



Plans 1 COLAs: Plans Comparison, Minimum Benefits, and Demographic Data

Melinda Aslakson
Policy Analyst

July 19, 2022

Select Committee on Pension Policy

0

Today's Presentation

- Framework for Evaluating PERS/TRS Plans 1 COLAs
- Plans 1 and 2 Comparison
 - Key Plans Provisions
 - Illustrations of How Plans 1 and 2 Similar Aged Retirees Benefits Compare
- Demographic Data
 - High-level Plans 1 Annuitants
 - Basic and Alternate Minimum Benefits
 - No Minimum Benefits
- Key Takeaways
- Next Steps

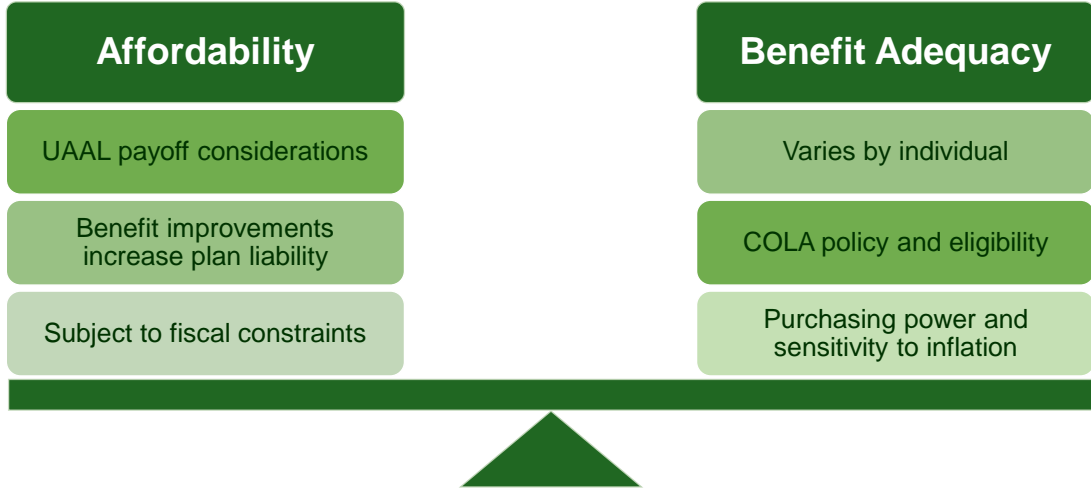
7/19/2022

Select Committee on Pension Policy

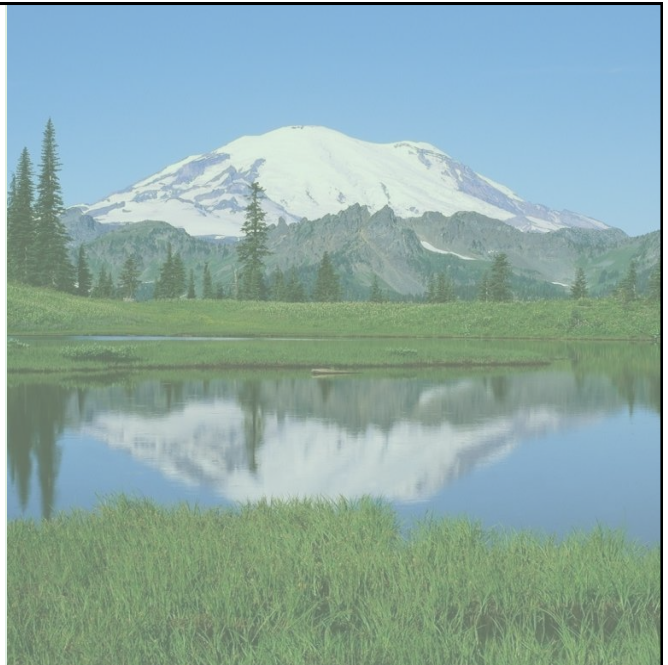
1

1

Framework for Evaluating PERS/TRS Plans 1 COLAs



Plans 1 and 2 Comparison



Plans 1 and 2 Comparison of Key Provisions

	Retirement Age	Benefit Formula	Average Final Compensation	Post-Retirement COLAs
Plans 1	60/5; 55/25; Any Age/30	2% x YOS x AFC; Maximum of 60% AFC	Based on top 24 Consecutive Months	Basic/Alternate Minimums; Optional COLA for purchase
Plans 2	65/5; Early Retirement at 55/20 with Reductions	2% x YOS x AFC; No Maximum	Based on top 60 Consecutive Months	CPI-Based Annual COLA with 3% Cap

7/19/2022

Select Committee on Pension Policy

4

4

How Do Plans 1 and Plans 2 Similar Aged Retirees Benefits Compare?

