Select Committee on Pension Policy

Plans 1 COLAs

Issue

At the request of stakeholders, the Select Committee on Pension Policy (SCPP) is revisiting 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). (The term "Plans 1" will be used throughout to refer to PERS and TRS Plans 1.)

When considering COLAs for a plan that was not originally designed for one, policymakers face several policy considerations and challenges that ultimately come with trade-offs.

Background

Current Situation

An optional Consumer Price Index (CPI)-based automatic COLA (auto-COLA) is available to the Plans 1 members who choose to purchase it at retirement. The auto-COLA[1] provides an annual percentage increase in the retirement allowance. The increase is based on changes in the CPI[2] up to a maximum of 3 percent 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 $67.49[3] per month multiplied by the member's total years of service. The Alternate Minimum is $2,076.34[3] a month for recipients who:

- Have at least 25 years of service and have been retired at least 20 years.
- 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 Uniform COLA (UCOLA) annual increase. (For example, the Basic Minimum increased from $64.88 to $67.49 in 2021. The $2.61 increase was the amount of the annual increase for that year.) The Alternate Minimum increases by 3 percent each year.

[1]*First available in 1990.*
[2]*Consumer Price Index for Urban Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton.*
[3]*As of July 1, 2021.*

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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 Time

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 PERS and TRS retirees. COLAs had various eligibility criteria and were more often than not 3 percent 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 years of service. The dollar amount of the UCOLA increased by 3 percent 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 years of service. 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.

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Benefits for Plans 1 Retirees Have Increased over Time

COLA policy also changed within the Plan 1 design to a more limited extent. Responding to concerns about the adequacy of benefits and the impact of inflation, policy makers 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 COLA from retirement paid for by members.
- Providing auto-COLAs (including UCOLA).

Appendix A provides a history of post-retirement benefit increases in the Plans 1. Some highlights from this history are provided in the table below.

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.

Committee History

Stakeholder correspondence and public comment prompted discussion of the Plans 1 COLA topic at the June 2021 SCPP Executive Committee meeting. The Executive Committee scheduled a Plans 1 COLAs overview for the July 2021 meeting.

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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 2019.

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

2003[4]

- $1,000 Alternate Minimum Benefit for members with more than 25 years of service and retired more than 20 years.

2004

- $1,000 Alternate Minimum Benefit for members with more than 20 years of service and retired more than 25 years.
- Increase the amount of the Alternate Minimum by 3 percent 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 percent benefit increase capped at $62.50/month to PERS and TERS Plans 1 retirees not receiving a minimum benefit.

2020

- One-time 3 percent benefit increase capped at $62.50/month to PERS and TERS Plans 1 retirees not receiving a minimum benefit.

Other Systems

Other Washington Plans

Washington Plans 2/3 provide a CPI-based COLA. This COLA is designed to maintain the purchasing power of retiree benefits and is consistent with the underlying income replacement design of the plan. Members and employers share in the cost of this benefit by equally sharing in the contributions (50/50). The Plans 2/3 COLA is an annual percentage increase in the retirement allowance beginning one year after retirement. The increase is based on changes in the CPI[5] up to a maximum of 3 percent per year.

[4] *Indicates year first recommended. Some proposals were recommended in more than one year. See **Appendix A** for year enacted.*

[5] *Consumer Price Index for Urban Wage Earners and Clerical Workers for Seattle-Tacoma-Bremerton.*

As discussed in the **History** section, the Plans 2/3 COLA is tied to a normal retirement age of 65 (or 62 with 30 years of service). Members who retire prior to the normal retirement age still receive the COLA after one year-but on an actuarially reduced benefit.

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 percent) of the original benefit's purchasing power. Benefits in the Seattle system cannot fall below 65 percent of their original purchasing power. This is similar to a 1992 COLA provision that protected Plans 1 members from the loss of more than 40 percent of their age 65 benefits' purchasing power.

