Select Committee on Pension Policy

Plans 1 Ongoing COLA Study

Executive Summary

The Select Committee on Pension Policy (SCPP) was directed to study and recommend an ongoing post-retirement Cost-Of-Living Adjustment (COLA) for the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) Plans 1 retirees during the 2023-25 Fiscal Biennium (Chapter 397, Laws of 2023). 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). (The term "Plans 1" will be used throughout to refer to PERS Plan 1 and TRS Plan 1.)

The 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.

Study 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.
- The 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.

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Select Committee on Pension Policy

Committee Activity

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

Recommendation

Sponsor a bill draft for consideration by the 2025 Legislature providing for 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 (1) funding the new ongoing COLA over 15 years and (2) amortizing the remaining balance of prior ad hoc COLA costs in Plans 1 over 15 years.

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Select Committee on Pension Policy

Plans 1 Ongoing COLA Study

Issue Summary

During the 2023-25 Fiscal Biennium the Select Committee on Pension Policy (SCPP) was required to study the policy of a post-retirement Cost-Of-Living Adjustment (COLA) in Plan 1 of the Public Employees' Retirement System (PERS) and in Plan 1 of the Teachers' Retirement System (TRS).[1] (The term "Plans 1" will be used throughout to refer to PERS Plan 1 and TRS Plan 1.)

Specifically, how could an ongoing COLA for retirees of Plans 1 be designed and funded? Policymakers considered balancing policy impacts and funding considerations as part of their study to determine how and whether to recommend the implementation of a COLA for closed retirement plans that were not originally designed to include and fund an ongoing COLA.

Committee Activity

In September 2024 the SCPP was briefed on two Executive Committee requested policy options and recommended Option 2: a Plans 2/3 style Consumer Price Index (CPI)-based COLA with a maximum annual increase of 3% (to include COLA banking) along with a change in funding policy (See “Fresh Start” funding approach in July and September meeting materials). The Executive Committee requested staff prepare bill language to implement the recommendation and amendments to accommodate administrative concerns raised by the Department of Retirement Systems (DRS) (Amendments 3 and 4 below). The following amendments were prepared for the SCPPs consideration:

- Amendment 1: Provides an intent section to the bill describing in plain language the proposed policy changes;
- Amendment 2: Reserves the right of the Legislature to amend or repeal these benefits in the future;
- Amendment 3: Adds new sections to provide a fixed 3% COLA on July 1, 2025, and replaces language to reflect an ongoing COLA beginning July 1, 2026; and
- Amendment 4: Provides that optional COLA recipients will receive compounded increases.

Recommendation

The SCPP received briefings throughout the 2023 and 2024 Interims. The SCPP held public hearings in the fall and voted to recommend the bill draft as amended at the November 2024 meeting. The amended bill provides 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% (to include COLA banking) 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.[2]

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[1] *See Chapter 397, Laws of 2023 (view session law). Effective July 1, 2023.*
[2] *See the SCPP recommended bills, Senate Bill 5113/House Bill 1292 (2025), and fiscal note for relevant actuarial analysis.*

Select Committee on Pension Policy

Background

Plans 1 COLA

An optional CPI-based automatic COLA (auto-COLA) is available to the Plans 1 members who choose to purchase it at retirement. The auto-COLA[3] provides an annual percentage increase in the retirement allowance. The increase is based on changes in the CPI[4] up to a maximum of 3% 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. Most members do not elect to purchase the auto-COLA.

The Plans 1 provide minimum retirement benefits in addition to the COLA 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 Alternate.

The Basic Minimum is $75.80[5] per month multiplied by the member's total Years Of Service (YOS). The Alternate Minimum is $2,268.87 a month for recipients who:

- Have at least 25 YOS and have been retired at least 20 years.
- Have at least 20 YOS and have been retired at least 25 years.

