future increases to the Uniform COLA are not a contractual right. However, this kind of statutory language is currently subject to litigation.

Provides Larger Lifetime COLAs In The Plans 1.

This proposal has implications for equity between the plans. It would provide larger lifetime COLAs to some Plan 1 members than is available to Plan 2/3 members. Plan 1 members would receive an unreduced COLA regardless of age. In contrast, Plan 2/3 members who retire prior to age 65 (or age 62 with 30 years of service) receive a COLA on an actuarially reduced benefit—effectively reducing the COLA they receive. This would result in many Plan 1 members receiving more generous lifetime benefits than similarly situated Plan 2/3 members.

Revised Stakeholder Proposals

The revised short-term option modifies the design of the existing Uniform COLA by granting additional increases based on the year of retirement. The revised long-term option provides the better of the Uniform COLA or a CPI-based COLA similar to the Plans 2/3 COLA.

Preliminary pricing of the revised short-term option was provided at the November meeting.

Proposal 1: Revised Short-Term Option

Increase the 2009 Uniform COLA by the following additional amounts based on year of retirement:

Year Retired	Increase Amount *($ per month/per year of service)*
1985-1990	$0.35
1980-1984	$0.50
1979 and earlier	$0.75

This option has several broad policy implications that are discussed in more detail below. These include:

- Modifies existing COLA policy.
- Provides larger increases to members retired the longest.
- Does not precisely replace purchasing power.
- Impacts minimum benefits.

Modifies Existing COLA Policy

This option is consistent with the reward-for-service design.

This option would establish a new policy objective within the existing Uniform COLA design. The new policy would grant different COLAs based on year of retirement. This differs from the current Uniform COLA design of granting the same increase to all members with the same service. However, it is consistent with the reward-for-service design of the Plans 1 since the COLA amount is still based on years of service—within each group. No additional increases are provided for members who retired after 1990. However, policy makers may feel less need to provide an additional COLA to these members since they had the option of purchasing the CPI-based Auto-COLA at retirement.

Provides Larger Increases To Members Retired Longest

Some members who have been retired longer have not necessarily lost more purchasing power.

This option grants larger COLA increases to members who have been retired longer. Some members who have been retired longer have not necessarily lost more purchasing power after factoring in past COLAs. To more precisely replace lost purchasing power would require measuring purchasing power on an individual basis—which may be more complex to administer.

Does Not Precisely Recover Purchasing Power

Targeting COLAs on a group basis does not precisely recover an individual's lost purchasing power. The purchasing power of individuals within the group varies due to past COLAs. This means that some members will benefit more than others in any group approach. The large differences between the steps of the increases further increase this discrepancy for some members. As an extreme example, a member who retired in 1979 will receive a COLA that is 50 percent larger than a member who retired in 1980—even though inflation was only 16.1

percent between 1979 and 1980. While this approach does not precisely recover purchasing power for an individual, it is relatively easy to administer and does provide larger increases to groups that have lost more purchasing power.

Impacts Minimum Benefits

This proposal has implications for minimum benefit policy because the Basic Minimum is tied to the Uniform COLA amount. The proposal would result in recipients of the Basic Minimum receiving different total benefit amounts based on the year they retired. Some policy makers may view this as effectively creating four different Basic Minimum benefits based on year of retirement. Others may view this as providing an additional COLA for those who have been retired longer, on top of the Basic Minimum. However this is viewed, it raises certain policy questions.

Some may view this as effectively creating four different Basic Minimum benefits.

Minimum benefits are intended to provide an adequate standard of living for recipients. Policy makers may question whether it is appropriate to effectively establish different standards of living based solely on length of retirement. For example, does someone retired for 30 years require a larger pension to maintain an adequate standard of living than someone retired for only five years? The Legislature set a precedent for providing higher minimum benefits based on years retired when it established the Alternate Minimum benefit in 2004. Policy makers exploring this option may wish to consider if the Basic Minimum should continue to be linked to the Uniform COLA or if a different increase mechanism would be preferable.

