Select Committee on Pension Policy

Plans 1 COLAs

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

Stakeholder correspondence and public comment throughout the 2021 Interim prompted the Committee to review the issue of providing COLAs to Plans 1 retirees. The Executive Committee reviewed stakeholder proposals and requested a policy briefing at the October 2021 meeting on three specific COLA policy proposals. The Committee narrowed the proposals and requested actuarial analysis for Options A and C below.

Who Does This Impact?

This policy issue affects PERS and TRS Plan 1 retirees and members currently working and planning for their retirement.

Highlights

- Current COLA policy in the 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 (1) inflation protection, (2) adequacy of benefits, (3) intergenerational equity, and (4) funding 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.
- Stakeholder proposals address inflation protection and benefit adequacy to varying degrees. However, none of the proposals address the loss of purchasing power incurred by retirees not receiving consistent COLAs.
- Some policymakers may prefer Option C over a permanent, automatic COLA to manage funding and fiscal constraints.
- On the other hand, Option A provides the assurance of increases to Plans 1 retirees over the remainder of their lifetimes.

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Stakeholder Proposals

Option A – An annual, automatic Consumer Price Index (CPI) based Plan 1 COLA of up to 3 percent per year.

- Provides ongoing purchasing protection to Plans 1 retirees.
- Creates consistency with Plans 2/3 COLA policy, in effect since the 1970s.
- Automatic COLAs provide more certainty to retirees of future increases than ad hoc COLAs.
- Policymakers may prefer this option if the objective is to protect benefits over the lifetime of Plan 1 retirees.

Option C – One-time, permanent increase to PERS 1 and TRS 1 retirees of 3 percent on the first $44,000 in pension income.

- Provides a one-time, permanent increase to address purchasing power.
- Does not provide long-term, consistent inflation protection.
- Policy makers who want more control over the timing, amount, and costs of future COLAs may prefer an ad-hoc approach.
- Focuses on improving purchasing power for those who receive smaller annual retirement benefits, excluding retirees eligible for minimum benefits.

Committee Activity

The Committee received an initial briefing at the July 2021 meeting and a policy briefing in October. At the November 2021 meeting the Committee received updated actuarial analysis on the two options above. A public hearing was held and the Committee voted to recommend Option C to the 2022 Legislature.

Recommendation to the 2022 Legislature

Provide 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.

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