BOARD MEETING AGENDA

SEPTEMBER 25, 2024 • 9:30AM

LOCATION - Hybrid Meeting

In-Person:
Washington State Investment Board
2100 Evergreen Park Drive SW, Suite 100
Olympia, WA 98502

Or Virtual Meeting Information at
www.leoff.wa.gov

TRUSTEES

DENNIS LAWSON, CHAIR
Central Pierce Fire and Rescue

JASON GRANNEMAN, VICE CHAIR
Clark County Sheriff's Office

MARK JOHNSTON
Vancouver Fire Department

AJ JOHNSON
Snohomish County Fire

SENATOR JEFF HOLY
WA State Senator

TARINA ROSE-WATSON
Spokane Int'l Airport Police Dept

PAT MCELLIGOTT
East Pierce County Fire and Rescue

JAY BURNEY
City of Olympia

WOLF OPITZ
Pierce County

REPRESENTATIVE STEVE BERGQUIST
WA State Representative

DARELL STIDHAM
Spokane County Sheriff's Office (Retired)

STAFF

Steve Nelsen, Executive Director
Tim Valencia, Deputy Director
Chloe Drawsby, Executive Assistant
Jessie Jackson, Administrative Services Manager
Jacob White, Senior Research and Policy Manager
Karen Durant, Senior Research and Policy Manager
Tammy Sadler, Lead Benefits Ombudsman
Jessica Burkhart, Benefits Ombudsman
Tor Jernudd, Assistant Attorney General

**THEY KEEP US SAFE,
WE KEEP THEM SECURE.**

1.	**Approval of July 24, 2024 Minutes**	**9:30 AM**
2.	**COLA/Inflation – Initial Consideration** Jacob White, Sr. Research and Policy Manager	**9:40 AM**
3.	**Salary Setting Responsibility Update** Karen Durant, Sr. Research and Policy Manager	**10:10 AM**
4.	**Authorized Leave of Absence Service Credit – Initial Consideration** Jacob White, Sr. Research and Policy Manager	**10:30 AM**
5.	**Duty Disability Health Insurance – Comprehensive Report** Jacob White, Sr. Research and Policy Manager	**11:00 AM**
6.	**Administrative Update**	**11:30 AM**
7.	**Public Comment**	**11:40 AM**

**Public comment can be provided to the Board in writing 24 hours prior to the meeting via our reception mailbox: recep@leoff.wa.gov.*

In accordance with RCW 42.30.110, the Board may call an Executive Session for the purpose of deliberating such matters as provided by law. Final actions contemplated by the Board in Executive Session will be taken in open session. The Board may elect to take action on any item appearing on this agenda.

LEOFF Plan 2 Retirement Board

September 25, 2024

COLA/Inflation

INITIAL CONSIDERATION

By Jacob White
Senior Research & Policy Manager
360-586-2327
jacob.white@leoff.wa.gov

ISSUE STATEMENT

Recent inflation has greatly exceeded projections which has created concerns for some retirees about how long it will take for the current Cost-of-Living Adjustment (COLA) to catch up with lost earning power.

OVERVIEW

LEOFF Plan 2's COLA is designed to balance retirees retaining their purchasing power while also ensuring plan sustainability and affordability. The plan has done this in part through having a maximum COLA of 3% and banking of inflation above the cap to be applied when inflation dips below 3%. After an extended period of low and stable inflation, recent years have seen a spike in inflation, resulting in lost purchasing power for LEOFF 2 retirees.

BACKGROUND AND POLICY ISSUES

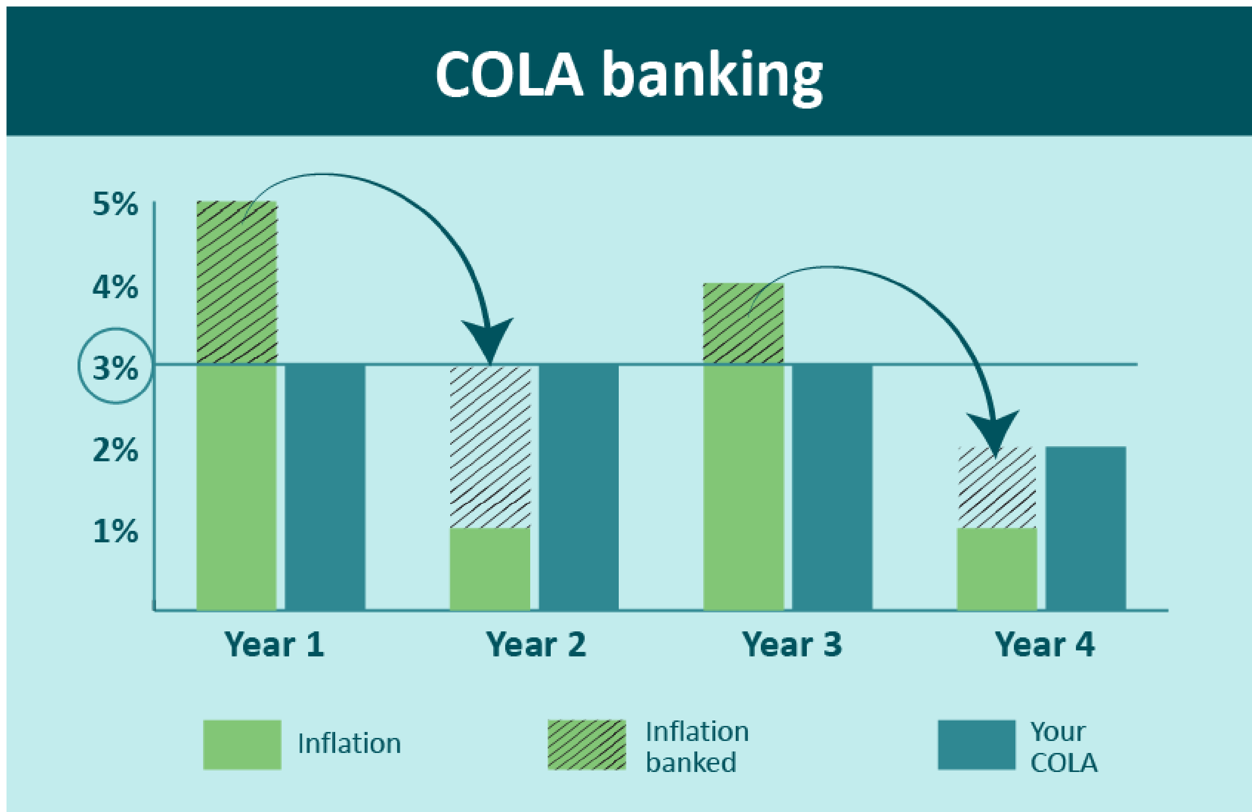
The purpose of a COLA is to reduce the effects of inflation on retirement benefits.[1] Most public pension plans have some type of COLA benefit. These COLAs include policies that attempt to balance benefit adequacy, plan sustainability, and affordability.

