LEOFF
Plan 2 Retirement Board

Inflation/COLA Educational Briefing

April 27, 2022

Issue

- Retirees have expressed concern about rising inflation and how it impacts their pension

Inflation

- LEOFF 2 inflation assumption is 2.75%
  - OSA Economic Experience Study includes in-depth analysis, including discussion on the impact of Covid-19, of how they arrived at this recommendation
- Consumer Price Index (CPI) is the most common method used to measure inflation
- CPI measures the average change in prices over time in a fixed market basket of goods and services

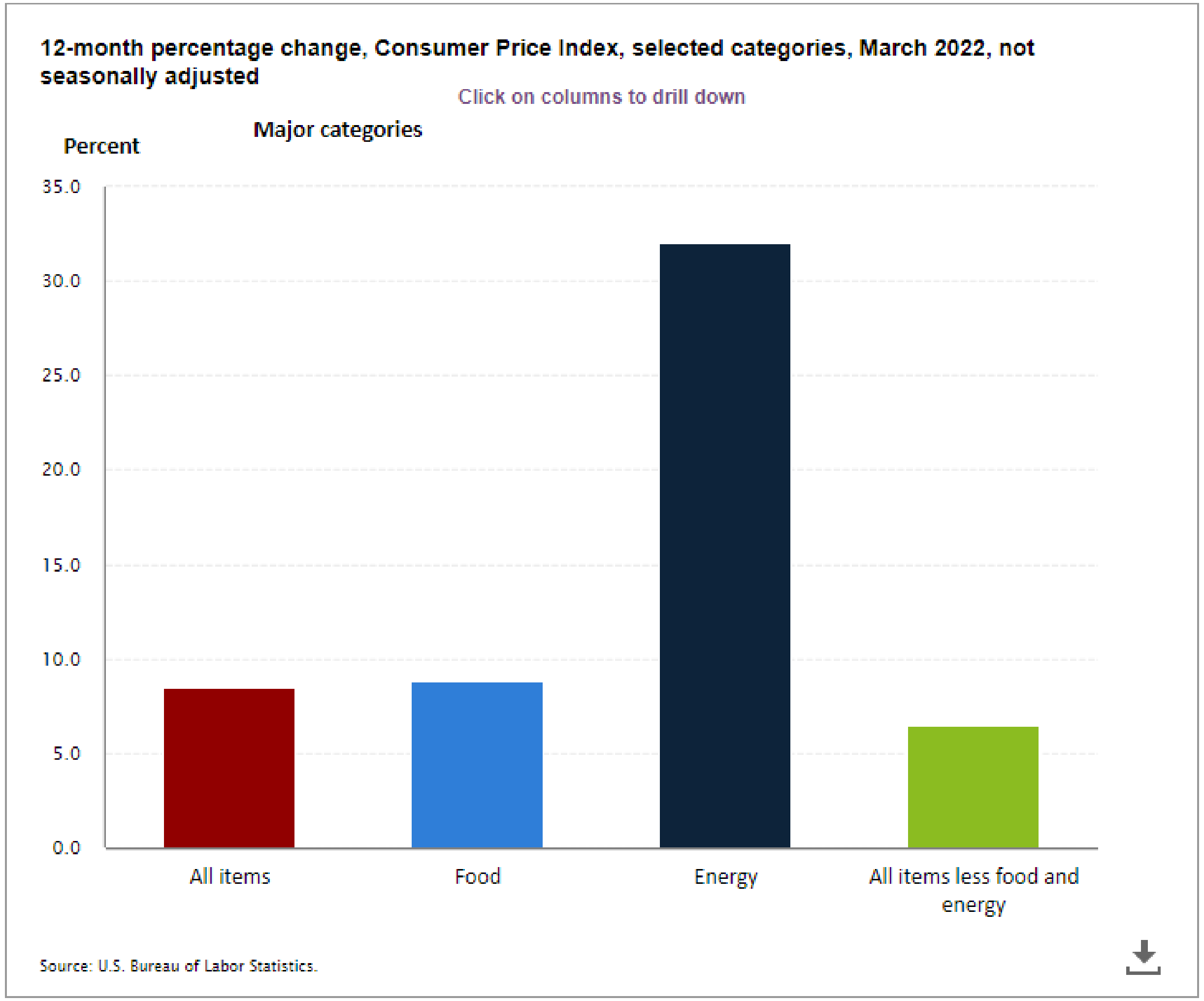
Basket of goods/services includes:

- Energy
- Food
- Housing
- Medical Care
- Vehicles
- Apparel
- Recreation
- Education