The Basic Minimum increases every year by the dollar amount of the Uniform COLA (UCOLA) annual increase. (For example, the Basic Minimum increased from $70.18 to $72.95 in 2023. The $2.77 increase was the amount of the annual increase for that year.) The Alternate Minimum increases by 3% each year.

Plans 1 Demographics

It is important to have context and understand the Plans 1 population who could be impacted by any change in COLA policy. The tables below provide a high-level overview of key plan demographic information. Table 3 shows individuals who are currently eligible for minimum benefit increases to help illustrate the difference between who is receiving a COLA regularly and individuals who only receive a COLA on an ad hoc basis.

Table 1: Current Active Employees

Plans 1 Demographics – Actives				
Plan	Count	Avg Age	Avg Service	Avg Salary
PERS 1	506	71	26	$74,500
TRS 1	81	72	36	$114,300

[3] *First available in 1990.*
[4] *Consumer Price Index for Urban Wage Earners and Clerical Workers for Seattle-Tacoma-Bellevue.*
[5] *As of July 1, 2024.*

Table 2: Current Retirees and Beneficiaries

Plans 1 Demographics – Annuitants				
Count	Years Retired	Avg Age	Avg Service	Avg Benefit
39,306	20	79	25	$29,000
28,566	21	80	27	$29,700

Table 3: Annuitants Split by COLA Type

Plans 1 Annuitant Demographics by COLA Type						
COLA Type	Count	Avg Final Salary	Avg Service	Years Retired	Avg Age	Avg Benefit
No Minium Benefit	50,730	$63,600	28	19	78	$33,100
Basic Minimum	11,363	$26,000	20	20	80	$15,800
Alternate Minimum	5,769	$30,800	25	30	86	$23,000

Plans 1 Unfunded Actuarial Accrued Liability (UAAL)

The Plans 1 have a combined UAAL of $3.2 billion as of the *2023 Actuarial Valuation Report*, which is funded by a surcharge on employer contribution rates. The Public Employees' Retirement System, the Public Safety Employees' Retirement System (PSERS), and the School Employees' Retirement System (SERS) employers contribute to the PERS 1 UAAL, while TRS employers contribute to the TRS 1 UAAL. Contribution rates for the UAAL (Base UAAL rate) are scheduled in statute to decrease every year through Fiscal Year (FY) 2027. UAAL contributions may be required beyond 2027 depending on plan experience.

Providing Benefit Improvements (BI), like ad hoc COLAs, increase the Plans 1 UAAL, however, under current law funding policy, contribution rates for BIs are separately determined from the Base UAAL rates. The BI rates are paid over a fixed ten-year period starting from the effective date of the improvement regardless of plan funding levels. Current law BI rates are scheduled to decline in the future with the last BI rate paid in FY 2034.

History

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

COLA Policy Has Changed over the Years

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

- 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.

Despite COLAs not being part of the Plans 1 design, for many years the Legislature provided ad hoc, one-time COLAs to Plans 1 retirees. COLAs had various eligibility criteria and were more often than not 3% through 1994. In 1995 the Plans 1 UCOLA was established by the Legislature and became the primary COLA providing for adjustments to retiree benefits until 2011. The UCOLA was a service-based COLA payable the first calendar year in which the recipient turns age 66 and has been retired for one year. The UCOLA was a fixed dollar amount multiplied by the member's total YOS. The dollar amount of the UCOLA increased by 3% every year on July 1. As of July 1, 2010, the UCOLA was $1.88 per month/per year of service. This amounted to an annual increase of $677 for a recipient with 30 YOS. Statute specified that future increases to the UCOLA were not a contractual right, and the Legislature exercised the option to discontinue the UCOLA in the 2011 Legislative Session.

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.

Responding to challenges with the Plans 1 design, the Plans 2 were created in 1977 and Plans 1 were closed to new entrants. 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 permitted 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 late 1990s.

Benefits for Plans 1 Retirees Have Increased over Time

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

The Legislature has employed a variety of different approaches in their efforts 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 auto-COLA from retirement paid for by members.
- Providing the UCOLA.