Proposal 2: Revised Long-Term Option

Provide the better of the Uniform COLA or a CPI-based COLA similar to the Plan 2/3 COLA:

- CPI from retirement up to 3 percent maximum a year.
- Starts the year the retiree turns age 66.
- Prospective only.

This option has several broad policy implications that are discussed in more detail below. These include:

- Establishes a new COLA policy.
- Generally prevents further loss of purchasing power.
- Does not diminish benefits.
- Provides a CPI-based COLA with similar value to the Plans 2/3 COLA.
- Provides a better overall COLA in the Plans 1 than in the Plans 2/3.
- Raises questions about contractual rights.

Establishes A New COLA Policy

This option is more consistent with an income replacement design.

This option would establish a new* COLA policy for the Plans 1, basing COLAs on actual inflation—regardless of service or salary. This policy is more consistent with an income replacement plan design such as the Plans 2/3. It is also a departure from the current policy to provide more inflation protection to members who retired with lower salaries.

**A CPI-based COLA was provided from 1989-1994. The COLA began after a member lost more than 40 percent of purchasing power from age 65.*

Generally Prevents Further Loss Of Purchasing Power

It will not recover lost purchasing power.

Providing this COLA on a prospective basis will generally prevent the further erosion of purchasing power for current and future retirees—as long as long-term inflation averages 3 percent or less. It will not recover purchasing power already lost due to inflation.

Does Not Diminish Benefits

Providing the better of the Uniform COLA or the proposed CPI-based COLA ensures that retirement benefits are not diminished for any member. (Some would receive larger increases under the Uniform COLA; others, under the CPI-based COLA.) Policy makers may prefer to *not* diminish benefits in order to avoid raising issues around contractual rights protections.

Provides A CPI-Based COLA With Similar Value To The Plans 2/3 COLA

The proposed CPI-based COLA would start at age 66—the same age that Plans 2/3 members with less than 30 years of service* qualify for an unreduced COLA. Tying the proposed CPI-based COLA to the Plans 2/3 unreduced retirement age ensures the two COLAs generally provide similar value. This is because Plans 1 and Plans 2/3 members will generally receive the full value of a CPI-based COLA starting at the same age. Starting the proposed CPI-based COLA at age 66 is also consistent with current practice in the Uniform COLA.

**Members with 30 or more years of service qualify at age 62.*

Provides A Better Overall COLA In The Plans 1

This option provides a better overall COLA, going forward, in the Plans 1 than in the Plans 2/3. This is because Plans 1 members would receive the <u>better</u> of a COLA similar to the Plans 2/3 COLA or the Uniform COLA. In other words, the Plans 2/3 COLA becomes the new baseline COLA in Plan 1—with some members (Uniform COLA recipients) receiving additional amounts on top of that.

Raises Questions About Contractual Rights

Policy makers may wish to consult legal counsel before designing a benefit linked to non-contractual rights language.

Statute specifies that the Legislature reserves the right to amend or repeal the Uniform COLA, and that future increases to the Uniform COLA are not a contractual right. The option does not specify whether the CPI-Based COLA would have similar language. Policy makers would need to specify whether or not the proposed new benefit is a contractual, or a non-contractual right. The implications of making the proposed new benefit a contractual right while leaving the Uniform COLA a non-contractual right are unclear. Also, non-contractual rights language similar to that used in the Uniform COLA is currently subject to litigation. Policy makers may wish to consult legal counsel before designing a benefit that is linked to non-contractual rights language.

Committee Activity

Staff briefed the full SCPP on this issue, including the original stakeholder proposals, at the September meeting. At the Executive Committee meeting that followed, the stakeholders requested the Committee allow them to revise the proposals under consideration.

Staff briefed the full SCPP on the revised proposals in November. The Executive Committee then recommended that the full SCPP consider the revised short-term option for possible executive action at the December meeting.