COLA Provisions by Select Retirement Systems*

System	COLA Provisions
CalPERS	CPI based 2% max, 75% purchasing power protection.
CalSTRS	2% increase, 85% purchasing power protection funded through supplemental benefits maintenance account. Contractually guaranteed for those retiring after 2014 with contribution rate increases.
Colorado PERA	Member prior to 2007: 2% unless negative investment year, then lesser of 2% or CPI-W. Member after 2007: Lesser of 2% or CPI-W, not exceeding 10% of Annual Increase Reserve funds.
Florida FRS	Automatic 3% per year. Any service rendered after 2011 is not eligible for COLA increases.
Idaho PERSI	Automatic 1%, discretionary increase may not exceed lesser of CPI or 6%, subject to Legislature.
Iowa IPERS	No COLA, dividend in place for those retired prior to 1990.
Minnesota MSRS	Automatic 2%, funding dependent.
Missouri MOSERS	80% of CPI-U up to 5%.
Ohio OPERS	CPI-W up to 3%.
Oregon PERS	CPI up to 2% for service rendered prior to June 2013. CPI up to 1.25% on first $60,000 of benefit and 0.15% on amounts above $60,000 for benefits earned after June 2013.
Seattle SCERS	1.5% COLA, 65% purchasing power minimum.

**For new hires. Source: Member handbooks published on system administrators' websites as of 6/28/17, and last updated in 2017. This table may be updated in subsequent briefing paper versions.*

COLAs take many forms both inside and outside of Washington's peer systems. 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, and most are tied directly to CPI under certain constraints.

The Great Recession placed pressure on state pension systems, leading to systematic reductions in plan benefits, including COLAs, throughout the country. According to the National Association of State Retirement Administrators' 2016 Cost-of-Living Adjustment study, "Since 2009, fifteen 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."

Policy Analysis

Providing Adequate Benefits and Protecting Purchasing Power are Different Policy Objectives

COLA policy in the Plans 1 has largely been driven by the twin concerns of benefit adequacy and purchasing power protection. Though there is some overlap, the two are very distinct concepts from a plan-design perspective and have different policy implications.

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.

The UCOLA and Plans 2/3 COLA were Designed to Meet Different Objectives

Discussions of COLA policy in the Plans 1 often involve comparisons between the Uniform and the Plans 2/3 COLA. These COLAs were designed to meet different policy objectives, and direct comparisons between them can be misleading.

The UCOLA is designed to meet four primary policy objectives within fiscal constraints:

- ❖ Provide a larger dollar increase to members with more service.
- ❖ Provide more purchasing power protection to members who retire with lower salaries.
- ❖ Provide a COLA at the same age that Plans 2/3 members qualify for an unreduced pension benefit.
- ❖ Provide legislators a simple mechanism to grant more consistent COLAs.

These objectives are consistent with the reward-for-service design of the Plans 1 and reflect trade-offs between adequacy of benefits and purchasing power protection. Tying the UCOLA to the Plans 2/3 unreduced retirement age may reflect a desire to maintain consistency between the plans in the starting age for unreduced COLAs. The design of the UCOLA also provides a simple mechanism for legislators to grant more consistent COLAs—the most recent example being the 40-cent (per month/per year of service) increase granted in 2008.

In contrast to the UCOLA, the Plans 2/3 COLA is designed to maintain the value of members' pensions in an environment of moderate inflation. The Plans 2/3 COLA does not favor any one group of retirees. Retirees with relatively high salaries and high benefits receive the same protection from inflation as lower-salary, lower-benefit retirees. This is consistent with the underlying income-replacement design of the plan.

The Uniform and the Plans 2/3 COLA both provide inflation protection consistent with their respective plan designs. While the Plans 2/3 COLA generally does a better job of maintaining the value of the pension than the UCOLA, there are exceptions. Some Plans 1 retirees may receive proportionately larger increases under the UCOLA than they would under the Plans 2/3 COLA. These would tend to be recipients of minimum benefits or low-wage, high-service retirees.

Existing Policies Impact this Issue

There are three key policies that are relevant to a discussion of this issue:

- Inflation protection.
- Intergenerational equity.
- Amortization of Plan 1 unfunded liabilities.

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 auto-COLAs not included in the original design of the Plans 1. This includes the UCOLA and automatic increases in minimum benefits.

A desire that retiree benefits should 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 auto-COLA in the original plan design.

Benefit increases granted to retired members are 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 benefit improvements for active Plans 1 members consistent with intergenerational equity presents policy makers a challenge as well. Active members in the Plans 1 are generally 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 benefit improvements increasingly becomes taxpayers who never received services from these members.

The cost of Plans 1 benefit improvements 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.