- Let's take two otherwise identical members
 - Starting salary of \$25,000
 - One in Plan 1, another in Plan 2
- Age hired and years worked vary by example, but are the same amount for both the Plan 1 and Plan 2 member
- COLA assumptions
 - No COLA in Plan 1
 - 2.75% annual COLA in Plan 2
- Please see the **Appendix** for additional disclosures

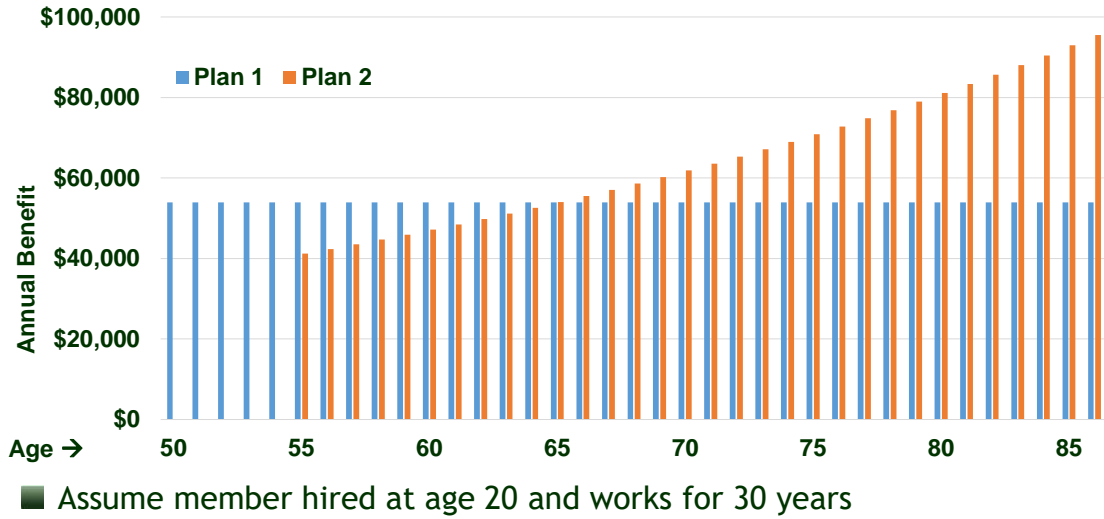
7/19/2022

Select Committee on Pension Policy

5

5

Illustration of Plans 1 Retiree Who Receives More Costly Pension Benefit than a Plans 2 Retiree



