



Plans 1 COLAs: SB 5698 COLA Actuarial Fiscal Note and COLA Options

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Today's Presentation

- SB 5698 Annual, Automatic COLA
 - Bill Summary
 - Members Impacted
 - Actuarial Analysis and Fiscal Note Details
- Context for Other COLA Options
 - Committee Goals/Principles
 - Summary of Design and Implementation Possibilities
- Plans 1 COLA
- Next Steps

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SB 5698: Bill Summary

- [SB 5698](#) proposed an annual, automatic CPI-based benefit increase of up to 3% per year for all eligible PERS 1 and TRS 1 annuitants
 - Same COLA provision provided to Plans 2/3 members
- Introduced by Sen. Hunt in the 2022 Legislative Session

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SB 5698: Members Impacted

- As of June 30, 2019, OSA estimates about 60,700 out of 78,200 total PERS/TRS Plans 1 annuitants would be eligible (78%)
- Members ineligible for the COLA receive annual, automatic Alternate or Basic minimum benefit increases
- Members who purchased the optional COLA upon retirement would be eligible for this COLA

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SB 5698: Actuarial Liabilities

- Proposal increases plan liabilities by 15-20%
- Immediately decreases funded ratios of PERS 1 by 8% and TRS 1 by 10%
- Impacts are valued under new investment return assumption of 7%

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SB 5698: Contribution Rate and Budget Impacts

- Employers fund the benefit improvement via supplemental rates that are collected according to [RCW 41.45.070](#)
- There is no impact to employee contribution rates
- Contributions are collected over a ten-year period

Impact on Contribution Rates (Effective 9/1/2022)				
	PERS	TRS	SERS	PSERS
Plan 1 UAAL	1.39%	2.61%	1.39%	1.39%

Budget Impacts			
(Dollars in Millions)	2022-2023	2023-2025	10-Year
General Fund-State	\$207	\$528	\$2,946
Local Government	\$115	\$290	\$1,591
Total Employer	\$368	\$930	\$5,151

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.

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Committee Goals / Principles

- Balance protecting purchasing power and fiscal constraints
- Provide dependability and long-term benefit security to retirees

- Offer reliability and predictability for state and employer budgets
- Consider UAAL payoff

- Consider ease of benefit administration
- Address greatest perceived need

SCPP Goal #4



SCPP Goal #5



Other Principles



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Framework for Evaluating Plans 1 COLAs

Affordability

- Subject to fiscal constraints
- Benefit improvements increase plan liability
- UAAL payoff considerations

Benefit Adequacy

- Purchasing power & sensitivity to inflation
 - COLA policy and eligibility
 - Varies by individuals

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Summary of Design and Implementation Possibilities

- Annual, Automatic versus Ad Hoc COLA
- Set Percentage
- CPI or Inflation Based, With/without a Cap or Banking
- Minimum Years Retired, Years of Service, or Minimum Age
- Limited Benefit or Minimum Benefits
- Purchasing Power
- Plans Funded Status
- Flat Dollar Amount or a One-Time Payment, like a 13th Check

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Plans 1 Options

- OSA identified options connected to Committee's goals, principles and recent approach to ad hoc COLAs
 - Continue Ad Hoc COLAs
 - Provide annual, automatic COLA similar to SB 5698 proposal
 - Reduce the cost of annual, automatic COLA with a lower percentage and/or modified eligibility

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Reduce the Cost of Annual, Automatic COLAs Examples

- 3.0% COLA, capped at \$110 per month (Option A)
- Plan 2/3 style COLA if retired for at least 10 years (Option B)
- 1.5% COLA (Option C)

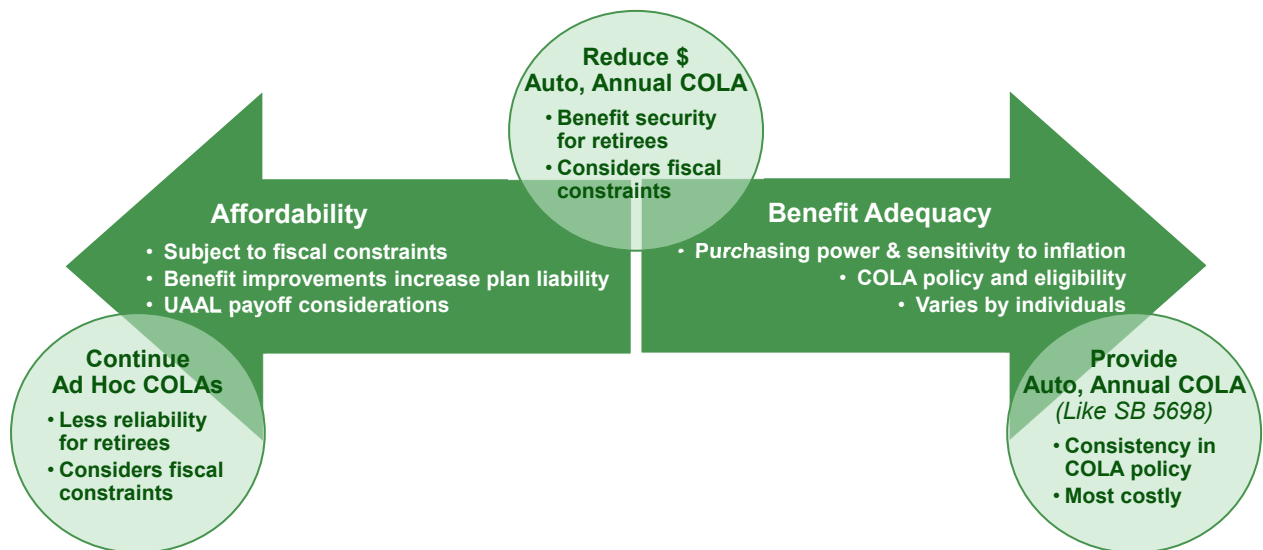
	Plan 2/3 COLA	Option A	Option B	Option C
Percent of Annuitants Eligible*	100%	100%	80%	100%
COLA for Those Eligible	Up to 3%	Up to 3%	Up to 3%	1.5%
Costliness*				