Benefit improvements for past service increase the Unfunded Actuarial Accrued Liability (UAAL) for the Plans 1. The UAAL exists because benefits already earned by Plans 1 members have not been fully paid. Current funding policy requires that the UAAL in the Plans 1 be fully paid within a rolling ten-year period (Revised Code of Washington 41.45.010[3]). The level of benefit improvements that can be financed over the remaining amortization period may serve to constrain policy options.

Several Factors May Impact Purchasing Power

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 time 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. See **Appendix B** for a history of inflation.

Likewise, members who are retired for a longer period of time 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 **Appendix A**). Members who receive less in COLAs will generally lose more purchasing power over time than members who receive more in COLAs.

The following chart shows the changes in CPI and Plans 1 COLAs granted since the UCOLA repeal in 2011.

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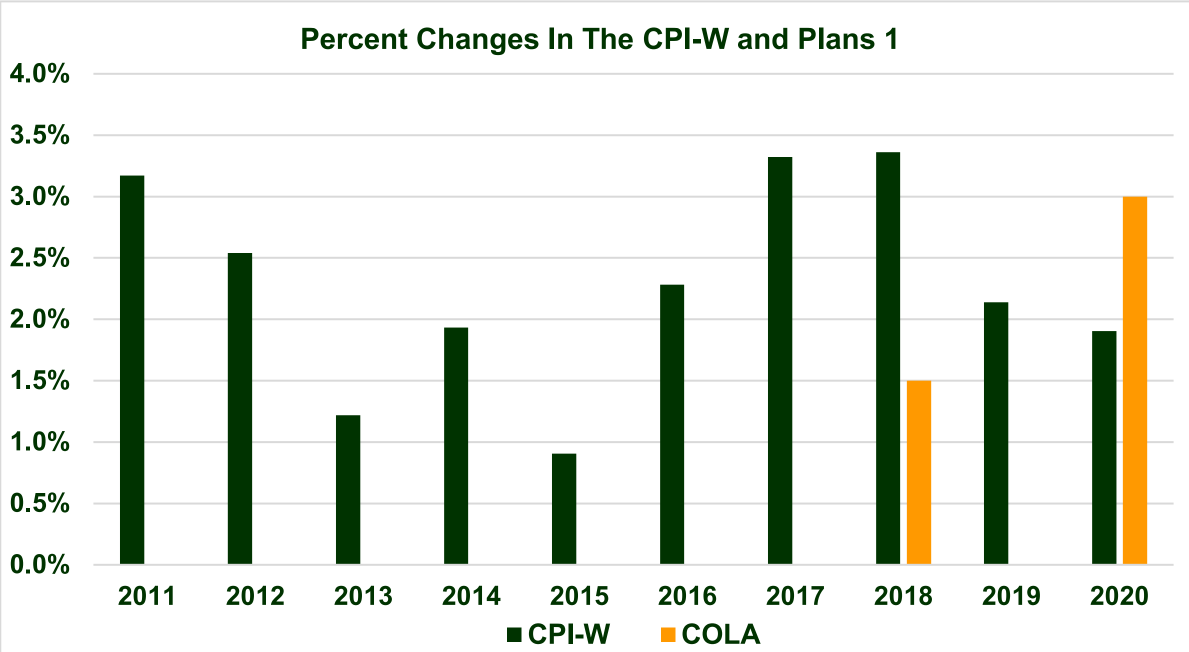
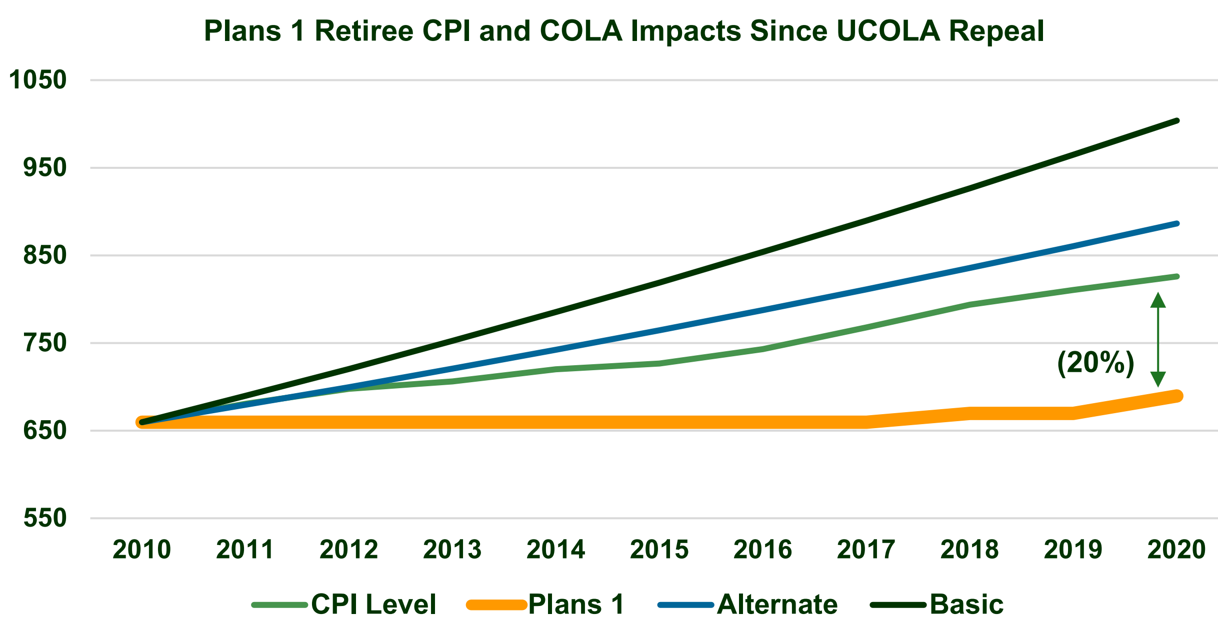