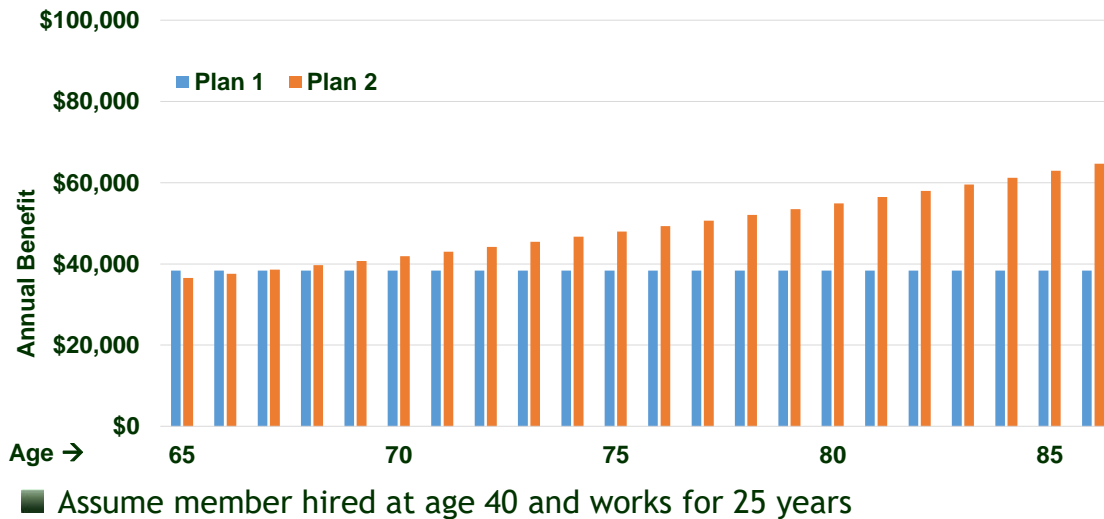
7/19/2022

Select Committee on Pension Policy

6

6

Illustration of Plans 2 Retiree Who Receives More Costly Pension Benefit than a Plans 1 Retiree



7/19/2022

Select Committee on Pension Policy

7

7

Demographic Data



7/19/2022

Select Committee on Pension Policy

8

8

Demographic Data as of June 30, 2021

Plan 1 Demographics – Actives

Plan	Count	Average Age	Average Service	Average Salary
PERS 1	875	68	26	\$70,700
TRS 1	164	70	34	\$110,500

Plan 1 Demographics – Annuitants

Plan	Count	Years Retired	Average Age	Average Service	Average Benefit
PERS 1	42,726	19	78	25	\$27,400
TRS 1	30,683	20	78	27	\$28,300

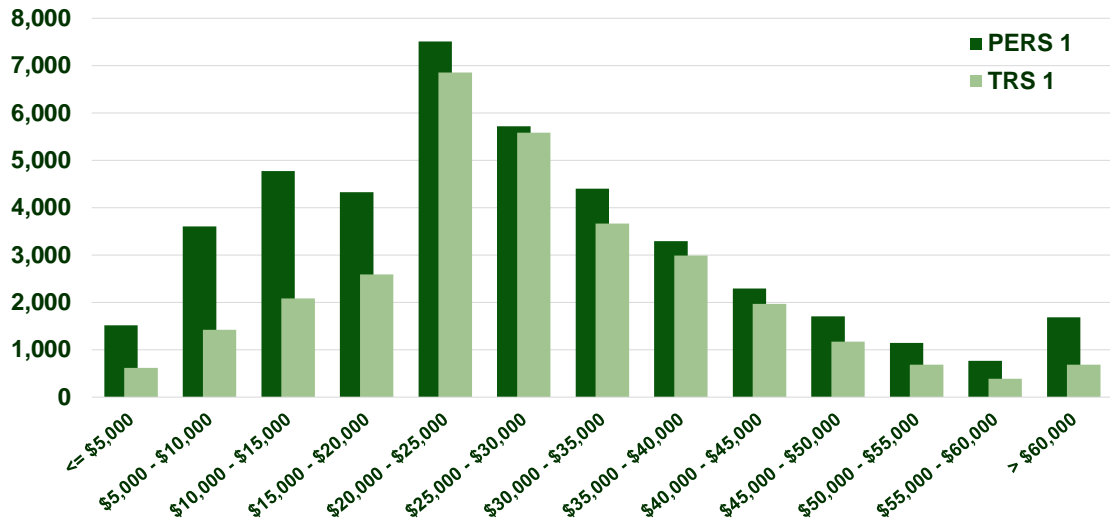
7/19/2022

Select Committee on Pension Policy

9

9

PERS/TRS Plans 1 Annuitants Distribution of Annual Benefits



7/19/2022

Select Committee on Pension Policy

10

10

Minimum Benefits

- Minimum benefits provide a way to address benefit adequacy
- Increases are automatic for some retirees based on annual reviews by DRS if a member's
 - Initial calculated retirement benefit is below the Minimum benefit amount at retirement, they will receive the Minimum benefit and an annual increase thereafter
 - Pension falls below the Minimum benefit during retirement, they will receive the Minimum benefit and an annual increase thereafter
- Minimum benefits increase every year—effectively providing a COLA to those at the Minimum benefit level