In Washington State the Plan 2s, including LEOFF Plan 2, all have the same COLA benefit design, which appear to have attempted to balance these three policy goals better than the Plan 1s. LEOFF Plan 1 leaned heavily on the goal of benefit adequacy, providing retirees with an automatic CPI based COLA with no cap. The other Plan 1s provided an ad hoc COLA and an option for members to purchase a self-funded COLA annuity at retirement.

The Plan 2 COLA benefit provides retirees with an automatic compounding COLA based on the CPI of Seattle-Tacoma-Bellevue. To mitigate volatility and risk to the plan, while also balancing the impact to retirees purchasing power, the COLA has an annual cap of a 3% increase to a

[1] NASRA Issue Brief: Cost of Living Adjustments, May 2024. See appendix A.

member's benefit with a banking feature that stores any amount over 3% for use in future years when the COLA drops below 3%. Below is a chart of how the banking feature works:



The COLA is designed to be prefunded, so that members pay for this benefit over their career. One of the issues with Plan 1s (not LEOFF Plan 2) has been that members did not prefund a COLA, so paying for an ad hoc COLA has been the responsibility of employers. This has created a situation where members are consistently going to the Select Committee on Pension Policy and the Legislature requesting a COLA. Since the benefit has not been prefunded, the legislature is left to prioritize the impact of lost purchasing power of Plan 1 retirees with other legislative priorities. This has resulted in Plan 1 retirees receiving COLAs on an infrequent and inconsistent basis.

Annual Inflation				
	CPI Index		Percent Change	
Year	Regional CPI-W	U.S. City CPI-W	Regional CPI-W	U.S. City CPI-W
2023	993.3	890.6	5.52%	3.82%
2022	941.4	857.8	8.81%	8.46%
2021	865.2	790.9	4.75%	5.26%
2020	826.0	751.4	1.90%	1.21%
2019	810.5	742.4	2.14%	1.66%
2018	793.6	730.2	3.36%	2.55%
2017	767.7	712.1	3.32%	2.13%
2016	743.1	697.2	2.28%	0.98%
2015	726.5	690.5	0.91%	(0.41%)
2014	719.9	693.4	1.93%	1.50%
2013	706.3	683.1	1.22%	1.37%
2012	697.8	673.9	2.54%	2.10%
2011	680.5	660.0	3.17%	3.56%
2010	659.6	637.3	0.78%	2.07%
2009	654.5	624.4	0.44%	(0.67%)
2008	651.6	628.7	4.48%	4.09%
2007	623.7	604.0	3.79%	2.86%
2006	600.9	587.2	3.73%	3.22%
2005	579.3	568.9	3.02%	3.53%
2004	562.3	549.5	1.57%	2.60%

The LEOFF 2 Board requested the estimated liability and funded status impacts for a one-tme COLA bank payout to current LEOFF 2 annuitants. Below is the pricing estimate produced by OSA:

Pricing Estimate Results			
(Dollars in Millions)	2023 AVR	Change	Pricing Estimate
Present Value of Benefits (PVFB)	$25,412	$650	$26,062
Funded Status	102%	-3.4%	98%

Note: Totals may not agree due to rounding.

For more information about the assumptions and disclosures of the OSA pricing estimate please see Appendix B.

SUPPORTING INFORMATION

Appendix A: NASRA COLA Brief

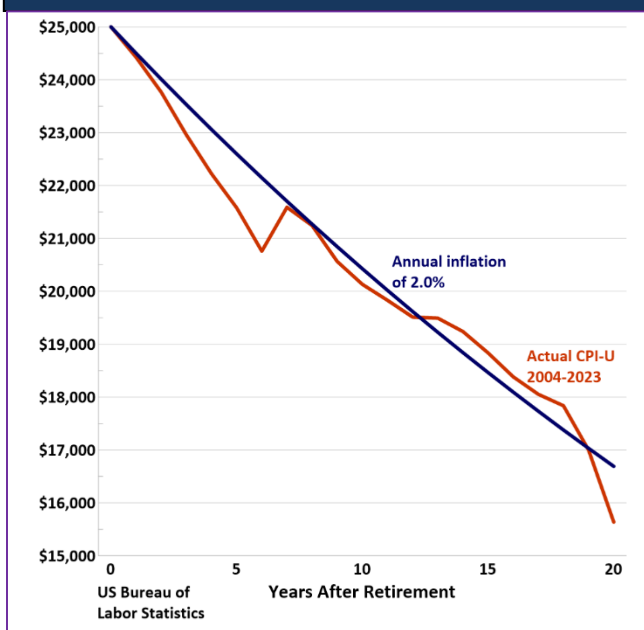
Appendix B: OSA Pricing Email, 9/13/24.

NASRA Issue Brief:
Cost-of-Living Adjustments

May 2024

Periodic adjustments in some form, generally referred to as cost-of-living adjustments (COLAs), are provided on most state and local government pensions. The purpose of a COLA is to offset, to some extent, the effect of inflation on retirement income. Considerable variation exists in the way COLAs are designed, and in many cases they are determined or affected by other factors, such as the actual rate of inflation or the financial condition of the plan. COLAs add both value and cost to a pension benefit. Public pension COLAs have received increased attention in recent years amid two competing factors: first, in the wake of the Great Recession, many states reduced benefits; and second, inflation spiked since 2021 and has remained higher than in recent preceding years. This brief presents a discussion about the purpose of COLAs, the different types of COLAs provided by government pension plans, and an overview of recent state changes to COLA provisions.

Figure 1: Impact of 20 years of inflation on purchasing power of $25,000, 2004-2023



COLA Purpose

A COLA is provided to offset or reduce the effects of inflation on retirement benefits. Figure 1 illustrates the effect of inflation eroding the purchasing power[1] of retirement income. The real (inflation-adjusted) pension benefit in this example of $25,000 falls to $16,690 (67 percent of its original value) under a static rate of inflation of 2 percent. Under a scenario reflecting the actual rates of inflation for the past 20 years, through the end of 2022, the purchasing power of $25,000 declines to $15,638 (63 percent of its original value). As the chart shows, during this period, inflation was relatively low for several years before spiking higher recently.

Such depreciation can affect the sufficiency of retirement benefits, particularly for certain groups: those who are unable to supplement their income by working, due to disability or advanced age; those who receive little or no Social Security benefit; and those whose public pension accounts for a large portion of their income.

Social Security beneficiaries receive an annual COLA to maintain recipients' purchasing power, tied to a measure of inflation.[2] Many state and local governments also provide an adjustment to their retirees' pension benefit that is intended to offset the effects of inflation. This adjustment is particularly important for those public employees – including nearly half of retired public school teachers and many retired public safety workers – who do not participate in Social Security. Unlike Social Security, however, many state and local retirement plans pre-fund the cost of a COLA over the working life of an employee, to be distributed annually over the course of his or her retired lifetime.