Note: COLAs enacted in 2018 and 2020 were limited to a monthly cap of $62.50.

The following chart is a high-level illustration of retiree purchasing power gained/lost since the UCOLA repeal in 2011. The CPI level line represents the changes in the CPI index, the Plans 1 line represents the loss of purchasing power experienced by retirees not receiving minimum benefits, while the Alternate and Basic lines represent the purchasing power recovered by retirees eligible for these minimum benefits. On average, retirees eligible for the Alternate Minimum have experienced a gain in purchasing power of 3 percent per year. On average, retirees eligible for the Basic Minimum have experienced a gain in purchasing power of 4.25 percent per year.



Purchasing power for Plans 1 members who retired at the same time may vary widely due to post-retirement increases. The Plans 1 have provided numerous post-retirement benefit increases that were not designed to uniformly recover purchasing power. These include increases to minimum benefits, certain ad hoc COLAs, and UCOLA increases. These increases impact members within the same group differently. Generally, the increases have served to recover more purchasing power for retirees with lower pensions. A more detailed purchasing power analysis may be conducted at the direction of the SCPP and be reflected in subsequent versions of this briefing paper.

COLA Policy Is a Balance

As discussed earlier in this paper, current COLA policy in the Plans 1 reflects a balance between various concerns:

- COLA policy and inflation protection.
- Adequacy of benefits.
- Intergenerational equity.
- Funding and fiscal constraints.

Policy makers may wish to consider whether or not the current balance is appropriate when evaluating the sufficiency of the Plans 1 COLA.

Key Questions in Shaping New COLA Policy

The first part of this paper has explored the question of whether or not the current COLA in the Plans 1 is sufficient. If policy makers feel the COLA needs improvement, they may next consider who most needs an improved COLA and what form the COLA should take. Answers to these key questions will help shape any new COLA policy.

COLAs Can Be Targeted

It is likely that substantial improvements to the Plans 1 COLA will face fiscal constraints. Policy makers may then choose to direct limited COLA dollars to those individuals whom they perceive as having the greatest need for a COLA. COLAs can be targeted to recipients based on loss of purchasing power, years retired, years of service, or size of benefit. If policy makers desire to maintain purchasing power they will likely target COLAs based on purchasing power or years retired. If the desire is to reward long careers, then COLAs will likely be targeted to members with many years of service. If the concern is adequacy of benefits, then COLAs will likely be targeted to members with the lowest pensions.

Besides directing dollars to recipients with the most need, targeting COLAs may serve other policy needs such as controlling costs or maintaining equity across the plans.

COLAs May be Implemented Many Different Ways

The form that an improved COLA takes depends on the goals of policy makers. COLAs may be implemented in a variety of ways to achieve specific policy objectives. COLAs may be implemented on a one-time or ongoing basis, and the payment may take many forms.