7/19/2022

Select Committee on Pension Policy

11

11

Minimum Benefits

Basic Minimum Benefit

- Dollar amount per month multiplied by YOS
- \$70.18 as of July 2022

Alternate Minimum Benefits, 3%

- Based on YOS and years retired
- Retirees are eligible if they have at least
 - 25 YOS credit and who have been retired at least 20 years; or
 - 20 YOS credit and who have been retired at least 25 years
- \$2,138.63 per month as of July 2022

7/19/2022

Select Committee on Pension Policy

12

12

Minimum Benefits Annuitant Profile Highlights

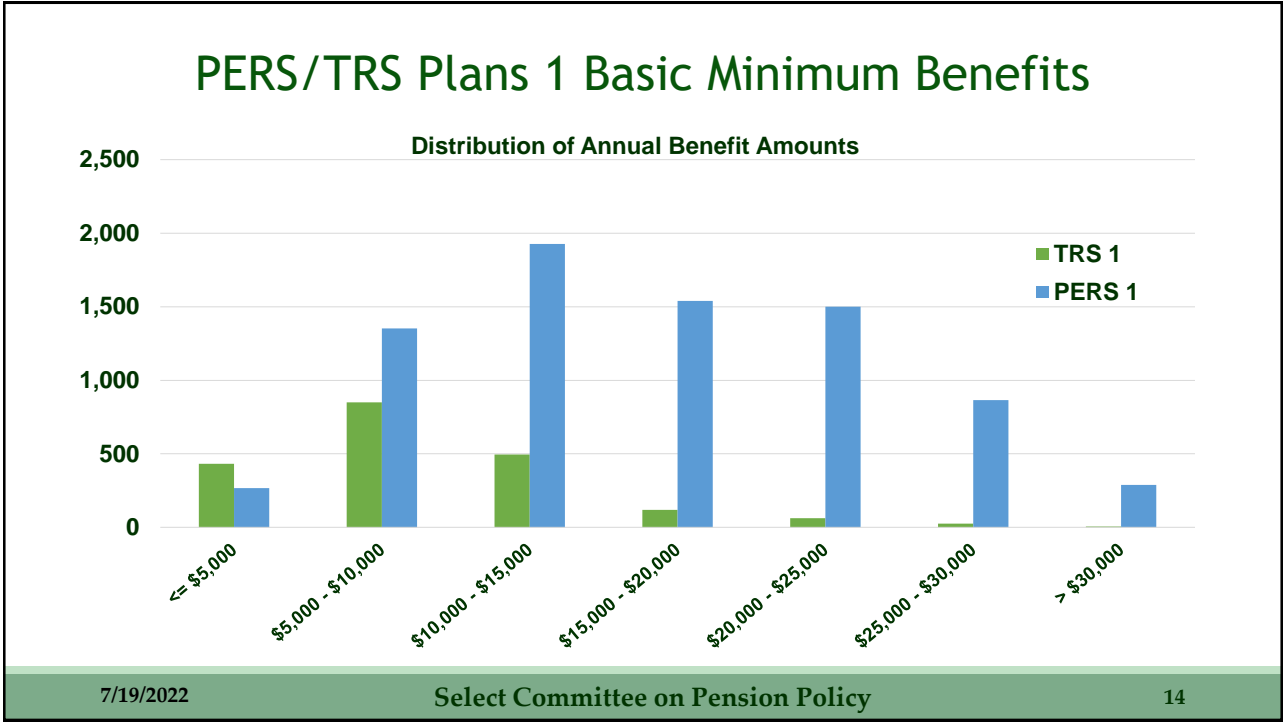
PERS/TRS 1 Data as of 6/30/21					
Benefit Group	Count	Average Final Comp.	Membership Service	Pension Benefit	Years Retired
No Minimum Benefit	56,100	\$61,500	27	\$31,300	18
Basic Minimum	11,724	\$23,800	19	\$14,200	19
Alternate Minimum	5,585	\$29,100	25	\$21,800	30