National CPI over last 20 years

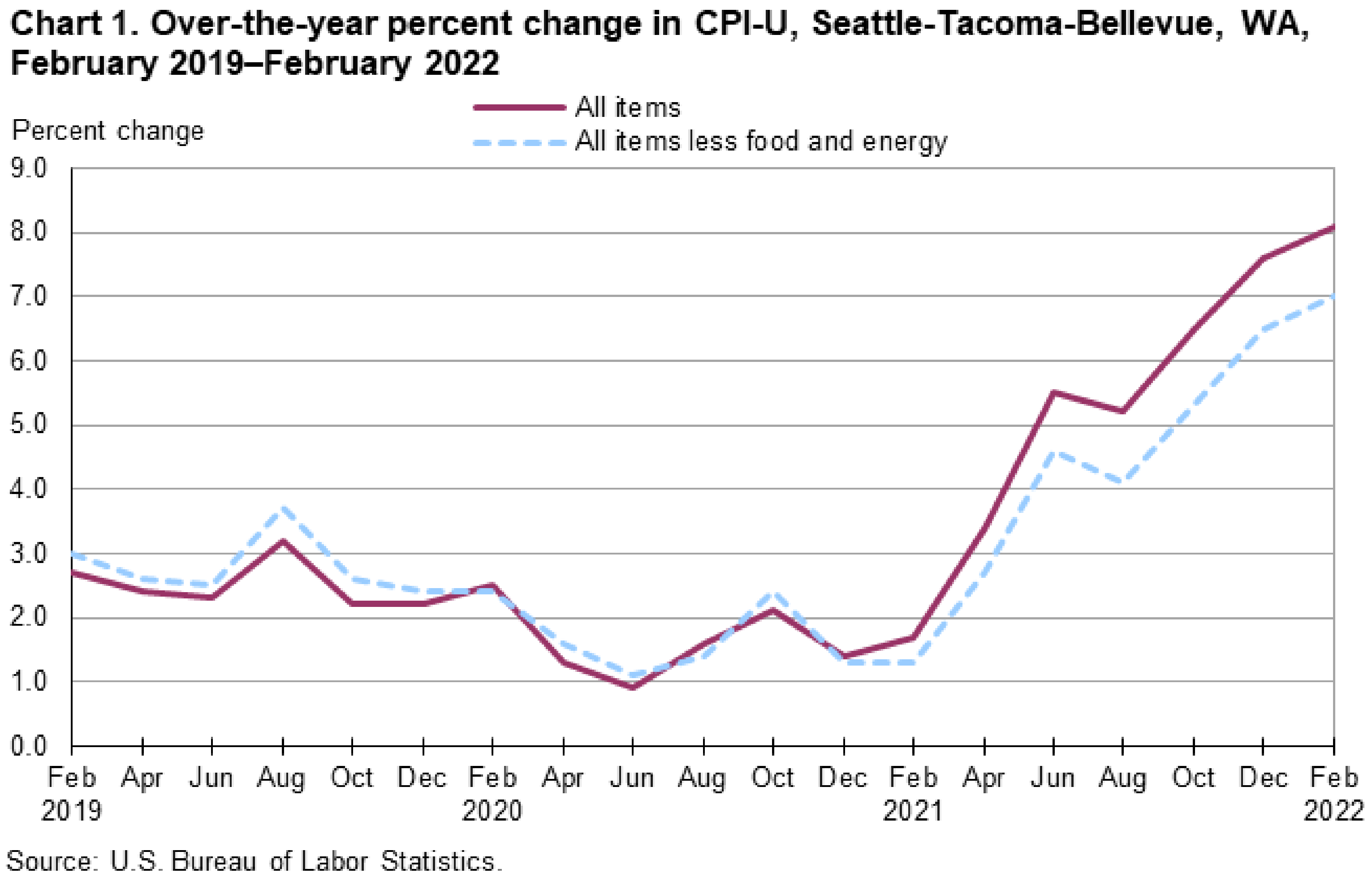
Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

CPI Major Categories Chart



LEOFF 2 COLA and CPI

COLA is based on the Seattle-Tacoma-Bellevue Consumer Price Index



What is the LEOFF 2 COLA?

	LEOFF Plan 2 (and all other plan 2/3s)	LEOFF Plan 1
COLA Eligibility	You must have been retired for at least one year by July 1. There is no age requirement.	You must have been retired for at least one year by April 1. There is no age requirement.
COLA is applied	July 1	April 1
COLA Maximum	The COLA is limited to a maximum benefit adjustment of 3% and includes COLA Banking.	LEOFF Plan 1 Base COLA does not have a maximum and does not include COLA Banking. Based on your retirement date, you may qualify for a first-year COLA adjustment.

Example:
$5,000 (monthly benefit)
x 3% (July 1, 2022 COLA) =
$150 increase to benefit
for a new monthly benefit
of $5,150

What is COLA banking?

- In years where the CPI increase is more than the 3% maximum, the difference is banked for future years and used when the COLA is less than the maximum
- Example: In year one the CPI was 6.48%, you received a 3% increase and the remaining 3.48% was banked
  - In year two the CPI was 0%. In July of year two you used the banked amount to end with a 3% COLA, and still had .48% in the bank for future years

How does retirement date impact banking?

- There is a period between your retirement date and when your COLA begins
- Using the example in the previous slide, you retired in August of year one
  - You were not eligible to receive the COLA in July of year two, so the entire 6.48% was banked
  - In July of year three, when the CPI was 0%, you would receive a full 3% COLA and have 3.48% in the bank for future years

2022 COLA

- The 2022 COLA calculation divides the 2021 CPI (865.195) by the 2020 CPI (825.961) for an increase over the prior year of 4.75%
- Since the COLA is capped at 3%, the additional 1.75% will be banked

Why is the COLA limited to 3%

- Increases plan risks to have an uncapped COLA
- Helps control contribution rates
  - Similar to investment return smoothing
- Banking ensures that retirees are still protected from inflation

Next Steps

1. Study policy options for changing LEOFF 2 COLA to address inflation concerns
2. No further action at this time

Thank You

Jacob White

Senior Research and Policy Manager

(564) 999-0738

jacob.white@leoff.wa.gov