The Committee held a public hearing in December and took no further action on this issue.

Stakeholder Input

The following correspondence is on file with the Office of the State Actuary. Items marked with an asterisk are also attached to this paper.

Correspondent	Affiliation	Date
Ester Wilfong Leslie Main Don Carlson	Legislative Committee Chair, WSSRA Legislative Coordinator, WSSRA Lobbyist, WSSRA	03/20/2008
John Kvamme	Consultant, WASA & AWSP	04/15/2008
Not Specified	PEPR	04/15/2008 **06/17/2008*** **10/07/2008***
John E. O'Brien Cassandra de la Rosa	President, RPEC Executive Director, RPEC	05/13/2008
Lindajo Jarboe		06/10/2008 10/01/2008
Matthew D. Zuvich	Chair, PEPR	07/08/2008
Bill Loken		08/17/2008
Hal Phillips		12/10/2008

**Correspondence attached.*

Stakeholder Input

Two items attached and nine other items on file with OSA.

Appendix A

History Of Post-Retirement Adjustments In TRS 1 And PERS 1

Date	TRS 1	PERS 1
3/21/61		Minimum pension $900/year if retired at age 70 with 10 or more years of service $60/month if 15-19 years of service $70/month if 20-24 years of service $80/month if 25-29 years of service $90/month if 30 or more years of service
3/21/67		Minimum benefit increases to: $60/month if 12-15 years of service $90/month if 16-19 years of service $120/month if 20 or more years of service
7/1/67	Pension portion of benefit increased to $5.50/month/year of service if age 65 and not qualified for Social Security.	
3/25/69		Minimum benefit increases to: $75/month if 12-15 years of service $100/month if 16-19 years of service $130/month if 20 or more years of service
7/1/70	Minimum benefit revised to $5.50/month/year of service. Applicable to members retiring before 4/1/69. Applied to the pension portion of the benefit.	The following received for each $1 of pension by year of retirement: ‘49 - $1.5239 ‘56 - $1.3687 ‘63 - $1.2116 ‘50 - $1.5386 ‘57 - $1.3485 ‘64 - $1.1960 ‘51 - $1.5239 ‘58 - $1.3031 ‘65 - $1.1813 ‘52 - $1.4110 ‘59 - $1.2601 ‘64 - $1.1620 ‘53 - $1.3805 ‘60 - $1.2501 ‘65 - $1.1291 ‘54 - $1.3702 ‘61 - $1.2116 ‘66 - $1.0980 ‘55 - $1.3643 ‘62 - $1.2255 ‘67 - $1.0536
7/1/71		5.95% COLA applied to pension portion of the benefit if retired before 12/31/70.
7/1/72	5.9% COLA for all members retired before 7/1/71, plus an additional 5.4% for those retired between 7/1/69 and 6/30/70.	
4/25/73		Minimum benefit of $6.50/month/year of service. 3% permanent increase based on assets in excess of current liabilities.