7/19/2022

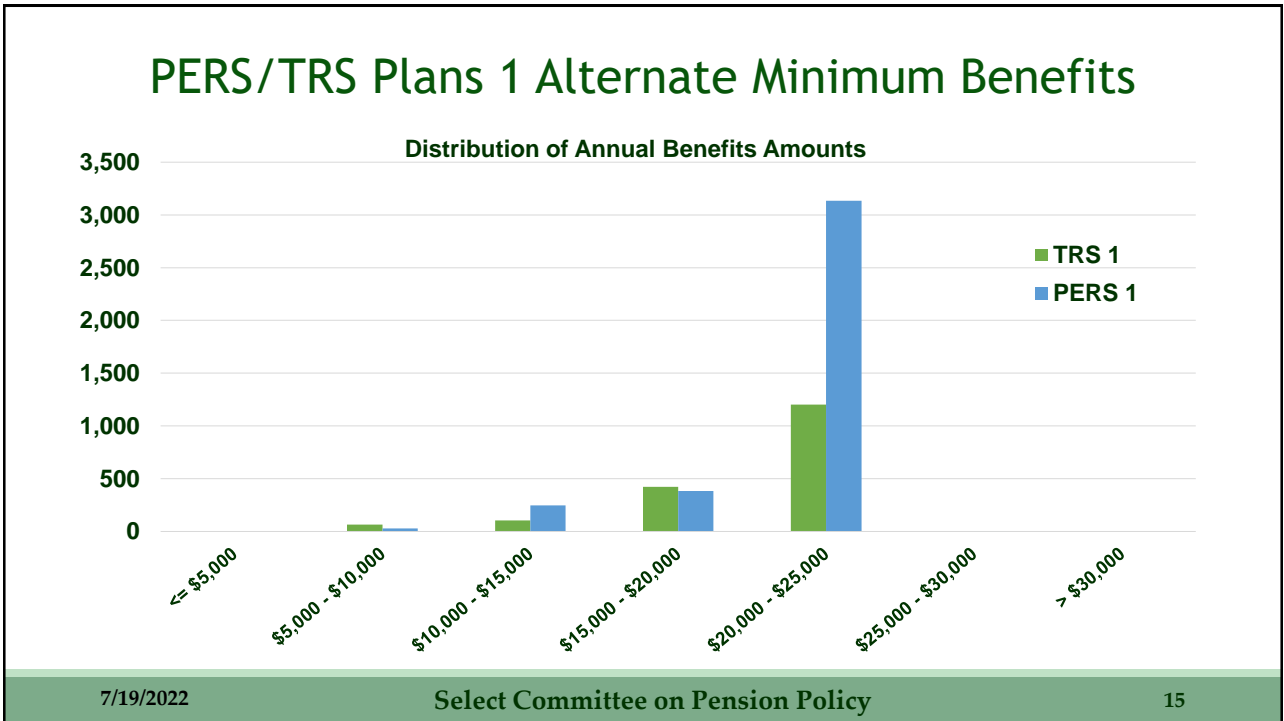
Select Committee on Pension Policy

13

13



14



15

Minimum Benefit Eligibility

- Portion of population receiving Minimum benefits has been increasing
 - 21% of PERS/TRS annuitants eligible as of June 30, 2019
 - 24% of PERS/TRS annuitants eligible as of June 30, 2021
- In the absence of COLA increases, we expect around half of annuitants to become eligible for Minimum benefits in about a decade

