Plans 1 COLAs: Preferred Policy Options

Melinda Aslakson
Policy Analyst

November 16, 2021

0

Today's Presentation

- Issue Summary
- Committee Preferred Policy Options Summary
- Highlights of Policy Analysis
- Updated Actuarial Analysis
  - Rate and Budget Impacts
  - Actuarial Commentary
- Next Steps

1

Issue Summary

What Is the Issue?

- Should a COLA be granted to Plans 1?
- If so, what COLA policy should be implemented?

Where Did This Come From?

- Stakeholders are seeking a COLA for PERS 1 and TRS 1 retirees
- Executive Committee discussion in September prompted a request for October policy analysis briefing on three specific proposals

What Is the Committee Being Asked?

- Stakeholders are requesting the SCPP study certain COLA proposals and make a recommendation to the Legislature

Committee Preferred Policy Options Summary

Option A: Plans 1 Annual, Automatic CPI-Based COLA

- Annual, automatic CPI-based COLA of up to 3 percent per year for PERS and TRS Plans 1 retirees
- Proposal identical to COLA in PERS Plans 2/3

Option C: Plans 1 Ad Hoc COLA with Cap

- One-time, permanent increase to PERS 1 and TRS 1 retirees of 3 percent on the first $44,000 in pension income
- Equates to 3 percent increase with a cap of $110 per month

Highlights of Policy Analysis: Option A

- Annual, Automatic CPI-Based COLA
  - Provides ongoing purchasing protection to Plans 1 retirees
  - Creates consistency with Plans 2/3 COLA policy in effect since 1970s, however does not acknowledge the trade-offs implemented in Plans 2/3
  - Provides 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 Plans 1 retirees
  - Comes with higher fiscal implications than Option C

Highlights of Policy Analysis: Option C

- Ad Hoc COLA with Cap
  - Provides a one-time, permanent increase to address purchasing power
  - Does not create same COLA Policy for Plans 1 that is within Plan 2/3
  - Focuses improving purchasing power by providing proportionately higher increases to retirees who receive lower annual benefits
  - Policymakers who want more control over the timing, amount, and costs of future COLAs may prefer an ad hoc approach
  - Comes with lower fiscal implications than Option A

Rate and Budget Impacts of Option A

Impact on Contribution Rates *(Effective 9/1/2022)*				
System/Plan	PERS	TRS	SERS	PSERS
Plan 1 UAAL	1.39%	2.60%	1.39%	1.39%

Budget Impacts			
(Dollars in Millions)	2022-2023	2023-2025	10-Year
General Fund-State	$206	$525	$2,955
Local Government	$114	$287	$1,583
Total Employer	**$364**	**$924**	**$5,150**

Note: 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.

- The 2019 Funded Status will decrease under this proposal
  - Current Law: PERS 1 = 62%, TRS 1 = 63%
  - Option A: PERS 1 = 54%, TRS 1 = 53%

6

Rate and Budget Impacts of Option C

Impact on Contribution Rates *(Effective 9/1/2022)*				
System/Plan	PERS	TRS	SERS	PSERS
Plan 1 UAAL	0.14%	0.27%	0.14%	0.14%

Budget Impacts			
(Dollars in Millions)	2022-2023	2023-2025	10-Year
General Fund-State	$21	$54	$305
Local Government	$12	$29	$161
Total Employer	**$37**	**$94**	**$527**

Note: 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.

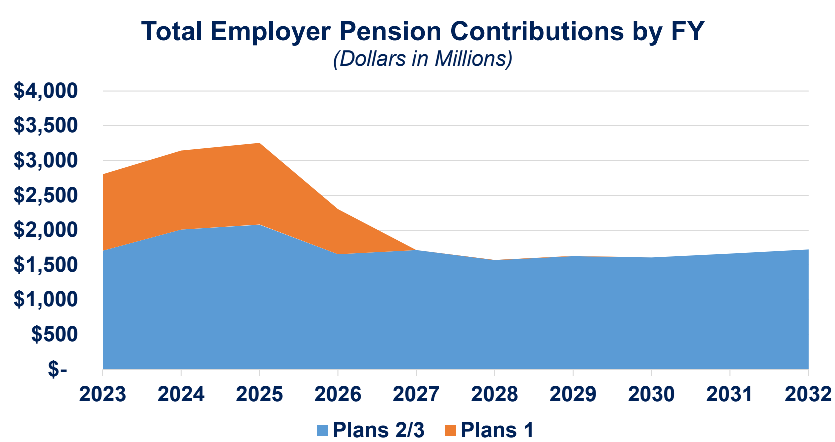
- The 2019 Funded Status will decrease under this proposal
  - Current Law: PERS 1 = 62%, TRS 1 = 63%
  - Option C: PERS 1 = 61%, TRS 1 = 62%