Ad hoc COLAs are one-time increases given to retirees. Ad hoc COLAs can be effective at making up for past inflation, but usually do little to address future inflation. Ad hoc COLAs can give policy makers the most flexibility in reacting to specific situations and in controlling costs. When COLAs are ad hoc, there is often little or no pre-funding-effectively making them pay-as-you-go benefit improvements.

In contrast, auto-COLAs are ongoing increases and usually benefit both active and retired members. Auto-COLAs can be very effective at protecting benefits against future inflation but may do little to address lost purchasing power due to past inflation. Auto-COLAs may be preferred from the member viewpoint since they are ongoing and don't require continual action by policy makers. However, for the same reasons, it may be more difficult to fine-tune an auto-COLA for a specific situation. Because auto-COLAs are ongoing and more forward-looking, they offer greater opportunities for pre-funding. Pre-funding reduces the contributions required for a benefit improvement since more of the cost of the improvement is paid for by future investment returns.

COLA payments may take many forms. Some of these include:

- **CPI Percentage-based COLAs** – These are the most direct way to protect a benefit against inflation since the COLA is based on actual, measured inflation. CPI-based COLAs provide the same inflation protection to all recipients regardless of the size of their pension. CPI-based COLAs often have an annual cap to control costs. However, an annual cap means that recipients will lose purchasing power when inflation exceeds the cap.
- **Fixed percentage COLAs** – For example a 2 or 3 percent COLA protects against a set amount of inflation while controlling costs. They provide the same amount of inflation protection to all recipients regardless of the size of their pension. However, recipients will lose purchasing power when inflation exceeds the fixed percent.
- **Flat dollar amount COLAs** – This type of COLA (i.e., $100/month) provides proportionally greater increases to recipients with smaller pensions. While they may do little to protect purchasing power for retirees with larger pensions, flat-dollar-amount COLAs are an effective way to address adequacy of benefit concerns.
- **Dollar amount per year of service COLAs** – This option (i.e., $10/month/year of service) provides larger increases to members with more service and proportionally larger increases to members who retired with lower salaries. This type of COLA is a blend between adequacy of benefits and reward for service policies. It may do little to protect the purchasing power of high-salaried retirees. The UCOLA is an example of this type of COLA in the Plans 1.

Any of the COLA designs mentioned above might be impacted by Internal Revenue Service (IRS) requirements. Some designs might result in COLAs that do not conform to IRS requirements for tax-qualified plans or must be administratively reduced to comply with IRS requirements. This is more likely to be an issue with COLAs designed to make up for long periods of past inflation. Policy makers may wish to consult tax counsel before making significant changes in COLA policy.

Policy Makers have Flexibility in Crafting COLA Policy

Policy makers have a great deal of flexibility in crafting new COLA policy for the Plans 1. Policy makers may target, implement, and design COLAs in a variety of ways to support their policy objectives. Any new COLA policy may be constrained by fiscal and IRS considerations.

Conclusion

The issue of COLAs in the Plans 1 raises three basic questions for policy makers.

- Is the current COLA sufficient?
- If not, who most needs an improved COLA?
- What form should a new COLA take?

In considering these questions, policy makers will likely balance a wide variety of concerns including inflation protection, adequacy of benefits, intergenerational equity, and funding/fiscal constraints. The current Plans 1 minimum benefit policy reflects trade-offs between these various concerns. Any change to the current Plans 1 COLA policy will likely involve further trade-offs. Given likely fiscal constraints, policy makers may choose to direct limited COLA dollars to recipients with the greatest perceived need.