[1] Purchasing power refers to the effect of inflation on the value of currency over time, calculated to determine the amount of goods or services a unit of currency can buy at different points in time.

[2] Social Security Administration, Latest Cost-of-Living Adjustment, https://www.ssa.gov/OACT/COLA/latestCOLA.html

Common COLA Types and Features

The way in which public pension COLAs are calculated and approved varies considerably. Appendix A presents a listing of COLA provisions for many state retirement plans, illustrating the variety that exists in COLA plan designs. In general, COLA types and features are differentiated in the following ways:

Automatic vs. Ad hoc

An overarching distinction among COLAs is whether they are provided automatically or on an ad hoc basis. An ad hoc COLA requires a governing body to actively approve a postretirement benefit increase. By contrast, an automatic COLA occurs without action, and is typically predetermined by a set rate or formula. In some cases, ad hoc COLAs are contingent on other factors, such as a maximum unfunded liability amortization period or minimum actuarial funding level.

Simple vs. Compound

Another distinction between COLA types is whether the increase is applied in a simple or compound manner. Under a simple COLA arrangement, each year's benefit increase is calculated based upon the employee's original benefit at the time of his or her retirement. A simple COLA produces a smaller benefit over time, and at a lower cost. Under a compound COLA arrangement, the annual benefit increase is calculated based upon the original benefit plus any prior benefit increases. Some COLAs contain both features, i.e., they may be "simple" until the retiree reaches a certain age or year retired, at which point COLA benefits are calculated using a compound method.

Inflation-based

Consistent with the original purpose for providing a COLA, many state and local governments provide a post-retirement COLA based on a consumer price index (CPI), which is a measure of inflation. Most provisions like this restrict the size of the adjustment, such as by "one-half of the CPI" and/or "not to exceed three percent." The most recognized CPI measures are calculated and published by the U.S. Bureau of Labor Statistics (BLS); the CPI measures used by most public pension plans are either the CPI-U (based on all urban consumers) or the CPI-W (urban wage earners and clerical workers). Some states use state- or region-specific inflation measures to determine the amount of the COLA.

Table 1: Select public plans by COLA type

	Linked to inflation	Linked to investment or funding factors	Linked to CPI and investment or funding factors	Fixed percentage or other factor	Total
Automatic	40	6	11	15	74
Ad-hoc	3	8	0	18	27
Total	43	14	11	33	101

Notes: COLAs for some employees of local governments who participate in statewide systems are discretionary based on the decision of individual local government.
COLAs for some plans have been eliminated for the foreseeable future. These plans are not included in the table counts.
See Appendix A for more details.

Performance-based

Some public pension plans tie their COLA to the plan's funding level or investment performance. In the latest tier for the Arizona Public Safety Personnel Retirement System, for example, the COLA falls within a percentage range specified in statute and tied to CPI, based on the funding level of the plan. Annuitants with the Arizona State Retirement System hired before September 2013 receive a permanent benefit increase tied to their length of service when the fund's actuarial investment return exceeds the assumed rate of investment return. Depending on the method of calculation, a performance-based COLA can potentially result in a COLA that is higher than inflation or that offsets only a portion of the loss of purchasing power.

Delayed-onset or Minimum Age

Another characteristic contained in some automatic COLAs is to delay its onset, either by a specified timeframe or until attainment of a designated age. A COLA with this feature may also take on any of the characteristics stated above, becoming available to a retiree once they meet the designated waiting period or age requirement.

Limited Benefit Basis

Some plans award a COLA calculated on a portion of a retiree's annual benefit, rather than the entire amount. For example, the COLA provided to retirees of the Massachusetts SERS and TRS of up to three percent applies to only the

first $13,000 of annual benefit. In such cases, the COLA can also be tied to an external indicator, such as CPI. Other factors, such as delayed onset, may also be in place.

Self-funded Annuity Option

Retirement plans in Kansas and Louisiana, for example, offer self-funded post-retirement benefit increases. Under this design, a member effectively self-funds their own COLA by choosing to receive a lower monthly benefit in exchange for a fixed rate COLA to be paid annually upon retirement.

Reserve Account

Other public pension plans, pay COLAs from a pre-funded reserve account. This is a variation on the COLA tied to investment performance, since the reserve account is funded with excess investment earnings. Under this scenario, a COLA is provided from the funds set aside in the reserve account. Sometimes a stipulation is attached that the fund must reach a certain size for any COLA to be granted in a given year.

COLA Costs

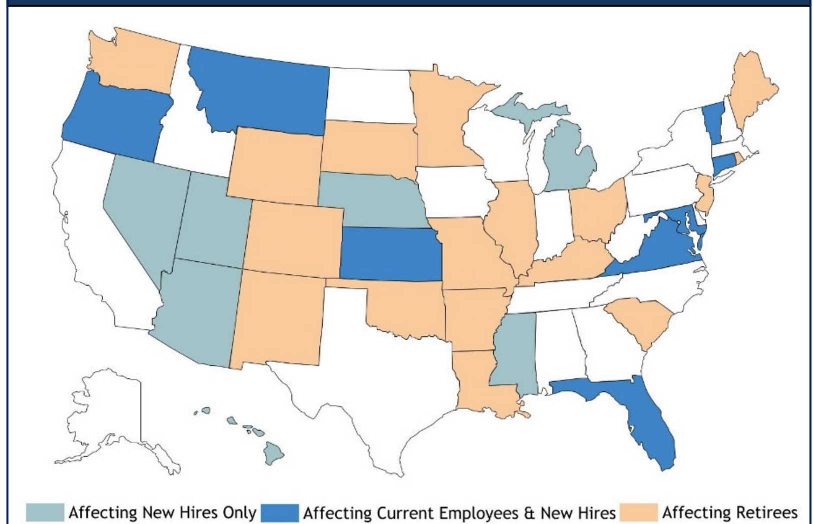
The cost of a COLA predictably depends on the characteristics of the COLA benefit. Such factors as its size; the portion of the benefit to which the COLA applies; whether the COLA is paid annually or irregularly; whether the adjustment is simple or compounded, and other features, all affect its cost. It has been estimated that an automatic COLA of one-half of an assumed CPI of three percent, compounded, will add 11 percent to the cost of the retirement benefit. An automatic COLA of three percent, compounded, is estimated to add 26 percent to the cost of the benefit.[3]

The Governmental Accounting Standards Board (GASB) requires public pension plans to disclose assumptions regarding COLAs, including whether the COLA is automatic or ad hoc, and to include the cost of COLAs in projections of pension benefit payments. GASB considers an ad hoc COLA to be "substantively automatic" when a historical pattern exists of granting ad hoc COLAs or when there is consistency in the amount of changes to a benefit relative to an inflation index.[4]

Recent Changes to COLAs

As part of efforts to contain costs and to ensure the sustainability of public pension plans, and in response to a period of historically low rates of inflation that lasted for over a decade during and after the Great Recession, many states made changes to COLA provisions by adjusting one or more of the COLA design elements mentioned above[5] (see Figure 2). As described in Appendix A, since 2009, 17 states have changed COLAs affecting current retirees, eight states have addressed current employees' benefits, and seven states have changed the COLA structure only for future employees. The legality of these modifications in several states has been challenged in court, as noted in Appendix A.