Some highlights from this history of post-retirement benefit increases in the Plans 1 are provided in the following table.

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 auto-COLA (up to 3%) for retirees whose purchasing power at age 65 drops more than 40%.
1995	UCOLA replaces CPI-based COLA.
1998	Gain-sharing established. Provided possible even-year increases in the UCOLA depending on investment earnings.
2008	Gain-sharing ended. Replaced by one-time increase to UCOLA.
2011	UCOLA ended. One-time increase in Alternate Minimum benefit implemented.
2018	Ad hoc COLA of 1.5% with a $62.50/month cap for all annuitants not receiving minimum benefits.
2020	Ad hoc COLA of 3% with a $62.50/month cap for all annuitants not receiving minimum benefits.
2022	Ad hoc COLA of 3% with a $110.00/month cap for all annuitants not receiving minimum benefits.
2023	Ad hoc COLA of 3% with a $110.00/month cap for all annuitants not receiving minimum benefits.
2024	Ad hoc COLA of 3% with a $110.00/month cap for all annuitants not receiving minimum benefits.

Committee History

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, 2008, and every year from 2016 through 2023.

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

SCPP Recommendations to the Legislature	
Year Enacted	**Brief Description**
2003*	• $1,000 Alternate Minimum Benefit for members with more than 25 YOS and retired more than 20 years.
2004	• $1,000 Alternate Minimum Benefit for members with more than 20 YOS and retired more than 25 years. • Increase the amount of the Alternate Minimum by 3% each year. • One-time increase in the UCOLA. • Provide the UCOLA to members who will turn age 66 during the calendar year.
2018	• One-time 1.5% benefit increase capped at $62.50/month to Plans 1 retirees not receiving a minimum benefit.
2020	• One-time 3% benefit increase capped at $62.50/month to Plans 1 retirees not receiving a minimum benefit.
2022	• One-time 3% benefit increase capped at $110/month to Plans 1 retirees not receiving a minimum benefit.
2023	• One-time 3% benefit increase capped at $110/month to Plans 1 retirees not receiving a minimum benefit, and proviso for the SCPP to consider an ongoing COLA as the minimum contribution rates to fund the UAAL cease.
2024	• One-time 3% benefit increase capped at $110/month to Plans 1 retirees not receiving a minimum benefit.

**Indicates year first recommended. Some proposals were recommended in more than one year.*

Peer Systems

The majority of Washington's peer systems provide an automatic post-retirement COLA in their open plans (see the following table). Systems where members are not covered by Social Security tend to provide larger COLAs. 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 85%) of the original benefits' purchasing power. Benefits in the Seattle system cannot fall below 65% of their original purchasing power. This is similar to a 1989 COLA provision that protected Plans 1 members from the loss of more than 40% of their age 65 benefits' purchasing power.

COLA Provisions for Select Local Retirement Systems	
	COLA Provisions
Seattle City ERS	• 1.5% COLA, 65% purchasing power minimum.
Spokane SERS	• Only offer ad hoc COLA for all retirement tiers based on plan funded/financial status established by the Board with advice of the SERS actuary.
Tacoma TERS	• Maximum of 2.125% COLA per year based on CPI-W.

Other States

COLAs take many forms both inside and outside of Washington's peer systems. Most are tied directly to CPI under certain constraints. Several are tied to fund performance or are only applicable to a set amount of annual benefit. Others are funded out of a dedicated reserve account.

The Great Recession placed pressure on state pension systems, leading to systematic reductions in plan benefits, including COLAs, throughout the country. Lower inflation in the years following the Great Recession may have further reduced the perceived need for COLAs. According to the May 2024 National Association of State Retirement Administrators' (NASRA) Issue Brief: Cost-of-Living Adjustments, "Since 2009, seventeen states have changed COLAs affecting current retirees, eight states have addressed current employees' benefits, and seven states have changed the COLA structure only for future employees."

