

3 Percent Ad-Hoc COLA for Plans 1

Issue

Should a one-time 3 percent benefit increase capped at \$62.50/month be provided to Plans 1 members not receiving a minimum benefit?

Background

The Select Committee on Pension Policy (SCPP) is revisiting 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). Last interim, the SCPP recommended a 3 percent benefit increase to members of PERS and TRS 1, capped at \$62.50/month. The 2018 Legislature passed Substitute Senate Bill 6340, which provided a 1.5 percent benefit increase also capped at \$62.50/month.

The Committee is considering a 3 percent Plans 1 benefit increase, capped at \$62.50/month, for members not receiving a minimum benefit who have been retired at least one year. This benefit increase would be effective on July 1, 2019.

Highlights

- ❖ The Plans 1 do not have an automatic COLA included in the plan design.
 - ◇ Retirees have the option of reducing their benefit at the time of retirement to provide an optional COLA moving forward.
- ❖ Inflation reduces the purchasing power of Plans 1 benefits.
 - ◇ This proposal provides a one-time increase, but does not provide ongoing purchasing power protection into the future.
- ❖ A repeated pattern of ad-hoc COLAs may create the expectation that they will continue to be enacted every year into the future.
- ❖ In this proposal, those with lower annual benefits receive a full 3 percent increase, while those with higher annual benefits receive less than 3 percent.
 - ◇ This reduces costs for the provision overall.
- ❖ The Plans 1 have an existing unfunded accrued actuarial liability that is being paid by plan employers.
- ❖ Plans 1 benefit improvements are paid by increasing rates for PERS, TRS, the School Employees' Retirement System, and the Public Safety Employees' Retirement System employers.

This proposal would provide a benefit increase to approximately 84 percent (39,400 of 49,300) PERS 1 members and 94 percent (32,000 of 34,800) TRS 1 members.

Committee Activity

The Committee received an educational presentation on minimum benefits at the September meeting. At the October meeting, the Committee held a public hearing on the COLA proposal outlined above. At the November meeting, the Committee voted to recommend the proposal to the Legislature.

Recommendation to the 2019 Legislature

Provide a one-time 3 percent benefit increase capped at \$62.50/month to retired members of PERS and TERS Plans 1 who are not receiving a minimum benefit and have been retired at least one year.

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