Figure 2: State retirement systems undergoing COLA legislative changes, 2009-2024



In most cases, changes to COLA provisions require an act of the legislature and approval of the governor. However, in some cases retirement boards have been vested with the authority to enact COLA reforms; this authority has been exercised in three states – Maine, Missouri, and Ohio – since 2016. As noted above, most COLA changes affecting current retirees were subjected to legal challenge. Legal rulings issued in recent years upheld COLA reductions passed in New

[3] Gabriel, Roeder, Smith & Company, "Postemployment Cost-of-Living Adjustments: Concepts and Recent Trends," April 2011
[4] Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans
[5] National Conference of State Legislatures

Jersey among others, and fully or partially rejected COLA reductions approved in Illinois, Montana, and Oregon. A 2015 legal settlement pronounced material changes to COLA provisions for public employees in Rhode Island.

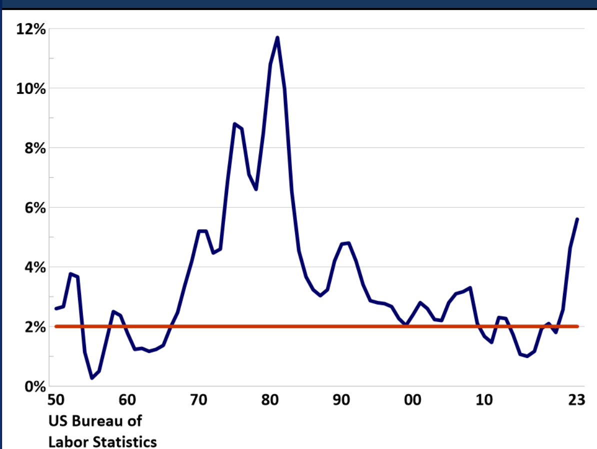
Some states that do not provide an automatic COLA have responded to recent higher rates of inflation by granting an ad hoc COLA for most retirees. Prior to granting their most recent COLA, some of these states, which includes Alabama, Georgia, New Hampshire, Oklahoma, Texas, and others, had not granted a COLA for several years, when inflation was lower.

Impact of Inflation on COLA Changes

The impact on beneficiaries and pension plans of changes to COLA provisions is largely determined by actual levels of price inflation. For the first time since before the Great Recession, the rate of inflation since early 2021 has exceeded the automatic COLA caps in place for most public pension plans that have a cap. This development, which follows a lengthy period of low inflation (as shown in Figure 3 by the average of the prior three years' increase in CPI-U at or below 2 percent from 2010 through 2021), is driven by a spike in inflation that began in 2021. This recent experience demonstrates the effect on retirees of the COLA cap: when inflation exceeds the maximum COLA payable, retirees' purchasing power declines. By contrast, if inflation is low, retirees are less affected by inflation, and may not be impacted at all.

Actuaries typically make assumptions about future COLA levels, based on the plan's COLA provisions. Such assumptions include a rate of inflation if inflation is a factor in the plan's determination of COLA increases. If actual inflation is lower than the plan's assumed rate of inflation, the plan will experience an actuarial gain. All else equal, a reduction in a plan's COLA assumption will cause a decline in the plan's liabilities and cost.

Figure 3: Three-year rolling average change in CPI-U, 1950-2023



Conclusion

The effects of a COLA can be consequential both in protecting the purchasing power of beneficiaries and in adding costs to a plan. Policymakers and public pension plan sponsors are challenged to balance three key variables: benefit adequacy, plan sustainability, and affordability. Amid the recent spike in inflation, policymakers continue to reexamine all aspects of benefit design and financing, including the way COLAs are determined and funded. Just as the period of low inflation that occurred during and after the Great Recession, combined with rising pension plan costs, led several states to reduce, suspend, or eliminate their automatic COLA, so also has the recent spike in inflation led some states that do not provide an automatic COLA to grant an ad hoc COLA for the first time in several years.

See also

1. Gary Findlay, "Addressing Inflation in the Design of Defined Benefit Pension Plans"
2. Gabriel, Roeder, Smith & Company, "Postemployment Cost-of-Living Adjustments: Concepts and Recent Trends," April 2011
3. Cost-of-Living Adjustments @NASRA.org

Contact

Keith Brainard, Research Director, keith@nasra.org I Alex Brown, Research Manager, alex@nasra.org
National Association of State Retirement Administrators, www.nasra.org

Appendix A: COLA Provisions by State-Level Plan and Recent Changes

Plan	COLA Provision	2009-2024 Changes
Alaska PERS and TRS	Automatic, lesser of 75% of CPI or 9%, simple, for those age 65 and above; lesser of 50% of CPI or 6% for those age 60 or having received benefits for at least 5 years; An additional in-state COLA is provided to beneficiaries who reside in Alaska. Members are eligible if they entered the plan before 7/1/86 or entered after 6/30/86 and have attained at least age 65. The Alaska COLA is equal to the greater of 10% of their base benefits or $50.	
Alabama ERS and TRS	Ad hoc as approved by the legislature.	The Legislature in 2018 and 2022 approved one-time lump sum payments based on annuitants' length of service. The 2022 legislation provided a one-time lump-sum payment equal to $2 per month for each year of accrued service.
Arkansas PERS	Automatic 3% compounded for those hired before 7/1/22; for those hired after 6/30/22, lesser of 3% or CPI-U.	2021 legislation amended the COLA for those hired after 6/30/22
Arkansas State Highway Employees	Automatic, lesser of 3% or CPI, compounded.	Prior to legislation approved in 2017, an annual automatic COLA of 3% was granted.
Arkansas Teachers	Automatic 3% simple; compounded on an ad hoc basis as determined by the Board.	2017 legislation gives the TRS board the authority to reverse a compound COLA granted in 2009 if necessary to maintain the actuarial soundness of the system.
Arizona Public Safety Personnel	Automatic, based on CPI for the Phoenix region, up to 2.0%. For new hires on or after 7/1/17, the cap is lowered to 1.5% if the system falls below 90% funded; 1.0% if below 80% funded; and the COLA is eliminated if below 70% funded.	Legislation approved in February 2016 replaces the Permanent Benefit Increase (PBI) with a traditional COLA for current and future retirees that is tied to CPI. For new hires on or after 7/1/17, the COLA is restricted or eliminated when the plan falls below 90% funded. The changes were affirmed by an amendment to the Arizona Constitution via voter referendum in May 2016.
Arizona SRS	For participants hired before 9/13/13, up to 4.0% annually, contingent on earnings associated with an actuarial investment return above 8%. For those hired thereafter, ad hoc as approved by the legislature.	2013 legislation eliminated the permanent benefit increase for members hired on or after 9/13/13.
California PERS	Automatic after two calendar years of receiving benefits and the lesser of CPI for the prior year or the employer elected COLA. Typically, State retirees receive a 2% provision, while Public Agencies and Schools may have 2%, 3%, 4% or 5% COLA provisions, depending on employer election.	