7

Actuarial Commentary

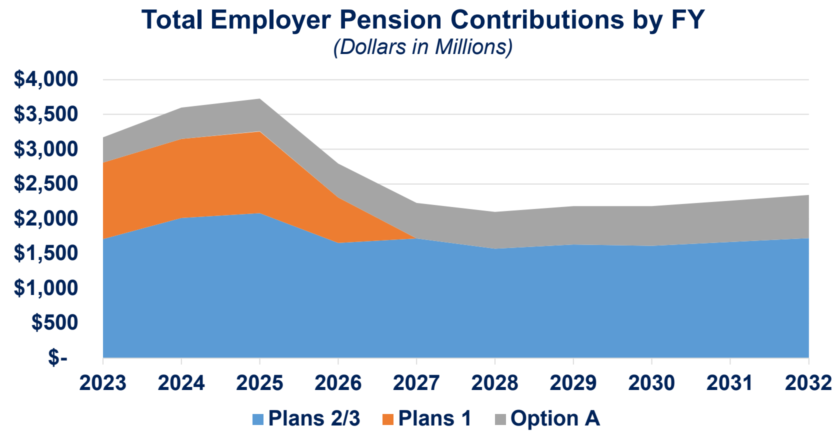
- Permanent COLA increases total plan liabilities by 15% in PERS 1, and 19% in TRS 1
  - Increasing the liabilities increases the chance that a UAAL emerges in the future and will require additional UAAL contributions
- Ad hoc COLA may be deemed "substantively automatic" per financial reporting requirements and thus increase accounting liabilities
- Please see our actuarial communication in the materials packet for our assumptions, methods, and other relevant disclosures
  - If a proposal is recommended to the 2022 Legislature, we will include additional risk analysis and considerations

Putting the Estimated Budget Impact in Context



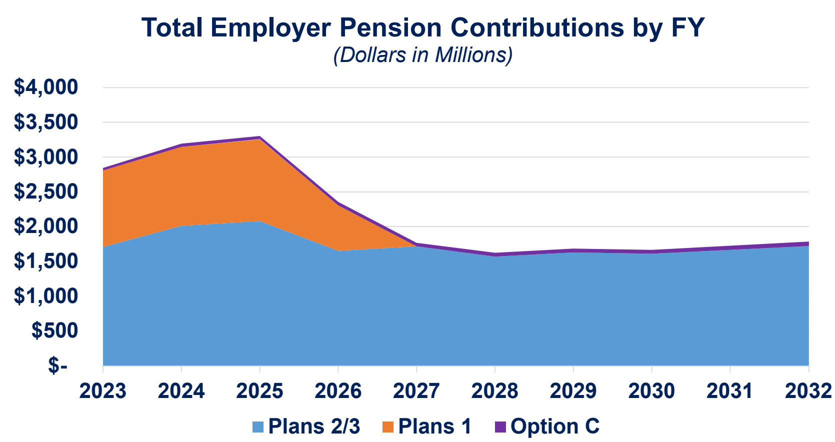
Note: The Plans 2/3 and Plan 1 contributions are for PERS, TRS, SERS, and PSERS only, all plans. This analysis reflects our June 30, 2019, AVR and Projections, with adjustments for FY 2021 Returns and the Economic assumption changes adopted by the PFC (but does not include any contribution rates smoothing or the TRS 1 $800 million payment on 6/30/2023).

Putting the Estimated Budget Impact in Context



10

Putting the Estimated Budget Impact in Context



11

Summary Comparison of Options

(Dollars in Millions)	Option A: Annual, Automatic	Option C: Ad Hoc
10-Year Total Employer Cost	**$5,150**	**$527**
GF-S	$2,955	$305
Local Government	$1,583	$161
UAAL Rates by Plan		
PERS, SERS, PSERS	1.39%	0.14%
TRS	2.60%	0.27%

- Under both proposals expect the following approximate portion of annuitants to receive an increase in their benefit
  - 70% of PERS 1 and 88% of TRS 1
  - All active and terminated vested members would receive this COLA

Next Steps

- Public hearing is scheduled today
- Bill drafts for review in the meeting materials
- Committee may recommend Option A or C is considered in the 2022 Legislative Session
- Take no action

Thank You

The Select Committee on Pension Policy is staffed by the Office of the State Actuary.

Questions? Contact us:

Office of the State Actuary
PO Box 40914
Olympia, WA 98504
(360) 786-6140
state.actuary@leg.wa.gov

O:\SCPP\2021\11.16-Full\4.Plans.1.COLAs.Preferred.Policy.Options.pptx

14