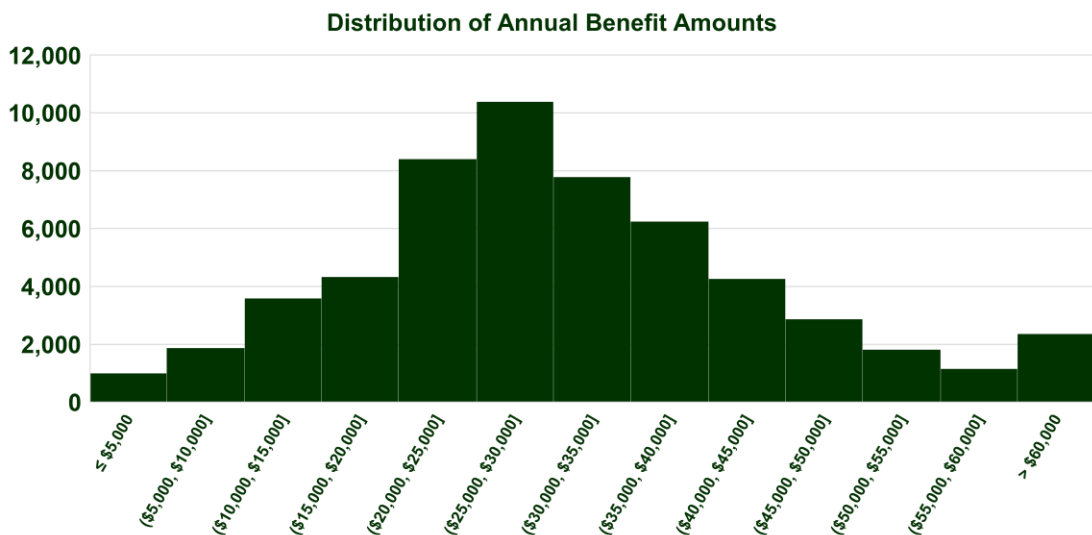
7/19/2022

Select Committee on Pension Policy

16

16

No Minimum Benefits Demographic Data Summary



7/19/2022

Select Committee on Pension Policy

17

17

Ad Hoc COLA Recipient Estimates from 2022 COLA

Estimated Headcounts as of June 30, 2019		
	PERS 1	TRS 1
Total Annuitants	45,600	32,600
Annuitants Not Receiving Minimum Benefit	32,000	28,700
Annuitants to Receive 3% COLA	26,700	25,800
Annuitants to Receive \$110 Per Month Increase	5,300	2,900

Source: OSA [Actuarial Fiscal Note](#) on SB 5676/HB 1721 in 2022 Legislative Session.

Retirement Goes Beyond Pension Benefits

- Health care costs
 - [Medicare eligibility](#) is age 65 if the individual, or their spouse, worked and paid Medicare taxes for at least 10 years
 - PEBB retiree medical, Medicare supplement plans, dental, and term life insurance if eligibility and procedural requirements met; [WAC 182-12-171](#)
- Other retirement income
 - Personal savings
 - Retirement accounts, such as a 457 or 401K
 - Social security varies by individual

Key Takeaways

- Plans 1 and 2 have different design elements
 - Plans 1 offers earlier retirement, shorter AFC period, and less inflation protection
 - Plans 2 offers benefit formula without cap on YOS, later retirement, and a post-retirement COLA
- Pension benefits provided to a Plans 1 or 2 retiree can vary significantly depending on individual circumstances
- Currently 24% of retirees are eligible for annual Minimum benefit increases; that portion is expected to increase significantly over time
- Pensions have limitations – “3-legged stool” where pensions, social security and personal savings all makeup retirement income

7/19/2022

Select Committee on Pension Policy

20

20

Balancing Affordability and Adequacy

- Some policymakers focused on affordability, may be interested in limiting COLA policy to manage plan liability
- Some policymakers focused on benefit adequacy or purchasing power protection, may be interested in Minimum benefits or some type inflation based automatic COLA
- In looking to strike a balance it may be helpful to
 - Consider Committee goals and priorities
 - Identify a COLA amount and targeted annuitant group
 - Expand Alternate or Basic Minimum benefits access

7/19/2022

Select Committee on Pension Policy

21

21

Next Steps

- Committee members may discuss and make recommendations for the Executive Committee to consider
- Executive Committee has an opportunity to discuss and provide direction to staff to
 - Work with OSA actuaries to meet Committee goals
 - Provide a follow up briefing on a specific policy idea(s) in September
- Do nothing further

7/19/2022

Select Committee on Pension Policy

22

22

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\2022\7.19-Full\2.Plans1.COLAs.Plans.Comp.Min.Ben.Demo.Data.pptx

7/19/2022

Select Committee on Pension Policy

23

23

Appendix

- Actuarial Disclosures
- First Class Cities COLAs
- Peer States COLAs
- Plans 1 and Plans 2/3 Comparison
- PERS 1 Benefit Distribution by COLA Type
- TRS 1 Benefit Distribution by COLA Type