Plan	COLA Provision	2009-2024 Changes
California Teachers	Automatic 2% simple, plus adjustments designed to maintain retirees' purchasing power up to 85% of their original benefit, made through a "supplemental benefits maintenance account" financed with a state contribution of about 2.5% of total creditable compensation.	Members who performed creditable service on or after 1/1/14 will have their existing improvement factor guaranteed in exchange for contribution increases. The improvement factor cannot be reduced for these members. For members who retired prior to 1/1/14, the Legislature will continue to reserve the right to reduce the improvement factor, a right that has never been exercised.
University of California	Automatic, equal to the full increase in CPI up to 2%, plus 75% of the increase in CPI over 4%. Maximum COLA is 3.5%. Ad-Hoc COLAs may be authorized at the discretion of the Regents of the University of California.	
Colorado Affiliated Local	Based on election of individual participating employers.	
Colorado Fire & Police Statewide	Ad hoc as approved by board.	The FPPA Board approved a COLA of 0.15% plus a one-time lump sum equal to 8.35% of their annual benefit for retirees of the statewide DB and hybrid plans, effective 10/1/2023.
Colorado Local Government, School, and State	For active employees and retirees who did not receive a COLA as of 5/01/18, COLAs are paid after three years of retirement. The COLA cap, currently 1.50%, may be changed through the provisions of an auto-adjust mechanism which is triggered dependent upon the ratio of total contributions made to the determination of total required contributions (based on a layered, 30-year amortization approach). If this ratio falls below 98% or above 120%, the COLA cap may be reduced or increased by up to 0.25% in any year but may not fall below 0.50% or exceed 2.0%. COLA provisions vary by date of hire: those hired before 1/1/07, have an automatic increase equal to the COLA cap. Those hired on or after 1/1/07, are awarded the lesser of the effective COLA Cap and the average of the monthly CPI-W amounts for the prior calendar year, provided the cost of the COLA does not exceed 10% of each division's annual increase reserve.	2018 legislation suspended the COLA for two years, increased the waiting period for new hires to receive a COLA from one year to three, and thereafter reduced the automatic COLA cap from 2.0% to 1.5%, and tied payment of future COLAs to the length of the plan's amortization period. 2010 legislation reduced the COLA from automatic 3.5%. The law was challenged and upheld by the CO Supreme Court in 2014.
Connecticut SERS	Minimum of 2.0% up to a maximum 7.5% calculated based on the following formula: 60% of the annual increase in the CPI-W up to 6.0% and 75% of the annual increase in the CPI-W over 6.0%. For employees who retire after 6/30/22, the minimum COLA is reduced to the actual change in CPI-W, if the change is <2.0%. The previous formula applies if the change in CPI-W is >2.0%.	A 2011 agreement between the state and public-sector unions reduced the minimum COLA for employees who retire after 10/1/11. A 2017 agreement made further changes for employees who retire after 6/30/22.
	For those hired on or after 7/1/07, COLA equal to Social Security COLA, with a maximum of 1.0% if investment return is <6.9%; a maximum of 3.0% if return is 6.9%-9.9%;	Legislation approved in 2021 adjusted COLA thresholds from 8.5% to new investment return assumption of 6.9% (added here 9/28/21).

Plan	COLA Provision	2009-2024 Changes
Connecticut Teachers	and limited to 5.0% if return is >9.9%. For those who retired before 9/92, automatic, based on CPI, with 3% minimum and 5% maximum, compounded; for those who retired after 9/92, COLA is equal to the Social Security COLA, with a maximum of 1.5% if investment return is <6.9% and a maximum of 6.0% if returns are at least 6.9%.	
DC Police & Fire and Teachers	Automatic based on CPI, up to 3%, compounded, for members hired on or after 11/10/96. For members hired before 11/10/96, automatic, based on CPI, compounded (uncapped).	
Delaware State Employees	Ad hoc as approved by the general assembly.	In 2022 the General Assembly approved a one-time increase for most retirees, with the amount depending on effective date of retirement as follows: Prior to 7/1/92, 3%; 7/1/92-6/30/17, 2%. The legislation also included a one-time supplement of $500 for those who retired prior to 10/21/22.
Florida RS	Automatic 3%, compounded. No COLA is applied to service credits earned after 7/1/11.	2011 legislation terminated the automatic 3% compounded COLA for all service credits earned after 7/1/11.
Georgia ERS	Ad hoc as approved by the ERS board.	The Governor’s recommendation in the FY 25 budget includes a $26.75 million supplemental appropriation to support one-time benefit adjustments for eligible ERS retirees as authorized by the Board of Trustees. Action taken by the ERS Board and the FY 23 state budget approved by the General Assembly create a pathway to future COLAs for ERS retirees. ERS created a model for determining annual COLAs, which would depend on the system funding ratio and actuarial rate of investment return compared to a hurdle rate of 6%. The maximum COLA will be the lesser of the change in CPI or 3%. A COLA will be payable on the later of the retiree’s actual retirement date or projected normal retirement date, if retired early. The ERS Board retains the authority to approve future COLAs and is not bound by the methodology described above. The ERS Board also approved a 1.5% COLA for most retirees.
Georgia Teachers	Automatic 1.5% every 6 months as long as CPI increases, compounded.	
Hawaii ERS	Automatic, 1.5% simple, for those hired on or after 7/1/12; 2.5% simple for those hired before 7/1/12.	The automatic COLA was reduced from 2.5% to 1.5%, simple, for those who become members of the system after 6/30/2012.

