Select Committee on Pension Policy

Plans 1 COLA

Issue

Should a Cost-of-Living Adjustment (COLA) be granted to Plan 1 retirees of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) (Plans 1)? If so, what COLA policy should be implemented?

Background

Plans 1 currently provide an optional Consumer Price Index-based COLA for purchase, and some members are eligible to receive annual increases through minimum benefits policies (either the Basic minimum or Alternate minimum). From 1995 to 2011 the Uniform COLA (UCOLA) provided the primary method for annual increases for Plans 1. Since discontinuation of the UCOLA, the Legislature determines when Plans 1 members will receive pension benefit increases. In recent years, the Committee has recommended, and the Legislature has enacted ad hoc COLAs.

The Committee received a high-volume of stakeholder correspondence and public comment requesting consideration and recommendation of a COLA for Plans 1 retirees varying in design and magnitude. Throughout the 2022 Interim, the Committee reviewed the issue of providing COLAs to Plans 1 retirees. Briefings included a history of Plans 1 COLAs, plan comparisons, plan demographics, COLA designs and policy options.

A policy briefing on COLAs was presented at the October 2022 meeting. The Committee received updated actuarial analysis for an ad hoc COLA proposal at its November meeting.

Highlights

- Current COLA policy in Plans 1 reflects a balance between various policy concerns including providing some inflation protection to those retirees receiving the lowest pension benefits, rewarding service through the Alternate Minimum benefit, and providing for ad hoc COLAs when funding is available.
- If policy makers seek any expansion of COLA policy, key considerations include inflation protection, adequacy of benefits, intergenerational equity, and fiscal constraints.
- The current Plans 1 minimum benefits policy reflects trade-offs between these various concerns. Any change to the current Plans 1 COLA policy will likely involve further trade-offs.
- The bill draft improves purchasing power and acknowledges that an ongoing COLA may not be affordable until mandatory employer contribution rates towards the Unfunded Accrued Actuarial Liability (UAAL) are reduced or no longer required.

Melinda Aslakson, Policy Analyst
360.786.6161 | melinda.aslakson@leg.wa.gov

- Policymakers seeking to increase the purchasing power of retirees may support this bill draft, while some stakeholders interested in an annual, automatic COLA may feel this proposal does not go far enough.
- Policymakers seeking stable employer UAAL contribution rates may support further study of an annual, auto-COLA once the minimum contribution rates for the UAAL are reduced or no longer required.

Committee Activity

The Committee received briefings in May, July, September, October, and November. At the November meeting the Committee voted to recommend a bill draft.

Recommendation to the 2023 Legislature

Sponsor a bill draft which:

- Provides on July 1, 2023, a one-time 3 percent benefit increase on the first $44,000 of pension income, in other words capped at $110 per month, to retired members of PERS and TRS Plans 1 who are not receiving a minimum benefit and have been retired at least one year.
- Requires the SCPP, during the 2023-25 Biennium, to study and recommend an ongoing COLA for Plans 1. Any recommendation must consider employer contribution rate stability and coordinate the effective date of an ongoing COLA with the reduction or elimination of the UAAL.

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Melinda Aslakson, Policy Analyst
360.786.6161 | melinda.aslakson@leg.wa.gov