7/19/2022

Select Committee on Pension Policy

24

24

Actuarial Disclosures

- Unless otherwise noted, we relied on the assumptions and methods as disclosed in our preliminary [2021 Actuarial Valuation Report](#) to produce the illustrations on slides 6-8
 - For example, we assumed the hypothetical member salaries would grow by 3.25% annually, plus service-based salary increases
 - We also made the following simplifying assumptions
 - Members will select a single-life annuity and survive to age 87
 - Did not consider any applicable Minimum benefits for Plan 1
 - For slide 7, the Plan 2 member stops working at age 50 then starts collecting benefits at age 55 with an 80% ERF
 - Actual inflation may be higher or lower, so Plan 2 pension benefits could be more or less than assumed; similarly, members may live shorter or longer than assumed
- For slide 16, we compared the projected eligibility thresholds for the Minimum benefits to the current average pension benefit (of those not receiving them) to make the determination that we expect roughly half of members will be eligible within about a decade
- Michael T. Harbour, ASA, MAAA served as the reviewing and responsible actuary for this analysis

7/19/2022

Select Committee on Pension Policy

25

25

First Class Cities COLAs

- City of Spokane only offers an ad hoc COLA for all their retirement tiers based upon plan funded or financial status established by their Board with advice of the Spokane Employees' Retirement System actuary
- City of Tacoma COLA is capped at 2.125% and based upon CPI
- City of Seattle COLA is 1.5% and they also have a Minimum benefit that is 65% of purchasing power at the time of retirement

7/19/2022

Select Committee on Pension Policy

26

26

Peer States COLAs

- CalPERS offers retirees
 - Minimum benefit COLAs if purchasing power falls below specified threshold
 - COLAs based on employer contracted COLA provision limits and retirement year
 - Most state and all school retirees contract for a 2% COLA provision, and public agencies can contract for a 3, 4, or 5% COLA provision
- Oregon's tier one, tier two and public service retirement plan offers
 - Service time before October 1, 2013: 2% max COLA for service time before this date; 2% annual cap is tied to the Portland Consumer Price Index (CPI)
 - Service time on or after October 1, 2013: two-tiered COLA; 1.25% on the first \$60,000 of an annual benefit and 0.15% on annual benefit >\$60,000
- Idaho Code 59-1355 provides annual COLA to IPERS retirees on the March retirement benefit and the COLA is tied to change in the Consumer Price Index (CPI-U) for 12 months ending the previous August

7/19/2022

Select Committee on Pension Policy

27

27

Plans 1 and Plans 2/3 Comparison

Summary of Key Plan Provisions – PERS			
	Plan 1	Plan 2	Plan 3
Normal Retirement Eligibility (Age/Service)	60/5; 55/25; Any Age/30	65/5	65/10 or Vested
Early Retirement Eligibility (Age/Service)	N/A	55/20	55/10
Benefit Formula	2% x YOS x AFC; Maximum of 60% AFC	2% x YOS x AFC	1% x YOS x AFC; 0.25% Per Month Pre-Retirement COLA with 20 YOS
AFC Computation	Annual Average of Highest Earnable Compensation for 24 Consecutive Months	Average Earnable Compensation for Highest 60 Consecutive Months	Average Earnable Compensation for Highest 60 Consecutive Months
Vesting	5 Years	5 Years	10 Years (5 under Select Circumstances)
COLA (After Retirement)	Basic and Alternate Minimums; Optional COLA	CPI-Based Annual COLA with 3% Cap	CPI-Based Annual COLA with 3% Cap
Effective Dates of Plan	10/1/1947-9/30/1977	10/1/1977-Open	3/1/2002-Open

Note: This summary is not intended to be exhaustive of all plan provisions. Please consult with DRS or refer to applicable statutes.

7/19/2022

Select Committee on Pension Policy

28

28

Plans 1 and Plans 2/3 Comparison

Summary of Key Plan Provisions – TRS			
	Plan 1	Plan 2	Plan 3
Normal Retirement Eligibility (Age/Service)	60/5; 55/25; Any Age/30	65/5	65/10 or Vested
Early Retirement Eligibility (Age/Service)	N/A	55/20	55/10
Benefit Formula	2% x YOS x AFC; Maximum of 60% AFC	2% x YOS x AFC	1% x YOS x AFC; 0.25% Per Month Pre-Retirement COLA with 20 YOS
AFC Computation	Annual Average Earnable Compensation for 2 Highest Consecutive Years	Average Earnable Compensation for Highest 60 Consecutive Months	Average Earnable Compensation for Highest 60 Consecutive Months
Vesting	5 Years	5 Years	10 Years (5 under Select Circumstances)
COLA (After Retirement)	Basic and Alternate Minimums, Optional COLA	CPI-Based Annual COLA with 3% Cap	CPI-Based Annual COLA with 3% Cap
Effective Dates of Plan	3/1/1938-9/30/1977	10/1/1977-Open	7/1/1996-Open

Note: This summary is not intended to be exhaustive of all plan provisions. Please consult with DRS or refer to applicable statutes.