The May 2024 NASRA Issue Brief included data on 85 systems covering general public employees and teachers. Of these systems:

- Fifty-three provide an automatic COLA.
- Twenty-five provide an ad hoc COLA; and
- Seven have suspended their COLA.

Nearly three-quarters of the systems that provide an automatic COLA base the COLA amount wholly or partly on the CPI. Of the remaining systems, about half base the COLA amount on a fixed percentage and half base the COLA amount on other factors such as funded status or investment return. Some systems provide a COLA that is based on both CPI and other factors such as funded status, investment returns, or years retired.

Nearly all systems have a cap on the amount of the COLA increase, and these caps range from 1% to 9%, with 3% the most frequently occurring.

Case Study: South Dakota

South Dakota provides an example of a variable COLA that considers both inflation and plan funded status. For retirees a COLA can range from zero to 3.5% if the plan is fully funded. If the plan is not fully funded, then the South Dakota Retirement System Board establishes a COLA up to the "restricted COLA maximum." This means the increase is limited to a percentage that if assumed to be paid in all future years, results in a Market Value Funded Ratio (MVFR) of 100% or more.

South Dakota COLAs: 5-Year History

Effective Date	Baseline MVFR	COLA Range	Inflation	COLA %	Final MVFR	Valuation Date
7/1/2024	96.7%	0.0%-1.91%	3.20%	1.91%	100.1%	6/30/2023
7/1/2023	98.6%	0.0%-2.10%	8.75%	2.10%	100.1%	6/30/2022
7/1/2022	105.5%	0.0%-3.50%	5.92%	3.50%	105.5%	6/30/2021
7/1/2021	91.9%	0.5%-1.41%	1.28%	1.28%	100.1%	6/30/2020
7/1/2020	96.3%	0.5%-1.88%	1.56%	1.56%	100.1%	6/30/2019

Note: Many systems reduced their COLAs in the wake of the Great Recession. The data summarized in this paper is for COLAs available to new hires.

Policy Analysis

Overview

There are key policy areas relevant to a discussion of COLAs including inflation protection, benefit adequacy, intergenerational equity, and funding or amortization of Plan 1 unfunded liabilities.

Key Policy Questions to Consider

In contemplating how an ongoing COLA could be provided to Plans 1 retirees, the following key policy questions were used as a framework to help the SCPP consider an ongoing COLA to satisfy the study mandate under Chapter 397, Laws of 2023.

1. What ongoing COLA policy is preferred by the SCPP?
2. What cost management strategies, if any, would the SCPP like to incorporate?
3. What funding idea(s) could the SCPP elevate to policymakers that would support the implementation of an ongoing COLA?

Inflation and Purchasing Power Impacts

As mentioned, post-retirement COLAs help offset the effects of inflation and maintain purchasing power. Members who have been retired for a longer period are likely to lose more purchasing power due to post-retirement inflation than members who may have retired more recently. Earlier retirement ages and increasing life spans are significant factors in the loss of purchasing power experienced by some members.

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 measured by comparing the change in the member's pension over time with the amount of inflation over the same 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.

Likewise, members who are retired for a longer period are likely to lose more purchasing power due to post-retirement inflation than members who are retired for shorter periods.