Plan	COLA Provision	2009-2024 Changes
Iowa Municipal Fire & Police	Automatic, 1.5% compounded. An additional fixed COLA is provided based on length of retirement. For members retired fewer than 5 years, an additional $15 is applied. For members retired 5-10 years, $20. For members retired 10-15 years, $25. For members retired 15-20 years, $30. For members retired more than 20 years, $35. No COLA is provided to members who terminate prior to becoming eligible for retirement.	
Iowa PERS	No COLA-type payments for members retiring after 6/30/90. Those who retired prior to 7/1/90 are eligible for a "thirteenth check" that may be adjusted annually by the lesser of CPI or 3%.	
Idaho PERS	Automatic 1% compounded (as long as CPI rises at least 1%), plus discretionary COLA if the CPI is greater than 1%. Total COLA (mandatory plus discretionary) cannot exceed 6%. The Board also has the discretion to award a retroactive COLA to make up for prior years when the full CPI was not awarded.	In December 2021 the PERSI Board granted a 2.5% discretionary COLA, in addition to the automatic 1% COLA.
Illinois Municipal	Automatic 3%, simple, for those hired before 1/1/11; for those hired after 12/31/10, lesser of 3% or half of CPI, simple, upon attainment of the later of age 67 or one year after retirement.	2010 legislation reduced the COLA for new hires on or after 1/1/11 from automatic 3%, simple.
Illinois State Employees, Teachers, and State Universities	Those hired before 1/1/11 receive an automatic COLA of 3%, compounded, upon attainment of the latter of age 61 or one year after retirement. Those hired after 12/31/10 receive a COLA of the lesser of 3% or one-half of the CPI, not compounded, upon attainment of the later of age 67 or one year after retirement.	2018 legislation directs the system to offer, from 1/1/19 until 6/30/21, a COLA buyout for retiring members hired before 1/1/11. These members may elect to forfeit their rights to the current 3% annual compound COLA in exchange for a 1.5% simple COLA and a lump sum payment equal to 70% of the difference between the estimated present value of the 3% COLA and the estimated present value of the 1.5% COLA. 2010 legislation reduced the COLA for new hires from automatic, 3% compounded. 2013 legislation reduced the COLA formula for current workers and new hires. The law was challenged and rejected by the IL Supreme Court in 2015.
Indiana PERF and TRS	Participants retired before July 1, 2025 receive an annual 13th check. Those retired thereafter receive 1% COLAs. The Indiana PERS board may raise surcharge rates annually up to 0.1% of payroll from the previous year to fund the COLAs.	The Indiana Legislature approved legislation in 2023 establishing this bifurcated structure of a 13th check and a COLA.
Kansas PERS	Ad hoc as approved by the legislature; the cash balance for employees hired after 12/31/14 provides for an optional self-funded COLA as an annuity payment option at retirement.	2012 legislation removed automatic 2% COLA originally provided for those hired after 6/30/09;

Plan	COLA Provision	2009-2024 Changes
		also created optional self-funded COLA in cash balance plan for new hires after 12/31/14.[4]
Kentucky County and ERS	Automatic, tied to CPI, not to exceed 1.5% after 12 months of retirement, compounded. Because of legislation described in the right-hand column, payment of COLA is unlikely in the foreseeable future.	2011 legislation suspended retiree COLAs for 2012 and 2013; 2013 legislation mandates that a COLA be granted only if the system is over 100% funded or if the legislature prefunds the COLA. A challenge to the 2013 law was dismissed in 2014.
Kentucky Teachers	Automatic 1.5% compounded.	
Louisiana SERS and TRS	Retiree permanent benefit increases of up to 2.0% on the first $60,000 of benefits, contingent on adequate funding in the PBI/COLA account and legislative approval. Retiring participants also may elect a self-funded COLA: the retiring participant's benefit is actuarially reduced and the retiree receives an annual automatic 2.5 percent benefit adjustment. Retirees must be age 55 and retired for one year to qualify for the increase.	2023 legislation effective in FY 24 established the new PBI arrangement. The new arrangement is expected to generate enough funds to grant a COLA every two to three years, subject to legislative approval.
Massachusetts SERS and TRS	Ad hoc, typically based on CPI up to 3% applied to first $13,000 of benefit, subject to legislative approval and enactment. Must be retired one full fiscal year before being eligible for COLA.	Effective 2011, increased benefit to which COLA applies from first $12,000 of benefit to $13,000.
Maryland PERS and Teachers	For service earned after 6/30/11, automatic based on CPI, capped at 2.5% or the increase in CPI if the recent calendar year market value rate of return was greater than or equal to the assumed actuarial investment return of 6.80%. If that threshold is not met, COLA is the lesser of 1.0% or the increase in CPI. COLA on service prior to 7/1/2011 is automatic based on CPI, capped at 3.0%.	For service earned after 6/30/2011, COLA was lowered from CPI up to 3%, compounded, to CPI capped at 2.5%, or 1%, depending on investment return.
Maine Local	Based on individual employer election. If provided, based on CPI up to 2.5%. Those who retire on or after 9/1/2019	In 2018 the board approved a reduction to the maximum COLA from 3.0% to 2.5% for current

[4] Legislation creating Kansas PERS Tier 3 passed in 2012 eliminated the Tier 2 COLA. The only employees eligible to receive the Tier 2 COLA are those who were retired and returned to work on or after 6/30/09 and who will retire before 7/1/12.

Plan	COLA Provision	2009-2024 Changes
	qualify for a COLA after 24 months of retirement and may have their COLA reduced or frozen if the plan's costs exceed established member and employer contribution rate caps of 9.0% and 12.5%, respectively.	retirees and extended the COLA waiting period from 12 to 24 months, and provided for the possible reduction or freezing of future COLA if the plan's cost exceed established member and employer contribution rate caps. Effective 7/1/2014, the COLA of CPI up to 4% compounded, was reduced to up to 3%. Members who retire on or after 9/1/2015 qualify for a COLA after twelve months of retirement rather than 6 months, as previously in effect.
Maine State and Teacher	COLA is based on the CPI up to 3% applicable to the first $20,000 of benefit, indexed for inflation beginning in 2011.	Effective 7/1/2011, the COLA of CPI up to 4% compounded, was suspended for three years, after which the cap and portion of the benefit to which the COLA applies was reduced. A legal challenge to the law was dismissed in 2014. 2015 legislation provided a minimum COLA of 2.55% for FY 16 and FY 17. Beginning in FY 18 the CPI-based COLA was reinstated. Legislation was approved in 2023 providing a one-time COLA payment to retired state employees and teachers of 1.0% above the 3.0% maximum COLA.
Michigan Municipal	Employers may elect to provide a COLA, on a one-time basis or as an automatic adjustment.	
Michigan Public Schools	Automatic 3% simple; those hired after 6/30/10 are not eligible for a COLA.	Employees hired after 6/30/10 participate in a hybrid plan that does not provide a COLA.
Michigan SERS	Automatic 3% simple up to $300 annually.	
Minnesota PERF	Automatic, compounded, 1.5%	
Minnesota State Employees	Automatic, compounded 1.5%	2023 legislation provided a one-time COLA for all statewide public pension retirees and retirees of the St. Paul teacher plan who had been receiving 12 months of benefits as of 6/30/23. The COLA is equal to the difference between the rate in effect in current law on January 1, 2024, and either 2.5% for coordinated members and members of the Legislators Plan, or 4% for basic members. All members of the MSRS State Patrol Plan and PERA Police and Fire Plan are basic members, and a subset of the members of the PERA General Plan, Teachers Retirement Association (TRA), and St. Paul Teachers are basic members.
Minnesota Teachers	Automatic, 1.0% compounded, increasing by 0.1% from FY 24-28, until reaching 1.5%.	2018 legislation replaced the previous COLA, which was tied to the plan's funding level, with an inflation-based COLA.

