Select Committee on Pension Policy

Plans 1 Ongoing COLA Study

Issue

How could an ongoing Cost-Of-Living Adjustment (COLA) be provided to the Plans 1 Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) members? (The term "Plans 1" will be used throughout to refer to PERS Plan 1 and TRS Plan 1.)

Background

Plans 1 did not include a post-retirement COLA when the plans were first created. Currently, around one-quarter of retirees in the Plans 1 receive an automatic COLA on their pension benefit. Recent upticks in inflation have led to increased calls for providing an automatic COLA to all retirees in these plans. Under current law, benefit improvements must be financed over a fixed ten-year amortization period.

Senate Bill 5350 recommended by the Select Committee on Pension Policy (SCPP) and passed by the 2023 Legislature directed the SCPP to study and recommend an ongoing post-retirement COLA for Plans 1 retirees during the 2023-25 Fiscal Biennium. The mandate required any recommendation to consider employer contribution rate stability and coordinate the effective date of an ongoing COLA with the reduction or elimination of the Plans 1 Unfunded Actuarial Accrued Liability (UAAL).

Highlights

- COLAs serve a variety of policy goals: protecting the value of benefits against effects of inflation, supporting adequacy of benefits, and rewarding service.
- Consumer Price Index (CPI)-based COLAs like Plans 2/3 (3% annual max and COLA banking) and fixed percentage COLAs both help retirees maintain purchasing power and allow retirees to recover lost purchasing power in different ways.
- Plans 1 only provide an automatic COLA to retirees who qualify for Minimum Benefits, leaving nearly 75% of retired members without a COLA. Many members are expected to become eligible for Minimum Benefit increases in the future.
- Employer contribution rates for UAAL payments decreased with the passage of Engrossed Substitute Senate Bill 5294 in 2023, and current law UAAL rates are set to continue to decrease over the next few years.
- Some policymakers may see a significant reduction in the UAAL as an opportunity to implement an automatic COLA in Plans 1, while other policymakers concerned with the costs, funding, or different priorities for new spending may prefer to stick with an ad hoc COLA approach.
- As part of the study, the SCPP was briefed on cost management strategies, such as a monthly increase cap, and alternatives to current law benefit improvement funding policy, such as the timeframe to pay for the benefit

improvement. However, the study mandate did not require the SCPP to recommend these strategies or modify benefit improvement funding.

Committee Activity

The SCPP received briefings throughout the 2023 and 2024 Interims. The SCPP held public hearings in October and November 2024 and then voted to recommend the bill draft as amended at the November meeting.

Recommendation to the 2025 Legislature

Sponsor a bill draft to provide a 3% ad hoc COLA effective July 1, 2025, a Plans 2/3 style CPI-based ongoing COLA with a maximum annual increase of 3% beginning July 1, 2026, and a one-time change to Plans 1 funding policy that would (1) fund the new ongoing COLA over 15 years and (2) amortize the remaining balance of prior ad hoc COLA costs in Plans 1 over 15 years.

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