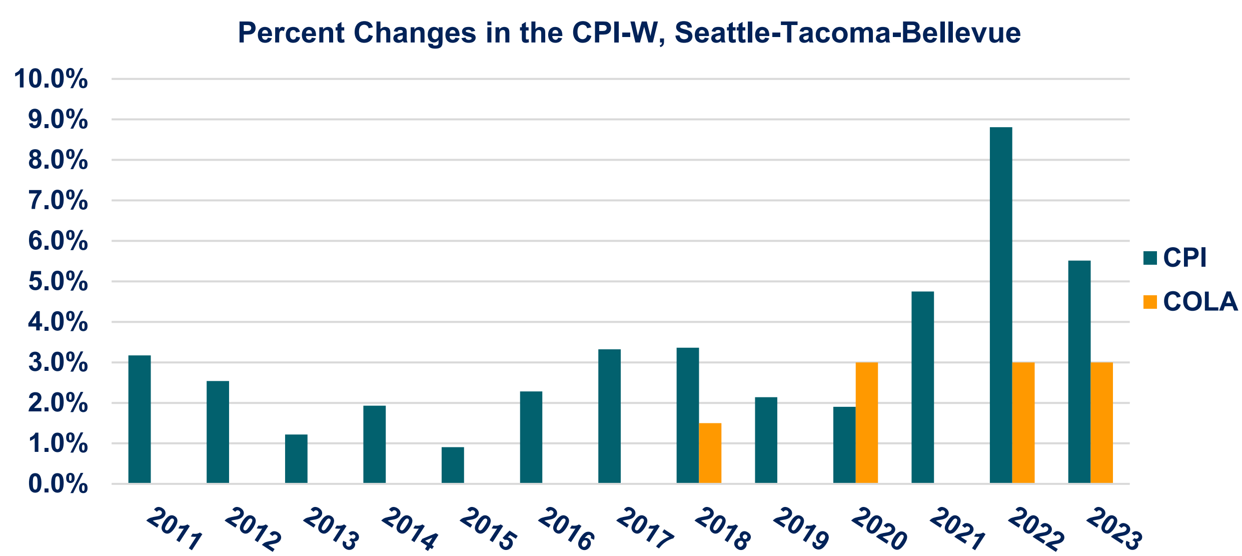
Earlier retirement ages and increasing life spans are significant factors in the loss of purchasing power experienced by some members.

Post-retirement COLAs offset the effects of inflation and help maintain purchasing power. The Legislature has provided numerous COLAs in the Plans 1 (see Table on page 6). Members who receive less in COLAs will generally lose more purchasing power over time than members who receive more in COLAs.

Additionally, 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 UCOLA and automatic increases in minimum benefits.

A desire for retiree benefits to 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, which is also funded differently than Plans 1.

The following chart shows the changes in CPI (Seattle-Tacoma-Bellevue, Washington) and Plans 1 COLAs granted since the UCOLA repeal in 2011. This chart does not include the 3% ad hoc COLA enacted by the Legislature effective July 1, 2024. In some cases, retirees receive less than a full 3.0% COLA because their pension benefit increase is capped by the monthly increase amount according to the enacted bill (see table above for monthly increase caps by year).



Benefit Adequacy

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."

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.

Intergenerational Equity

Benefit increases granted to retired members in a plan that is primarily comprised of retirees is inconsistent with the concept of intergenerational equity because the cost cannot be funded over their working lifetimes since they are already retired. Instead, the cost is generally borne by taxpayers who never received services from the members.

Providing BIs for active Plans 1 members consistent with intergenerational equity presents policy makers a challenge as well. Active members in the Plans 1 are few and 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 BIs increasingly becomes taxpayers who never received services from these members.

The cost of Plans 1 BIs 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.

Actuarial Considerations

As noted in the July 2024 SCPP presentation, benefit policy, or benefit design, manages the expected cost of a proposal, e.g., a fixed 2% or 3% annual increase. It can also include risk management, e.g., limiting an inflation-based COLA to not exceed 3% annually.

The funding policy, or funding approach, determines how to pay the expected cost.

BIs increase the UAAL for the Plans 1. Current law requires BIs to be financed through a fixed BI rate paid by employers over a ten-year period. These rates are separate from the employer-only Plan 1 Base UAAL rates.

Given the substantial cost of an ongoing COLA, budget impacts may constrain policy options. However, the SCPPs current study of an ongoing Plans 1 COLA requires the SCPP to consider benefit policy in conjunction with funding policy that coordinates with the reduction or elimination of the Plans 1 UAAL. The Office of the State Actuary provided actuarial consulting and analysis to the SCPP related to current law and alternate funding options during presentations to the SCPP in July, September, and October 2024. One alternate funding policy looked at paying for a BI over 15 years instead of 10 years. A key takeaway from this change is lengthening the timeframe to pay a BI decreases the BI rate but increases the total expected budgetary impact of the policy change.