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Appendix A

History of Post-Retirement Adjustments in TRS 1 and PERS 1		
Date	**TRS 1**	**PERS 1**
3/21/61		Minimum pension $900/year if retired at age 70 with 10 or more years of service. $60/month if 15-19 years of service. $70/month if 20-24 years of service. $80/month if 25-29 years of service. $90/month if 30 or more years of service.
3/21/67		Minimum benefit increases to: $60/month if 12-15 years of service. $90/month if 16-19 years of service. $120/month if 20 or more years of service.
7/1/67	Pension portion of benefit increased to $5.50/month/year of service if age 65 and not qualified for Social Security.	
3/25/69		Minimum benefit increases to: $75/month if 12-15 years of service. $100/month if 16-19 years of service. $130/month if 20 or more years of service.
7/1/70	Minimum benefit revised to $5.50/month/year of service. Applicable to members retiring before 4/1/69. Applied to the pension portion of the benefit.	The following received for each $1 of pension by year of retirement: ‘49 - $1.5239 ‘56 - $1.3687 ‘63 - $1.2116 ‘50 - $1.5386 ‘57 - $1.3485 ‘64 - $1.1960 ‘51 - $1.5239 ‘58 - $1.3031 ‘65 - $1.1813 ‘52 - $1.4110 ‘59 - $1.2601 ‘64 - $1.1620 ‘53 - $1.3805 ‘60 - $1.2501 ‘65 - $1.1291 ‘54 - $1.3702 ‘61 - $1.2116 ‘66 - $1.0980 ‘55 - $1.3643 ‘62 - $1.2255 ‘67 - $1.0536
7/1/71		5.95% COLA applied to pension portion of the benefit if retired before 12/31/70.
7/1/72	5.9% COLA for all members retired before 7/1/71, plus an additional 5.4% for those retired between 7/1/69 and 6/30/70.	
4/25/73		Minimum benefit of $6.50/month/year of service. 3% permanent increase based on assets in excess of current liabilities.
7/1/73	$3/month/year of service for retirees not eligible for Social Security.	Increase of 1.0609% if the member retired before 1972 and their service retirement allowance was adjusted in section (1) for adjustment made of 4/25/73.

Date	TRS 1	PERS 1
7/1/74	11.9% pension increase for those retired on 6/31/70. 2.9% pension increase for those retired 7/1/70 - 6/30/73. 3% COLA on total allowance for those retired on 12/31/73.	3% COLA for those retired prior to 12/31/73.
7/1/75		3% COLA for those retired prior to 12/31/74.
7/1/76	Minimum pension benefit of $7.50/month/year of service if retired prior to 4/25/73.	3% COLA for those retired prior to 12/31/75.
7/1/77	Minimum pension benefit of $8.00/month/year of service if retired prior to 4/25/73.	3% COLA for those retired prior to 12/31/76.
7/1/78		3% COLA for those retired prior to 12/31/77.
7/1/79	Minimum pension benefit of $10/month/year of service for retirees of 7/1/79. Disability and survivor benefits as of 12/31/78, and service benefits as of 7/1/74, permanently increased by $0.8171 multiplied by the member's years of service.	Minimum pension benefit of $10/month/year of service for retirees of 7/1/79. 3% COLA for those retired prior to 12/31/78.
7/1/80		3% COLA for those retired prior to 12/31/79.
7/1/81		Excess earnings adjustment no longer in effect as employer contribution rate increased above rate on 4/24/73.

Date	TRS 1 and PERS 1
7/1/83	$0.74/month/year of service COLA to disability and survivor benefits being received on 12/31/82, and service retirement benefits being received on 7/1/78.
7/1/86	Minimum benefit increased to $13.00/month/year of service.
7/1/87	Minimum pension benefit increased to $13.50/month/year of service. Permanent automatic 3% annual increase to the minimum benefit becomes effective.
7/1/88	Minimum pension benefit increased to $13.82/month/year of service.
7/1/89	Minimum pension benefit increased by $1 to $14.91/month/year of service and then increased 3% to $15.36/month/year of service. Permanent auto-COLA enacted for retirees whose age 65 purchasing power had been reduced by more than 40%.
7/1/90	Minimum pension benefit increased 3% to $15.72/month/year of service. 3% COLA for eligible retirees.
7/1/91	Minimum pension benefit increased 3% to $16.19/month/year of service. 3% COLA for eligible retirees.
2/1/92	The current benefits of those eligible for the COLA adjusted to be equal to 60% of their age 65 retirement allowance.