Plan	COLA Provision	2009-2024 Changes
		2010 legislation reduced the auto-COLA from 2.5%. The law was challenged and upheld in a final ruling issued in 2011.
Missouri DOT and Highway Patrol	80% of CPI up to 5% compounded; those hired before 8/28/97 receive a min. of 4% and a max. of 5% compounded, up to 65% of original benefit, and then 80% of CPI up to 5% thereafter.	
Missouri Local	Contingent upon investment return, with a max of the lower of 4% or cumulative CPI since retirement.	
Missouri Teachers and PEERS	When the Consumer Price Index for Urban Consumers (CPI-U) for the previous fiscal year is between 0% and 2%, no COLA is provided when the CPI-U is cumulatively below 2%. A 2% COLA is provided when the cumulative CPI-U reaches 2% or more. The cumulative calculation resets to zero and restarts after a COLA is provided. A COLA of 2% is paid when the change in CPI-U is between 2% and 5%; and a COLA of 5% is paid when the CPI is 5% or greater, subject to a lifetime cap of 80% of the original benefit.	In 2011 the Board changed the auto, compounded COLA from 2% if CPI-U is between 0% and 5%; 5% if CPI-U is 5% or higher, and no COLA is given if CPI-U is less than 0%; subject to a lifetime cap. In 2017 the Board again changed the COLA policy to add a cumulative calculation to the formula.
Missouri State Employees	80% of CPI up to 5% compounded; those hired before 8/28/97 receive a min. of 4% and a max of 5% compounded, up to 65% of original benefit, and then 80% of CPI up to 5% thereafter.	Per 2017 legislation, the COLA for members hired on or after 1/1/11 who terminate employment before becoming eligible for retirement is delayed until the second anniversary of the member's annuity start date.
Mississippi PERS	Automatic, 3% simple, until age 60, then compounded thereafter, for those hired on or after 7/1/11; automatic, 3% simple, until age 55, then compounded thereafter, for those hired before 7/1/11.	2011 legislation increased the age at which COLA compounding begins from 55 to 60.
Montana PERS	Automatic, ranging from zero to 1.5% compounded, depending on the plan's funded status, beginning 12 months after onset of annuity, for those hired on or after 7/1/13; 1.5% for those hired between 7/1/07 and 6/30/13; 3.0% compounded for those hired before 7/1/07.	2011 legislation reduced the automatic guaranteed annual benefit adjustment (GABA) for retired, active and newly hired members from 1.5% compounded and tied its provision to PERS' funding ratio. The law was challenged in court, and a 2015 ruling reversed the changes for retired and active members and upheld for new hires.
Montana Teachers	Automatic, ranging from 0.5% to a maximum of 1.5%, compounded, depending on the plan's funded status, beginning 36 months after onset of annuity, for those hired on or after 7/1/13; 1.5% for those hired before 7/1/13. Automatic 1.5% compounded beginning 3 years after onset of annuity.	2011 legislation reduced the automatic guaranteed annual benefit adjustment (GABA) for retired, active and newly hired members from 1.5% compounded and tied its provision to TRS' funding ratio. The law was challenged in court, and a 2015 ruling reversed the changes for retired and active members and upheld for new hires.
North Carolina Local Government	Ad hoc as approved by the Board, with certain limitations. The Board may grant COLAs up to a maximum of 4%, provided that the COLA does not exceed the year-over-year increase in the CPI and that the cost of the increase is paid	In 2022 the NC LGERS Board granted a one-time supplement of 2.0%.

Plan	COLA Provision	2009-2024 Changes
	for with investment gains. COLAs in excess of these provisions must be approved by the legislature.	
North Carolina Teachers and State Employees	Ad hoc as approved by the legislature.	In 2023, retired state employees and teachers received a one-time supplement of 4.0%.
North Dakota PERS	Ad hoc as approved by the legislature.	The most recent COLA increase was 6.0% paid 8/1/2001 for annuitants receiving benefits as of that date.
North Dakota Teachers	Ad hoc as approved by the legislature.	The most recent COLA increase, approved in 2009, was a supplemental payment based on the annuitant's length of service and length of time since retirement.
Nebraska Schools	Based on CPI, up to 1% compounded for employees hired on or after 7/1/13; for other members, based on CPI, up to 2.5%, compounded.	2013 legislation created a new tier for those hired on or after 7/1/13. This tier features a reduced maximum COLA.
Nebraska State and County Cash Balance	Participants may elect at retirement to convert their cash balance account to a monthly annuity with a built-in annual COLA of 2.5%.	
New Hampshire Retirement System	Ad hoc as approved by the legislature.	Retirees who were retired five years and longer as of 7/1/22 and whose annual retirement benefit is less than $30,000 were granted a one-time supplemental payment of $500 in 2022.
New Jersey PERS, Police & Fire, and Teachers	COLA suspended until the plan funding level reaches 80%, after which a panel will assess the prudence of paying a COLA.	2011 legislation suspended the automatic COLA that was based on 60% of CPI. The law was challenged and upheld in a final ruling issued in 2016.
New Mexico PERA	2.0%, simple, through FY 23. Effective FY 24, the annual COLA is determined by the difference between the fund's smoothed investment return and an actuarially determined COLA hurdle rate (i.e., the investment return required to fund a COLA of greater than 0.5%), with a minimum of 0.5% and a maximum of 3.0% if the system is less than 100% funded, or 5.0% if the system is funded at 100% or greater. An annual COLA of 2.5% will be provided to those who retire with at least 25 years of service and an annual pension benefit below $25,000, retirees who have attained at least 75 years of age as of 7/1/20, and disability retirees.	2020 legislation repealed the compounding element of the COLA for the period FY 2021 through FY 2023, and effective FY 2024, implemented a shared-risk COLA based on the system's funding ratio and smoothed investment rate of return. 2013 legislation reduced the automatic compounded COLA from 3% to 2%.
New Mexico Teachers	COLA is based on the change in CPI. If the change in CPI is less than 2.0%, the COLA is equal to the change in CPI. If the change in CPI is greater than 2.0%, the COLA is equal to one-half of the change in CPI, but not less than 2.0% nor more than 4.0%. In 2013, COLAs for all current and future retirees were reduced until ERB is 100% funded. When the funded ratio is 90% of less, the COLA for retirees whose annuity is at or below the median retirement benefit and	2013 legislation reduced the COLA depending on retiree length of service and size of benefit. All COLA reductions cease upon ERB's attainment of a 100% funding level. The law was challenged and upheld by the NM Supreme Court in 2013.