The SCPP requested analysis on the following plan and funding design:

- An automatic, inflation-based COLA, capped at 3% per year (Plans 2/3 style COLA) with COLA banking provided on a prospective basis only.
- 15-year funding on the ongoing, automatic COLA.
- Recalculate remaining costs of current BI rates and amortize over a 15-year period.

The following contribution rate and budget impacts were shared in the October 2024, SCPP meeting. All PERS, SERS, and PSERS employers pay the PERS 1 BI contribution rate. All TRS employers pay the TRS 1 BI contribution rate.

BI Contribution Rates						
	PERS Plan 1			TRS Plan 1		
FY	Current Law	Proposal*	Increase	Current Law	Proposal*	Increase
2026	0.55%	0.74%	0.19%	1.10%	1.43%	0.33%
2027	0.55%	0.74%	0.19%	1.10%	1.43%	0.33%
2028	0.55%	0.74%	0.19%	1.10%	1.43%	0.33%
2029	0.45%	0.74%	0.29%	0.89%	1.43%	0.54%
2030	0.45%	0.74%	0.29%	0.89%	1.43%	0.54%
2031	0.34%	0.74%	0.40%	0.66%	1.43%	0.77%
2032	0.34%	0.74%	0.40%	0.66%	1.43%	0.77%
2033	0.20%	0.74%	0.54%	0.39%	1.43%	1.04%
2034	0.08%	0.74%	0.66%	0.16%	1.43%	1.27%
2035-2040	0.00%	0.74%	0.74%	0.00%	1.43%	1.43%

**Includes re-amortization of past BI rates and a new, ongoing COLA.*

Budget Impacts					
(Dollars in Millions)	**PERS**	**TRS**	**SERS**	**PSERS**	**Total**
2025-2027					
General Fund	$11.2	$50.0	$6.9	$2.1	$70.3
Non-General Fund	16.9	0.0	0.0	0.3	17.1
Total State	**$28.1**	**$50.0**	**$6.9**	**$2.4**	**$87.4**
Local Government	28.1	8.8	5.7	1.0	43.6
Total Employer	**$56.2**	**$58.8**	**$12.6**	**$3.4**	**$131.1**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2027-2029					
General Fund	$16.4	$77.1	$10.1	$3.3	$107.1
Non-General Fund	24.7	0.0	0.0	0.4	25.1
Total State	**$41.1**	**$77.1**	**$10.1**	**$3.8**	**$132.2**
Local Government	41.1	13.6	8.3	1.6	64.6
Total Employer	**$82.2**	**$90.7**	**$18.4**	**$5.4**	**$196.8**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
2025-2040					
General Fund	$317.4	$1,590.3	$196.0	$78.9	$2,182.6
Non-General Fund	476.0	0.0	0.0	10.2	486.2
Total State	**$793.4**	**$1,590.3**	**$196.0**	**$89.0**	**$2,668.8**
Local Government	793.4	280.6	160.4	38.2	1,272.6
Total Employer	**$1,586.8**	**$1,871.0**	**$356.4**	**$127.2**	**$3,941.4**
Total Employee	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**

Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

For a list of the data, assumptions, and methods used to produce the analysis above, please see the Appendix contained within the PowerPoint of the October meeting materials.

The SCPP ultimately amended this proposal in the November meeting. Updated analysis to reflect the recommended bill will be included in an actuarial fiscal note during the 2025 Legislative Session.

Contractual Rights

Some improvements to retirement benefits have been determined by the courts to be contractual rights of plan members. In other words, once enacted such improvements may be difficult or impossible to repeal for current members if policy makers later change their minds. SCPP staff typically considers contractual rights in the analysis of any proposal since contractual rights can have a significant impact on a retirement plan's affordability and flexibility.

