

Plans 1 COLA

Issue

The SCPP, at the request of stakeholders, 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).

Background

PERS and TRS Plans 1 were not originally designed to provide a COLA to beneficiaries post-retirement. As such, no COLA was funded in the original plan design. However, a Plans 1 retiree may choose to purchase a COLA provision for their pension at the time of retirement. To address purchasing power of retirees, the Legislature has a history of awarding COLAs to beneficiaries of the Plan. The Uniform Cost-Of-Living-Adjustment, or UCOLA, was the primary COLA until its repeal in 2011.

COLA provisions continue for members who are receiving one of two minimum benefits: the Basic Minimum Benefit and the Alternate Minimum Benefit. The Basic Minimum is \$57.50 per month multiplied by the member's total years of service. The Alternate Minimum is \$1,844.81¹ a month for recipients who have at least 25 years of service and have been retired at least 20 years, or 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 UCOLA annual increase. For example, the Basic Minimum increased from \$55.18 to \$57.50 in 2017. The \$2.32 increase was the amount of the annual increase for that year. The Alternate Minimum increases by 3 percent each year.

Highlights of Analysis

COLA policy can have varying objectives. Primarily, COLAs in the Plans 1 have been used to:

- ❖ Provide purchasing power protection.
- ❖ Ensure benefit adequacy.
- ❖ Reward annuitants for years of membership service.

These concerns are distinct but related. The current Basic and Alternate Minimum benefits are designed to provide purchasing power protection and ensure benefit adequacy to those with low annual benefits.

¹As of July 1, 2017.

Options

The SCPP considered three options for a Plans 1 COLA.

- ❖ A one-time, 3 percent COLA for those retired ten years or longer.
- ❖ A one-time, 3 percent COLA on up to \$25,000 of annual benefit.
- ❖ A one-time, 3 percent COLA on up to \$25,000 of annual benefit, with the \$25,000 cap adjusted for member-chosen optional reductions.

Policy makers may pursue the first option if they want to provide purchasing power protection to those who have lost more purchasing power due to a relatively longer retirement length. Policy makers may pursue the second or third options if they want to increase purchasing power and protect benefit adequacy.

The second and third options would provide a COLA up to the approximate average annual benefit of Plans 1 members. The benefit cap provides, at most, a \$750 annual benefit increase to recipients. Retirees who receive an annual benefit of \$25,000 or less will receive a full 3 percent COLA. Retirees who receive an annual benefit above \$25,000 will receive a full 3 percent COLA on the first \$25,000 of annual benefit only. This will provide a total COLA of less than 3 percent for these members. For example, a retiree with a \$40,000 annual benefit would receive a 1.875 percent COLA.

The third option would adjust the \$25,000 COLA cap to account for optional benefit reductions taken by the Plan member at the time of retirement. These optional reductions include survivor options, beneficiary reductions, and early retirement factors. This would provide an equal percentage COLA to those above the \$25,000 cap who chose optional reductions. This could also cause those with the same annual benefit to potentially receive different COLA dollar amounts.

Committee Activity

The SCPP received an educational briefing on Plans 1 COLAs at the July meeting. The Committee studied COLA proposals at the September, October, and December meetings, and made a recommendation.

Recommendation to the 2018 Legislature

Provide a 3 percent COLA on up to \$25,000 of a member's annual benefit.

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