Date	TRS 1	PERS 1
7/1/73	$3/month/year of service for retirees not eligible for Social Security.	Increase of 1.0609% if the member retired before 1972 and their service retirement allowance was adjusted in section (1) for adjustment made of 4/25/73.
7/1/74	11.9% pension increase for those retired on 6/31/70. 2.9% pension increase for those retired 7/1/70 - 6/30/73. 3% COLA on total allowance for those retired on 12/31/73.	3% COLA for those retired prior to 12/31/73.
7/1/75		3% COLA for those retired prior to 12/31/74.
7/1/76	Minimum pension benefit of $7.50/month/year of service if retired prior to 4/25/73.	3% COLA for those retired prior to 12/31/75.
7/1/77	Minimum pension benefit of $8.00/month/year of service if retired prior to 4/25/73.	3% COLA for those retired prior to 12/31/76.
7/1/78		3% COLA for those retired prior to 12/31/77.
7/1/79	Minimum pension benefit of $10/month/year of service for retirees of 7/1/79. Disability and survivor benefits as of 12/31/78, and service benefits as of 7/1/74 permanently increased by $0.8171 multiplied by the member's years of service.	Minimum pension benefit of $10/month/year of service for retirees of 7/1/79. 3% COLA for those retired prior to 12/31/78.
7/1/80		3% COLA for those retired prior to 12/31/79.
7/1/81		Excess earnings adjustment no longer in effect as employer contribution rate increased above rate on 4/24/73.
7/1/83	$0.74/month/year of service COLA to disability and survivor benefits being received on 12/31/82 and service retirement benefits being received on 7/1/78.	
7/1/86	Minimum benefit increased to $13.00/month/year of service.	
7/1/87	Permanent automatic 3% annual increase to the minimum benefit becomes effective. Minimum pension benefit increased to $13.50/month/year of service.	
7/1/88	Minimum pension benefit increased to $13.82/month/year of service.	
7/1/89	Minimum pension benefit increased by $1 to $14.91/month/year of service and then increased 3% to $15.36/month/year of service. Permanent automatic COLA enacted for retirees whose age 65 purchasing power had been reduced by more than 40%.	
7/1/90	Minimum pension benefit increased 3% to $15.72/month/year of service. 3% COLA for eligible retirees.	

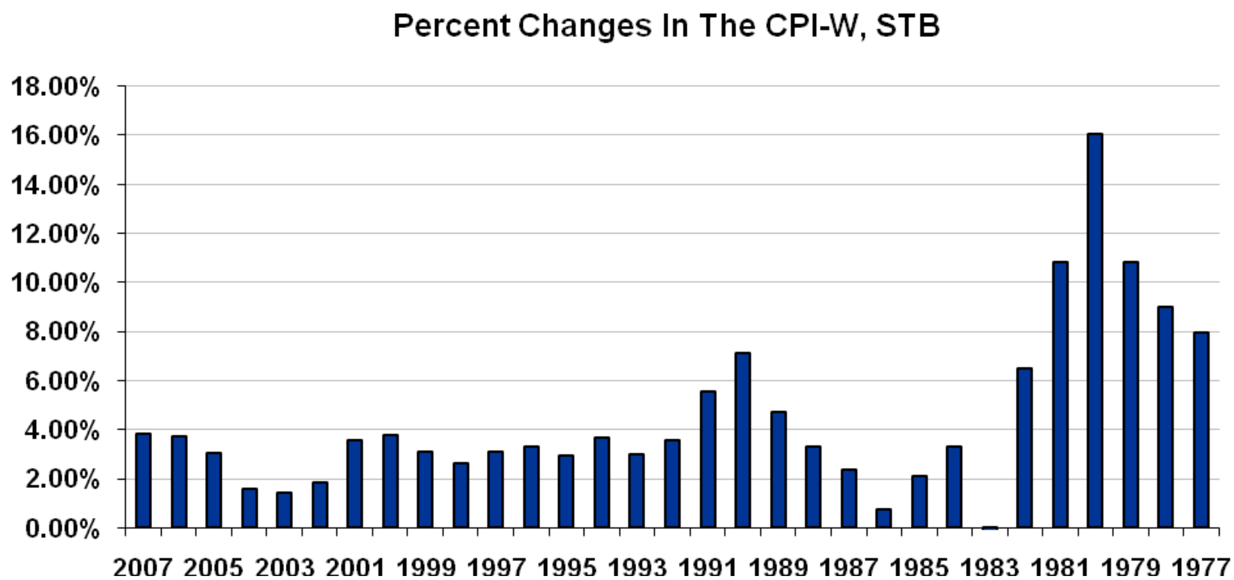
Date	TRS 1 PERS 1
7/1/91	Minimum pension benefit increased 3% to $16.19/month/year of service. 3% COLA for eligible retirees.
2/1/92	The current benefits of those eligible for the COLA adjusted to be equal to 60% of their age 65 retirement allowance.
7/1/92	Minimum pension benefit increased 3% to $16.68/month/year of service. 3% COLA for eligible retirees.
7/1/93	Minimum pension benefit increased 3% to $17.18/month/year of service. 3% COLA for eligible retirees. Continuation of special adjustment effective 2/92. Temporary ad hoc COLA effective through 6/30/94, $3/month/year of service for those retired 5 years, who were 70 years of age, and did not receive a COLA in 1992.
7/1/94	Minimum pension benefit increased 3% to $17.70/month/year of service. 3% COLA for eligible retirees. Special adjustment effective 2/92 made permanent. Temporary ad hoc COLA extended to 6/30/95. Provides $3/month/year of service to eligible retirees.
7/1/95	Uniform Increase established. Initial increase of $0.59/month/year of service to be increased by 3% per year. Retirees are eligible for the Uniform Increase if they have been retired at least one year and are age 66 by 7/1 in the calendar year in which the annual increase is given, or if their retirement allowance is lower than the minimum benefit amount. Minimum benefit increased to $24.22/month/year of service, and to automatically increase each year by the Annual Increase amount. Temporary ad hoc COLA that had been extended to 6/30/95 made permanent.
7/1/98	Gain-sharing established, providing even-year enhancements to the Annual Increase amount based on half the compound average investment returns in TRS 1 and PERS 1 plan assets over the previous four fiscal years that exceed 10%.
7/1/04	$1,000 minimum benefit (before optional benefit payments) established for retirees with 25 years of service and at least 20 years of retirement. Does not include an automatic increase. Effectively sunsets after the regular minimum increases to $40/month/year of service.
7/1/06	$1,000 minimum benefit (before optional benefit payments) extended to retirees with 20 years of service and at least 25 years of retirement. Automatic increase provided for $1,000 minimum of 3% per year.
7/1/07	Uniform COLA eligibility changed to include all retirees who have been retired one year and will have attained age 66 by 12/31 of the calendar year in which the increase is given.
7/22/07	Gain-sharing repealed after 2008 distribution. One-time increase in the Uniform COLA of $0.40*/month/year of service in lieu of future gain-sharing. *Thirty-five cents of the increase payable 1/1/08; five cents payable on 7/1/09.