The policy options before the SCPP issue may be construed as creating a contractual right. When the UCOLA was enacted (Chapter 345, Laws of 1995) it included a provision to reserve the right of the Legislature to amend, modify, or repeal any provisions related to the COLAs in the future. Policymakers with concerns around potentially creating a long-term contractual right to the BI being considered may wish to include a reservation of rights clause in a proposed bill or request analysis from the Attorney General's Office.

Select Committee on Pension Policy

Administrative Impacts

The Department of Retirement Systems is responsible for implementing COLAs for retirees and beneficiaries. According to DRS, their legacy technology applications, coupled with system replacement projects currently underway, create challenges for timely implementation of an ongoing COLA. The Department of Retirement Systems proposed the SCPP consider Amendment 3 (in the November meeting materials) which would step into an ongoing COLA implementation effort by enacting a fixed 3% increase in year one and an ongoing COLA beginning in the subsequent year. This policy change would allow more time for DRS to implement the changes and avoid retroactively paying BIs.

If the percent change in CPI is less than 3% retirees may fare better under this policy, on the other hand if the percent change in CPI is greater than 3% retirees would miss any COLA banking in year one. Some stakeholders may favor this amendment over the underlying bill, as it ensures benefit payment increases take effect in the first year without delay. Note: the SCPPs recommended bill included this amendment.

Policy Options

Ongoing Annual COLA Policy Options		
Type	**Design Considerations**	**Policy Implications**
Option 1: Fixed COLA	• 2%, 3%, or other, fixed percent increase. • Could be modified to manage costs, e.g., include a monthly dollar cap, like recent ad hoc COLAs.	• Increase is independent of inflation, investment returns, or other external factors that may vary from year to year. • Predictable increase from year to year for retirees and policymakers. • Protects against a set amount of inflation, providing the same level of purchasing power protection to all recipients. • May be simpler to administer than other types of COLAs since the amount isn't tied to external factors that may change from year to year.
Option 2: CPI-Based COLA	• Similar to current Plans 2/3 COLA policy. • Could be modified to manage costs, e.g., monthly dollar cap, lower percent increase cap than Plans 2/3 COLA, or limited maximum percentage of CPI.	• CPI-based COLAs protect a benefit against actual, measured inflation. • Increase amount may be difficult to predict and could vary widely from year to year. • Provide the same inflation protection to all recipients regardless of the size of their pension. • Some stakeholders have expressed a strong desire for an automatic COLA in the Plans 1 that is CPI-based. • Could be viewed as consistent with other Washington State plans COLAs and other states' approach.
Option 3: Variable COLA	• Based on variable metric such as plan funded status, investment returns, inflation, contribution rates, or other external factors, and can be designed to manage costs.	• Increase amount may be difficult to predict and could vary widely from year to year. • Variable COLAs can help manage financial risks of automatic COLAs. • This type of COLA may be more complicated to administer than other types of COLAs since the amount is tied to external factors that may change from year to year.

Policy Highlights

- Some automatic COLAs provide all retirees with the same level of purchasing power protection, others can provide greater protection to members with less service or lower benefits, and other COLAs can be designed to reward service.
- An automatic COLA for Plans 1 would provide more certainty to retirees regarding future increases than an ad hoc approach and could be viewed as being consistent with the SCPPs adopted goals.
- Implementing an automatic COLA would require less ongoing action by the SCPP, Legislature, and stakeholders when compared to ad hoc COLAs. However, a COLA may be difficult to repeal if it later becomes unaffordable.
- Cost-of-living adjustments may serve a variety of policy goals such as protecting the value of benefits against the effects of inflation, supporting adequacy of benefits, and rewarding service.
- The Plans 1 only provide an automatic COLA to retirees who qualify for Minimum Benefits. This leaves nearly three-quarters of retired members currently without an automatic COLA. Many of these members are expected to become eligible for Minimum Benefit increases in the future.
- Recent years have seen significant increases in inflation from the relatively low to moderate levels seen in the decade following the Great Recession. The impacts of this inflation have been partially offset by ad hoc COLAs.
- 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 interested in different priorities for new spending may prefer to stick with an ad hoc COLA approach.