*As of 6/30/2019

- Examples above are for illustrative purposes only and do not represent OSA suggested proposals

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Framework for Evaluating Plans 1 COLAs Revisited



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Questions for the Committee

- What would the Committee prefer to focus on for the remainder of this interim?
 - Ad hoc COLA
 - Annual, Auto COLA, like SB 5698
 - Reducing the cost of an automatic COLA
 - Modify Eligibility --- Smaller % Increase --- Monthly Benefit Cap
 - Something else?
- For options shared today, is there any input or refinements for OSA?

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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 on a preferred option(s) for policy analysis and potential early pricing estimates in October
- Do nothing further

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Thank You

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

Questions? Contact us:

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Appendix Sampling of Post-Retirement COLAs

- City of Tacoma caps retiree increases at 2.125% and based upon CPI
 - City of Seattle COLA is the greater of 1.5% annual compounding COLA or COLA providing 65% of the purchasing power the member's original retirement allowance could purchase
-
- About 72% of pension plans sponsored by states and local governments provide some form of an automatic COLA*
 - Most use inflation-based COLAs and restrict the size of the increase
 - Other plans offer ad hoc COLAs which can be based on different criteria
 - Action by the plan sponsor or Legislature
 - Investment-based COLAs, financial status of the plan, or affordability of increase

*NASRA Issue Brief: Cost-of-Living Adjustments, June 2022.

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Appendix SB 5698: Actuarial Assumptions

- Assumes demographic changes from the June 30, 2019, valuation date to the effective date of the proposal
- Incorporates new investment return assumption of 7%
- Accounting for expected mortality and new retirements, at the time of the analysis, OSA estimates the Plans 1 population will be 6% smaller so the liability impact is reduced accordingly
- Costs amortized over a fixed 10-year period, consistent with current law Plans 1 funding policy for benefit improvements

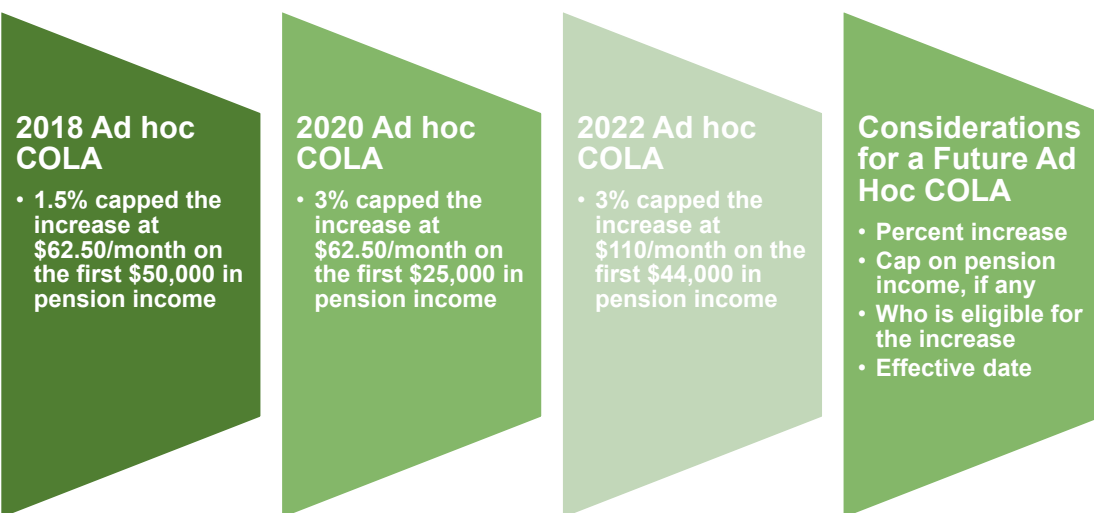
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Appendix Continue Ad Hoc COLAs



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