Appendix B
Consumer Price Index

Inflation is measured by the Consumer Price Index (CPI). The CPI records changes in the price of a set "market basket" of goods and services at different points in time. The U.S. Department of Labor publishes numerous indexes that measure inflation based on different market baskets and geographic regions. Each CPI produces a slightly different measure of inflation. The CPI most commonly used in Washington State's retirement systems is the Consumer Price Index for Urban Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton (CPI-W, STB).

An individual may experience inflation quite different from that measured by the CPI if the goods and services purchased by the individual do not closely match the market basket used by the CPI.

The following graph shows historical rates of inflation based on annual changes in the CPI-W, STB. Data for the graph is provided on the following page.



Percent Changes In The CPI-W, STB

Year	CPI	Change
2007	623.65	3.79%
2006	600.9	3.73%
2005	579.3	3.02%
2004	562.3	1.57%
2003	553.6	1.41%
2002	545.9	1.81%
2001	536.2	3.55%
2000	517.8	3.75%
1999	499.1	3.10%
1998	484.1	2.63%
1997	471.7	3.10%
1996	457.5	3.30%
1995	442.9	2.90%
1994	430.4	3.66%
1993	415.2	2.98%
1992	403.2	3.54%
1991	389.4	5.53%
1990	369.0	7.11%
1989	344.5	4.68%
1988	329.1	3.30%
1987	318.6	2.35%
1986	311.3	0.71%
1985	309.1	2.08%
1984	302.8	3.27%
1983	293.2	-0.27%
1982	294.0	6.48%
1981	276.1	10.84%
1980	249.1	16.08%
1979	214.6	10.85%
1978	193.6	9.01%
1977	177.6	7.96%