Executive Committee Requested Policy Options

The Executive Committee met in June and requested two policy options for consideration in July, which were also carried over into September.

- Option 1: 3% annual fixed percent COLA (Fixed COLA).
- Option 2: Plans 2/3 style CPI-based COLA with a maximum annual increase of 3%.

Both options assumed all retirees eligible for minimum benefits (Basic or Alternate) are excluded, recipients of the optional for purchase CPI-based COLA are included, and if COLA banking is included it would be on a prospective basis only. The SCPP considered policy options that could include cost management strategies, such as a monthly increase cap of $110 or $125, or alternative funding approaches to the current law BI funding policy. However, the study mandate did not require the SCPP to recommend these strategies or redefine BI funding.

Policy Highlights of Requested Options

Ongoing Annual COLA Policy Options	
Type and Design Considerations	**Policy Implications**
Option 1: **Fixed COLA** • 3% annual increase. • Could be modified to manage costs, e.g., include a monthly dollar cap, like recent ad hoc COLAs or a lower fixed annual increase.	• Increase is independent of inflation, investment returns, or other external factors that may vary from year to year. • Predictable annual increase for retirees and policymakers. • Protects against a set amount of inflation, providing the same level of purchasing power protection to all recipients. • May be simpler to administer than other COLAs since the amount isn't tied to external factors that may change yearly.
Option 2: **CPI-Based COLA** • Up to 3% annual increase based on CPI-W percent change. • Includes COLA banking prospectively (to begin as of the effective date of the bill). • Could be modified to manage costs, e.g., monthly dollar cap, or lower maximum annual increase.	• CPI-based COLAs help protect a benefit against actual, measured inflation. • Increase amount may be difficult to predict and could vary widely from year to year. • Provides the same inflation protection to all recipients regardless of the size of their pension. • Some stakeholders have expressed a strong desire for an automatic COLA in the Plans 1 that is CPI-based. • Could be viewed as consistent with other Washington State pension plans' COLAs and other states' approach.

Conclusion

The Plans 1 are unique among Washington State administered retirement plans as being the only plans without an across-the-board, automatic post-retirement COLA. Currently, the Plans 1 provide an automatic COLA for retirees eligible for minimum benefits. This group represents about one-quarter of the plans' retired members—leaving nearly three-quarters of retirees without an automatic COLA.

Unlike Washington's other plans, a post-retirement COLA was not part of the original design for the Plans 1. However, responding to concerns about the adequacy of benefits and the impact of inflation the Legislature has provided many COLAs to Plans 1 annuitants over the years—including automatic COLAs. These COLAs have served a variety of policy goals such as protecting the value of benefits against the effects of inflation, supporting adequacy of benefits, and rewarding service.

Following the Great Recession, the Legislature ended automatic COLAs in the Plans 1 for retirees not receiving minimum benefits. While inflation remained relatively low or moderate in the years following, there have been significant increases in inflation in recent years. The impact of this higher inflation has been partially offset by ad hoc COLAs enacted somewhat regularly by the Legislature.

Plans 1 COLAs have been studied and considered by policymakers numerous times over the years. One complicating factor in the provision of an across-the-board automatic COLA has likely been the Plans 1 UAAL. Employer contributions for the UAAL are set to decrease over the next few years as the UAAL is paid off. The UAAL may re-emerge depending on future experience.

Some policymakers may see the elimination of the UAAL as an opportunity to restore an across-the-board automatic COLA in the Plans 1, while other policymakers may prefer to stick with an ad hoc COLA approach.

The SCPP was tasked with a study on the policy of an ongoing COLA in the Plans 1 such that any recommendation would be coordinated with the reduction or elimination of the UAAL. The SCPP recommends to the 2025 Legislature 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 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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