

# Plans 1 Ongoing COLA Study Closing Summary

## Executive Summary

Plan 1 of the Public Employees' Retirement System (PERS) and Plan 1 of the Teachers' Retirement System (TRS) did not include a post-retirement Cost-Of-Living Adjustment (COLA) when the plans were first created. (The term "Plans 1" will be used throughout to refer to PERS Plan 1 and TRS Plan 1.) Currently, around one-quarter of retirees in the Plans 1 receive an automatic COLA on their pension benefit. Recent upticks in inflation have led to increased calls for providing an automatic COLA to all retirees in these plans.

The Legislature directed the Select Committee on Pension Policy (SCPP) to study and recommend an ongoing post-retirement COLA for Plans 1 retirees during the 2023-25 Fiscal Biennium. Any recommendation must consider employer contribution rate stability and coordinate the effective date of an ongoing COLA with the reduction or elimination of the Plans 1 Unfunded Actuarial Accrued Liability (UAAL).

## What Is before the Committee?

The Committee is studying an ongoing COLA for Plans 1 retirees in 2024. Following several briefings this interim, the Committee passed a motion to recommend Option 2: Plans 2/3 style Consumer Price Index (CPI)-based COLA with a maximum annual increase of 3% at the September meeting. The Executive Committee requested staff draft bill language so the SCPP may consider endorsing a bill during the 2025 Legislative Session.

## How Did This Come before the Committee?

[Senate Bill 5350](#) recommended by the SCPP and passed by the 2023 Legislature provided a 3% ad hoc COLA with a \$110/monthly benefit cap for Plans 1 annuitants not receiving Minimum Benefits. The bill also included a study mandate for the SCPP to consider and recommend an ongoing COLA, subject to certain considerations noted above.

## Who Does This Impact?

This policy issue affects both the active and retired members of PERS Plan 1 and TRS Plan 1.

## Highlights

- ❖ COLAs serve a variety of policy goals: protecting the value of benefits against effects of inflation, supporting adequacy of benefits, and rewarding service.
- ❖ CPI-based COLA like Plans 2/3 (3% annual max and COLA banking) and an annual 3% fixed COLA both help retirees maintain purchasing power and allow retirees to recover lost purchasing power through any reserved COLA banking or when inflation is lower than a fixed percent increase.

- ❖ Under current law, benefit improvements must be financed over a fixed ten-year amortization period. As part of this study, the SCPP may consider a recommendation to shorten/lengthen the timeframe to pay for the benefit improvement, which would decrease/increase the budget impact of the policy change compared to current law.
- ❖ The SCPP is considering policy options that could include cost management strategies, such as a monthly increase cap of \$110 or \$125, or alternative funding approaches to the current law benefit improvement funding policy. However, the study mandate does not require the SCPP to recommend these strategies or redefine benefit improvement funding.
- ❖ Plans 1 only provide an automatic COLA to retirees who qualify for Minimum Benefits, leaving nearly 75% of retired members without a COLA. Many members are expected to become eligible for Minimum Benefit increases in the future.
- ❖ Employer contribution rates for UAAL payments decreased with the passage of [Engrossed Substitute Senate Bill 5294](#) in 2023, and current law UAAL rates are set to continue to decrease over the next few years.
- ❖ Some policymakers may see a significant reduction in the UAAL as an opportunity to implement an automatic COLA in Plans 1, while other policymakers concerned with the costs, funding, or different priorities for new spending may prefer to stick with an ad hoc COLA approach.

### Executive Committee Requested Policy Options

The July SCPP meeting covered two policy options requested by the Executive Committee:

- ❖ Option 1: 3% annual fixed percent COLA (Fixed COLA).
- ❖ Option 2: Plans 2/3 style CPI-based COLA with a maximum annual increase of 3% (CPI-Based COLA).

### SCPP Recommendation

The SCPP recommended Option 2, a Plans 2/3 style CPI-based COLA with a maximum annual increase of 3%. The recommendation includes a change in Plans 1 funding policy to (1) fund the new ongoing COLA over 15 years and (2) amortize the remaining balance of prior ad hoc COLA costs in Plans 1 over 15 years.

O:\SCPP\2024\10.15-Full\5.Plans.1.Ongoing.COLA.Study.Closing.Summary-Exec.Sum.docx