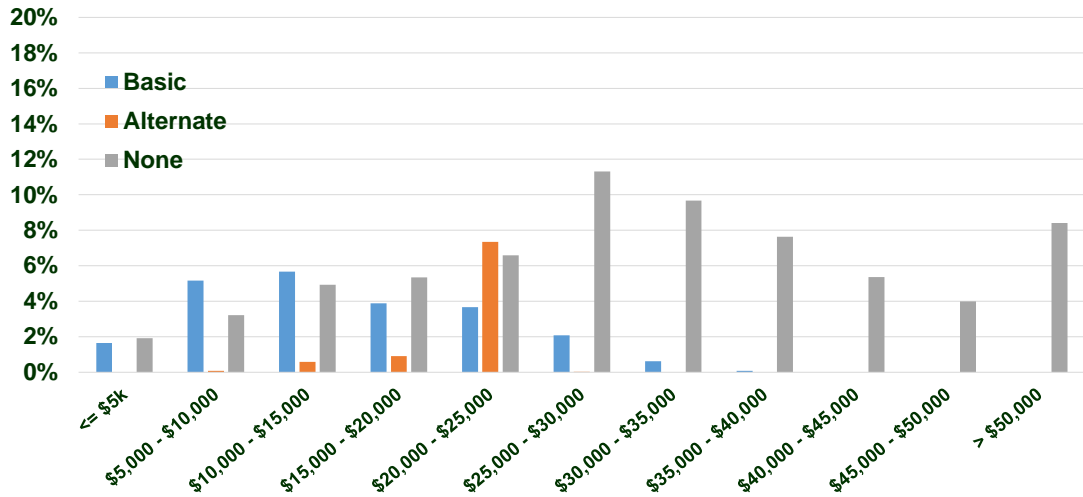
7/19/2022

Select Committee on Pension Policy

29

29

PERS 1 Annual Benefit Distribution by COLA Type



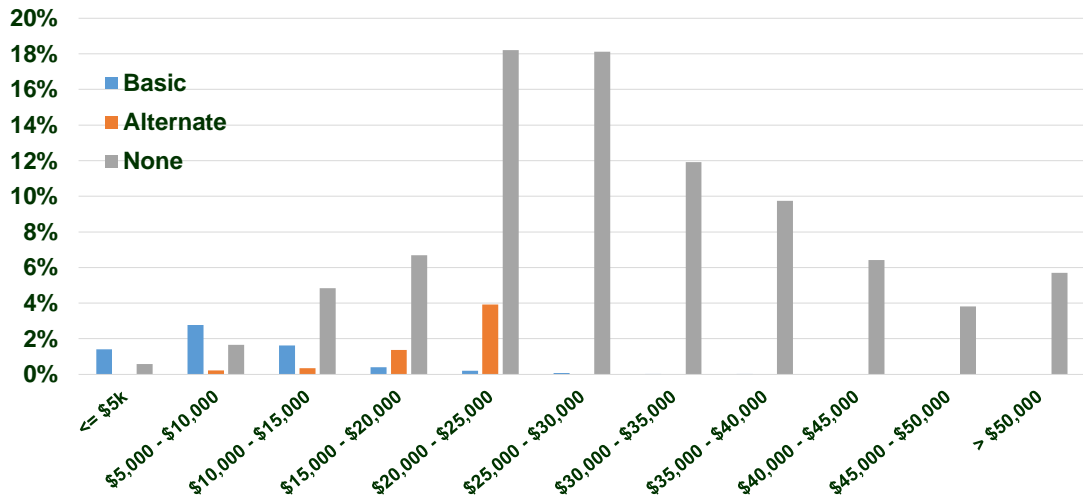
7/19/2022

Select Committee on Pension Policy

30

30

TRS 1 Annual Benefit Distribution by COLA Type



7/19/2022

Select Committee on Pension Policy

31

31