Year	CPI	Changes
1976	164.5	5.58%
1975	155.8	10.11%
1974	141.5	10.98%
1973	127.5	6.52%
1972	119.7	2.84%
1971	116.4	2.11%
1970	114.0	4.40%
1969	109.2	4.90%
1968	104.1	4.10%
1967	100.0	2.99%
1966	97.1	2.75%
1965	94.5	1.18%
1964	93.4	1.41%
1963	92.1	1.66%
1962	90.6	1.46%
1961	89.3	1.59%
1960	87.9	1.27%
1959	86.8	1.88%
1958	85.2	2.28%
1957	83.3	4.13%
1956	80.0	1.27%
1955	79.0	0.51%
1954	78.6	0.00%
1953	78.6	1.29%
1952	77.6	2.51%
1951	75.7	7.68%
1950	70.3	1.44%
1949	69.3	-0.43%
1948	69.6	8.24%
1947	64.3	13.20%
1946	56.8	

Source	U.S. Department of Labor, Bureau of Labor Statistics
CPI:	Urban Wage Earners and Clerical Workers (Current Series)
Seasonal:	Not Seasonally Adjusted
Area:	Seattle-Tacoma-Bremerton, Washington
Base:	Alternate (base period = 1967)
Item:	All Items

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Public Employees for Pension Reform

A coalition of Washington State Public Employee Unions and Retiree Associations serving active and retired state and public employees

TO: Select Committee on Pension Policy (SCPP)

FROM: Public Employees for Pension Reform (PEPR)

DATE: June 17, 2008

RE: Options for Plan 1 COLA Improvement

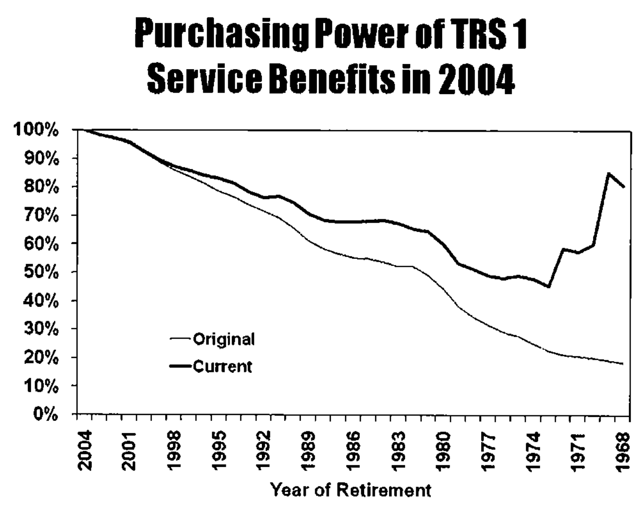
During the April SCPP meeting, the PEPR coalition requested that the issue of Plan 1 Purchasing Power – COLA Improvement be placed on the Select Committee on Pension Policy's (SCPP) 2008 Interim agenda. At the direction of the Executive Committee, advocates were directed to work with the Office of the State Actuary and legislative fiscal committee staff to explore short and long-term options that address inadequacies of the current Plan 1 COLA.