Date	TRS1 and PERS 1
7/1/92	Minimum pension benefit increased 3% to $16.68/month/year of service. 3% COLA for eligible retirees.
7/1/93	Minimum pension benefit increased 3% to $17.18/month/year of service. 3% COLA for eligible retirees. Continuation of special adjustment effective 2/92. Temporary ad hoc COLA effective through 6/30/94, $3/month/year of service for those retired 5 years, who were 70 years of age, and did not receive a COLA in 1992.
7/1/94	Minimum pension benefit increased 3% to $17.70/month/year of service. 3% COLA for eligible retirees. Special adjustment effective 2/92 made permanent. Temporary ad hoc COLA extended to 6/30/95. Provides $3/month/year of service to eligible retirees.
7/1/95	Uniform Increase established. Initial increase of $0.59/month/year of service to be increased by 3% per year. Retirees are eligible for the Uniform Increase if they have been retired at least one year and are age 66 by 7/1 in the calendar year in which the annual increase is given, or if their retirement allowance is lower than the minimum benefit amount. Minimum benefit increased to $24.22/month/year of service, and to automatically increase each year by the Annual Increase amount. Temporary ad hoc COLA that had been extended to 6/30/95 made permanent.
7/1/98	Gain-sharing established, providing even-year enhancements to the Annual Increase amount based on half the compound average investment returns in TRS 1 and PERS 1 plan assets over the previous four fiscal years that exceed 10%.
7/1/04	$1,000 minimum benefit (before optional benefit payments) established for retirees with 25 years of service and at least 20 years of retirement. Does not include an automatic increase. Effectively sunsets after the regular minimum increases to $40/month/year of service.
7/1/06	$1,000 minimum benefit (before optional benefit payments) extended to retirees with 20 years of service and at least 25 years of retirement. Automatic increase provided for $1,000 minimum of 3% per year.
7/1/07	UCOLA eligibility changed to include all retirees who have been retired one year and will have attained age 66 by 12/31 of the calendar year in which the increase is given.
7/22/07	Gain-sharing repealed after 2008 distribution. One-time increase in the UCOLA of $0.40*/month/year of service in lieu of future gain-sharing. *$0.35 of the increase payable 1/1/08; $0.05 payable on 7/1/09.
7/1/11	UCOLA repealed and $500 increase applied to Alternate Minimum Benefit.
7/1/18	One-time 1.5 percent benefit increase capped at $62.50/month to PERS and TERS Plans 1 retirees not receiving a minimum benefit
7/1/20	One-time 3 percent benefit increase capped at $62.50/month to PERS and TERS Plans 1 retirees not receiving a minimum benefit

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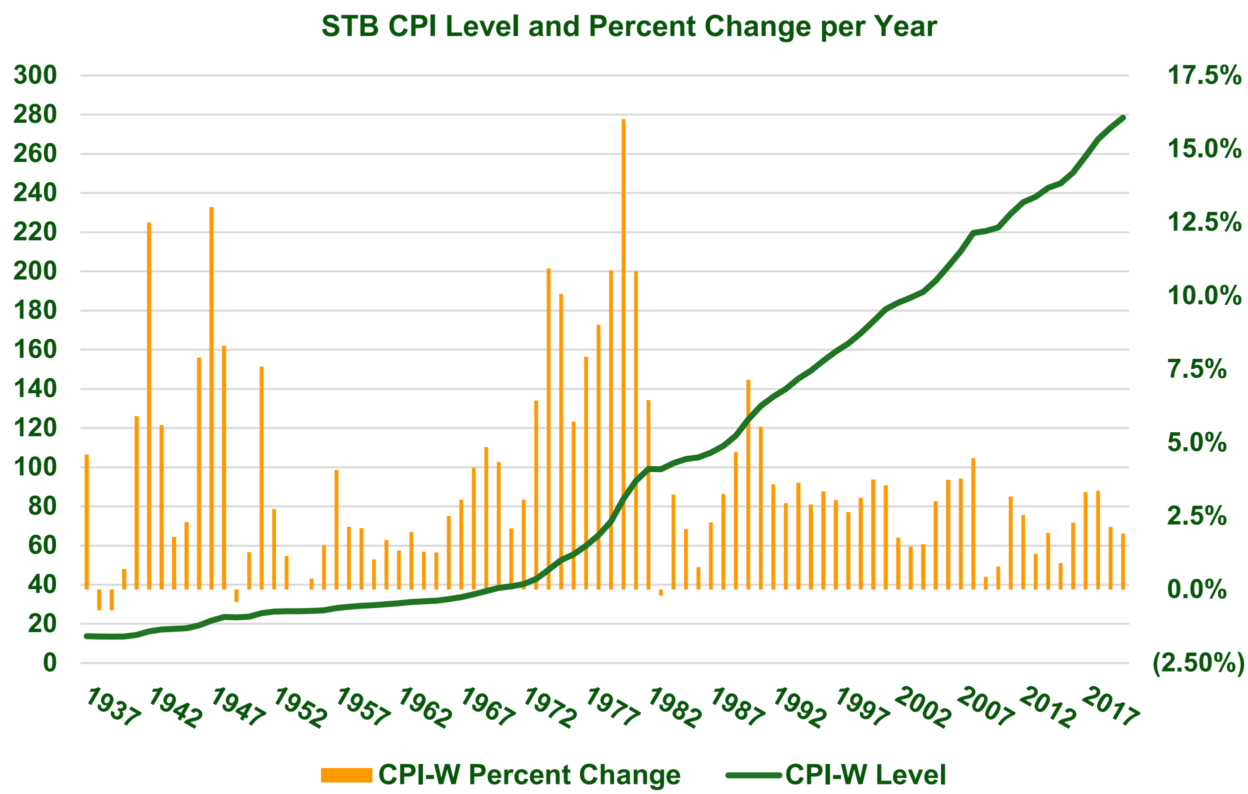
Appendix B

Inflation is measured by the CPI. The CPI records changes in the price of a set "market basket" of goods and services at different points in time. The U.S. Department of Labor publishes numerous indexes that measure inflation based on different market baskets and geographic regions. Each CPI produces a slightly different measure of inflation. The CPI most commonly used in Washington State's retirement systems is the CPI for Urban Wage Earners and Clerical Workers for Seattle-Tacoma-Bellevue (CPI-W).

An individual may experience inflation quite different from that measured by the CPI if the goods and services purchased by the individual do not closely match the market basket used by the CPI.

The following graph shows historical rates of inflation based on annual changes in the CPI-W. Data for the graph is provided on the following page.



Year	CPI	Annual Change
1937	13.7	4.60%
1938	13.6	(0.70%)
1939	13.5	(0.70%)
1940	13.6	0.70%
1941	14.4	5.90%
1942	16.2	12.50%
1943	17.1	5.60%
1944	17.4	1.80%
1945	17.8	2.30%
1946	19.2	7.90%
1947	21.7	13.00%
1948	23.5	8.30%
1949	23.4	(0.40%)
1950	23.7	1.30%
1951	25.5	7.60%
1952	26.2	2.70%
1953	26.5	1.10%
1954	26.5	0.00%
1955	26.6	0.40%
1956	27.0	1.50%
1957	28.1	4.10%
1958	28.7	2.10%
1959	29.3	2.10%
1960	29.6	1.00%
1961	30.1	1.70%
1962	30.5	1.30%
1963	31.1	2.00%
1964	31.5	1.30%
1965	31.9	1.30%
1966	32.7	2.50%
1967	33.7	3.10%
1968	35.1	4.20%
1969	36.8	4.80%
1970	38.4	4.30%
1971	39.2	2.10%
1972	40.4	3.10%
1973	43.0	6.40%
1974	47.7	10.90%
1975	52.5	10.10%
1976	55.5	5.70%
1977	59.9	7.90%
1978	65.3	9.00%
1979	72.4	10.90%
1980	84.0	16.00%
1981	93.1	10.80%
1982	99.1	6.40%
1983	98.9	(0.20%)
1984	102.1	3.20%
1985	104.2	2.10%
1986	105.0	0.80%
1987	107.4	2.30%
1988	110.9	3.30%
1989	116.1	4.70%
1990	124.4	7.10%
1991	131.3	5.50%
1992	136.0	3.60%
1993	140.0	2.90%
1994	145.1	3.60%
1995	149.3	2.90%
1996	154.3	3.30%
1997	159.0	3.00%
1998	163.2	2.60%
1999	168.3	3.10%
2000	174.6	3.70%
2001	180.8	3.60%
2002	184.0	1.80%
2003	186.7	1.50%
2004	189.6	1.60%
2005	195.3	3.00%
2006	202.6	3.70%
2007	210.3	3.80%
2008	219.7	4.50%
2009	220.7	0.40%
2010	222.4	0.80%
2011	229.4	3.20%
2012	235.3	2.50%
2013	238.1	1.20%
2014	242.7	1.90%
2015	244.9	0.90%
2016	250.5	2.30%
2017	258.8	3.32%
2018	267.6	3.36%
2019	273.3	2.14%
2020	278.5	1.90%

Source: U.S. Department of Labor, Bureau of Labor Statistics.
CPI: Urban Wage Earners and Clerical Workers (Current Series).
Seasonal: Not Seasonally Adjusted.
Area: Seattle-Tacoma-Bellevue, Washington.
Base: 1982-1984.
Item: All Items.