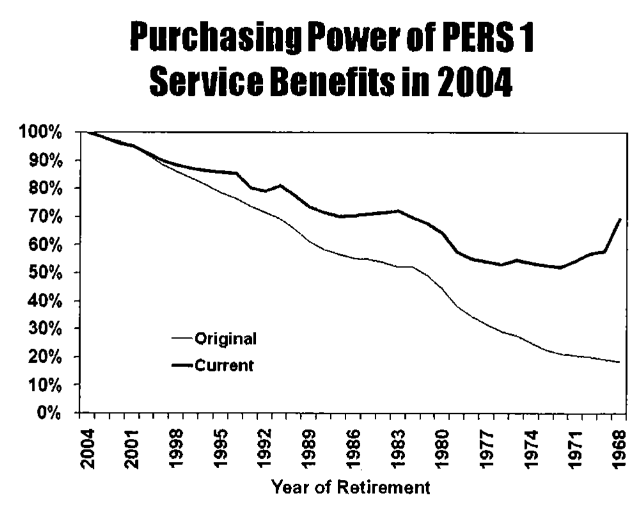
The Uniform Plan 1 COLA is not a true "Cost of Living Adjustment (COLA)" since it is not based on economic indicators such as the Consumer Price Index (CPI), but is "post-retirement adjustment" based on a *dollars/per month/per years of service formula*. The **Annual Increase**:

1. started at $.59 per month per years of service, effective 7/1/95;
2. increases each year by 3% (estimated at $1.73 per month, per year of service as of 7/1/08), and
3. is cumulative upon eligibility.

When the Uniform COLA was established in 1995, to help address *inadequacie*s of the base annual increase amount and to make the benefit cost neutral with the COLA being replaced, certain **"Adjustments"** to the COLA's *annual increase amount* were granted to retirees based on age. Though these adjustments were of help, long-time retirees continue as those who have experienced the most severe losses of purchasing power.

In June of 2005 the Office of the State Actuary presented a briefing to SCPP members regarding Teachers Retirement System (TRS) and Public Employees Retirement System (PERS) Plan 1 Purchasing Power. The briefing indicated that even with the modest improvements that Gain Sharing provided to the Uniform Plan 1 COLA, erosions in the purchasing power of Plan 1 pension benefits continue. *As the dated charts provided for illustration purposes below indicate*, members of TRS/PERS Plan 1 who retired during the 1970s have lost approximately 50% of their purchasing power.





Source: Office of the State Actuary 6/8/05

The charts illustrate the percentage of purchasing power lost relative to the date retired. The line "current benefit" represents receipt of the original pension benefit, plus the Uniform Plan 1 "COLA." An updated briefing on the status of Plan 1 Purchasing Power, especially for long-time retirees would be helpful in providing SCPP members with a better picture of the value of pension benefits to Plan 1 retirees.

Short and long-term options that address inadequacies of the current TRS/PERS Plan 1 COLA that the PEPR coalition requests the SCPP's consideration of include:

Short-Term Plan 1 COLA Improvement

New Supplemental Adjustment to the Uniform COLA's **Annual Increase** granted 7/1/09 based on the year of retirement:

- 1985-90 — $0.75 per month/per years of service
  (approximate benefit increase of $22.50 per month for a retiree with *30 years of service*)
- 1980-84 — $1.00 per month/per years of service
  (approximate benefit increase of $30.00 per month for a retiree with *30 years of service*)
- 1979 and earlier* — $1.50 per month/per years of service
  (approximate benefit increase of $45.00 per month for a retiree with *30 years of service*)

* Also includes current recipients of the Minimum Benefit retired before 1979.

The design of the benefit improvement is a variation of the '95 adjustments to provide a supplemental adjustment to the annual increase of the Uniform Plan 1 COLA based on year of retirement. This option would provide relief to those who have been retired the longest, and have experienced the most severe losses in purchasing power.

Long-Term Plan 1 COLA Improvement

Replace Uniform "COLA" with a true *Cost-of-Living Adjustment* (COLA):

- based on 100% of the Consumer Price Index (CPI) up to 3% (banked)
- CPI: Urban Wage Earners & Clerical Workers, Seattle-Tacoma-Bremerton, WA – All Items
- paid/compounded annually
- beginning 1 year after retirement
- preferably retroactive up to limits provided by the Internal Revenue Service (IRS); but possibly prospective.

This option would bring uniformity to COLA benefit design between systems and plans.

The measure of a defined pension plan's worth is how it retains its value over the retirement years of plan members. The value of TRS/PERS Plan 1 pension benefits needs to be protected from substantial losses in purchasing power which occur due to the design of Plan 1, especially for long-time retirees. The PEPR coalition looks forward to addressing the critical issue of Plan 1 purchasing power with SCPP members this Interim.

PEPR
(Public Employees for Pension Reform)

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Ed Gonion, Leslie Main & Don Carlson - 360-413-5496

Public Employees for Pension Reform

A coalition of Washington State Public Employee Unions and Retiree Associations serving active and retired state and public employees

TO: Select Committee on Pension Policy (SCPP)

FROM: Public Employees for Pension Reform (PEPR)

DATE: October 7, 2008

RE: Revised Proposals for Plan 1 COLA Improvement

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Office of
The State Actuary

Members of the Public Employees for Pension Reform (PEPR) coalition appreciate the Select Committee on Pension Policy's (SCPP) 9/16/08 Work Session on Plan 1 Purchasing Power. The briefing by staff from the Office of the State Actuary (OSA) provided a much-needed update on the current status of Plan 1 pension benefits, as well as important information on policy and cost considerations related to the PEPR coalition's proposals for short and long-term Plan 1 COLA improvement. We also greatly appreciate the authorization by SCPP Executive Committee members for PEPR coalition members to put forth a revised set of proposals that would reduce costs from estimates on the original COLA improvement proposals.

In refection of the updated data regarding lost purchasing power, our continuing goal of broad-based COLA enhancement, and the budget challenges facing employers in the 2009-11 biennium and beyond, members of the PEPR coalition offer the following revised proposals for Plan 1 COLA improvement:

Key changes noted in **bold** print.

Short-Term Plan 1 COLA Improvement

New Supplemental Adjustment to the Uniform COLA's Annual Increase granted 7/1/09 based on the year of retirement:

- 1985-90 — ~~$0.75~~ **$0.35** per month/per years of service
  (approximate benefit increase of ~~$22.50~~ $10.50 per month for a retiree with *30 years of service*)
- 1980-84 — ~~$1.00~~ **$0.50** per month/per years of service
  (approximate benefit increase of ~~$30.00~~ $15.00 per month for a retiree with *30 years of service*)
- 1979 and earlier* — ~~$1.50~~ **$0.75** per month/per years of service
  (approximate benefit increase of ~~$45.00~~ $22.50 per month for a retiree with *30 years of service*)

Based on year of retirement, the design of the proposed benefit improvement is a variation of the '95 age based adjustments to provide a supplemental adjustment to the annual increase of the Uniform Plan 1 COLA. This option would provide a degree of relief to those who have been retired the longest, and have experienced the most severe losses in purchasing power, while acknowledging budget challenges facing employers.

Long-Term Plan 1 COLA Improvement

Replace Uniform "COLA" with a true *Cost-of-Living Adjustment* (COLA):

- based on 100% of the Consumer Price Index (CPI) up to 3% (banked)
- CPI: Urban Wage Earners & Clerical Workers, Seattle-Tacoma-Bremerton, WA – All Items
- prospective only
- paid/compounded annually
- ~~beginning 1 year after retirement~~ **beginning in July the retiree turns age 66** (to coincide more closely with COLA eligibility for Plans 2/3 and the current Uniform Plan 1 COLA)
- **CPI measured from date of retirement** (to coincide with methods of calculating the COLA for Plans 2/3)
- **annual benefit to be the greater of this CPI-based COLA or the Uniform COLA** (to ensure no loss of benefit).

This option would bring uniformity to COLA benefit design between systems and plans and protect the value of Plan 1 pension purchasing power while acknowledging budget challenges facing employers and the desire to contain COLA eligibility policy.

The PEPR coalition looks forward to continuing this dialogue with SCPP members to develop solutions to the critical issue of recovery of Plan 1 purchasing power.

Public Employees for Pension Reform (PEPR)

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American Federation of Teachers of Washington
Washington Public Employees Association
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