Plan	COLA Provision	2009-2024 Changes
	who have 25 or more years of service credit at retirement will be reduced by 10%. For all other retirees, the reduction is 20%. When the funded ratio exceeds 90% and is less than 100%, the COLA for retirees who have 25 or more years of service credit at retirement and whose annuity is at or below the median retirement benefit will be reduced by 5%. For all other retirees, the reduction is 10%.	
Nevada Police Officer and Firefighter and Regular Employees	After 3 years of receiving benefits, automatic COLA of 2% annually, rising gradually to 5% annually, compounded, after 14 years of benefits; the compounded COLA is capped by the lifetime CPI for the period of retirement, i.e., it may not exceed inflation.	2015 legislation reduced the COLA for employees hired on or after 7/1/15. Newly hired workers will receive a COLA of 2% after 3 years of receiving benefits, 2.5% after 6 years, and the lesser of 3% or the preceding year's increase in CPI after 9 years and thereafter.
New York State Teachers	Automatic, based on one-half of the increase in the annual CPI, applied to first $18,000 of annual pension, compounded; must be 62 and retired for 5 years, or 55 and retired for 10 years, to receive COLA; COLA is a minimum of 1% and a maximum of 3%.	
New York State & Local ERS and Police & Fire	Automatic, based on one-half of the increase in the annual CPI, applied to first $18,000 of annual pension, compounded: must be 62 and retired for 5 years, or 55 and retired for 10 years, to receive COLA; COLA is a minimum of 1% and a maximum of 3%.	
Ohio PERS	For those who retired on or before 1/1/13, automatic, 3%, simple. Retirees receive a COLA beginning 12 months after their effective date of retirement. Beginning in 2019, the COLA for those who retired on or after 2/1/13 is based on CPI with a cap of 3.0%, simple. The first COLA is paid 12 months after their effective date of retirement.	2012 legislation tied COLA to CPI, up to 3% for all active members. Legislation includes a five-year transition period. Members retiring within the first five years after 1/7/13 are eligible for a simple 3% COLA until 12/31/18. OPERS currently is pursuing legislation that would suspend the COLA for all retirees in 2022 and 2023 and extend the COLA waiting period from 12 to 24 months for future retirees beginning in 2022. Changes are subject to approval by the Ohio Legislature.
Ohio Police & Fire	Lesser of 3% or the CPI, automatic, simple; COLA delayed until age 55 for all members except survivors and those receiving permanent disability benefits.	Per 2012 legislation, COLA reduced and tied to CPI; onset delayed for nearly all members.
Ohio School Employees	As of 1/1/18, COLA no longer statutorily guaranteed, but is discretionary, based on board approval. If the board chooses to provide a COLA, the COLA is tied to the change in CPI-W and is capped at 2.5%, though the board may approve a COLA above 2.5% if the board's actuary is in agreement. Board may also lower COLA below CPI-W upon actuary's recommendation. COLA onset for new benefit recipients is delayed until 4th benefit anniversary.	Per legislation effective September 2017, the automatic, 3% simple retiree COLA was replaced with a discretionary COLA tied to CPI-W. As a result of this authority, the board suspended COLAs for three years (from 1/1/18 until 1/1/21). Per March 2018 legislation, board determines COLA onset for new benefit recipients.

Plan	COLA Provision	2009-2024 Changes
Ohio Teachers	COLAs are provided on an ad hoc basis as approved by the STRS OH board if the board's actuary determines that a COLA will not materially impair the fiscal integrity of the system. (ORC 3307.67)	Individuals who retired on or after 8/1/13 may receive a COLA beginning on the fifth anniversary of their retirement. The STRS board is authorized to adjust the COLA if the board's actuary determines that an adjustment does not materially impair the fiscal integrity of the retirement system or is necessary to preserve the fiscal integrity of the system. Pursuant to this authority, the STRS board voted in 2017 to reduce the COLA to 0% to preserve the fiscal integrity of the system. In March 2022, the STRS Board approved a 3% COLA. In May 2023, the STRS Board approved a 1.0% COLA.
Oklahoma PERS and TRS	Ad hoc as approved by the legislature; subject to required funding.	2020 legislation approved the first retiree COLA since 2008, which was exempted from the 2011 funding requirement. The COLA approved in 2020 increased benefits on a sliding scale based on retirees' length of retirement. The Legislature approved a provision in 2011 requiring future COLAs to be funded. Prior to this legislative action, a 2% COLA had regularly been approved.
Oregon PERS	Automatic, based on CPI, up to 2.0%, compounded, for benefits earned as of 10/1/13 or earlier. Automatic, based on CPI up to 1.25% on the first $60,000 in benefits and 0.15% on amounts above $60,000 for benefits earned after 10/1/13.	2013 legislation lowered the maximum COLA applied to future benefit accruals for retired members as well as current employees and new hires from 2% to 1.25% on the first $60,000 in benefits, and 0.15% on amounts above $60,000. The law also provided for supplementary COLA payments depending on benefit levels over six years. The law was challenged and partially rejected as an unconstitutional adjustment to COLA as it pertains to benefits earned prior to the law's effective date. The court also invalidated the supplementary payments.
Pennsylvania School Employees and SERS	Ad hoc as approved by the general assembly. The most recent COLA was approved in 2002. The amount of the COLA was a sliding scale based on the annuitant's date of retirement.	
Rhode Island ERS	Effective 7/1/15, annual COLA is comprised of the sum of two elements; 1) 50% of the 5-year average investment return of the retirement system, less 5.5%, with a floor of 0% and a cap of 4%., and 2) the lesser of 3% or the increase in CPI for the previous year. The COLA produced by the sum of these elements is subject to a floor of 0% and a cap of 3.5% and is applied to the first $25,855 of retirement benefit; such amount is indexed annually in the same percentage as determined above. The COLA commences upon the later of the third anniversary of the date of	For members not eligible to retire as of 9/30/09, the law changed the COLA for all members from 3% compounded annually to the COLA provided under a 2005 reform, applicable to non-vested members, which is the lower of either the CPI or 3% and requires a full 3-year anniversary from the date of retirement for receipt of the COLA. The Rhode Island Legislature again in 2011 revised the COLA provisions, effective 7/1/12. A challenge to the law was settled in mediation in 2015.

Plan	COLA Provision	2009-2024 Changes
	retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. A COLA is granted annually if the plan is at least 80% funded. If the plan funding is below 80%, the COLA is granted every four years until 80% funding is reached.	
Rhode Island Municipal	Effective 7/1/15, annual COLA is comprised of the sum of two elements; 1) 50% of the 5-year average investment return of the retirement system, less 5.5%, with a floor of 0% and a cap of 4%., and 2) the lesser of 3% or the increase in CPI for the previous year. The COLA produced by the sum of these elements is subject to a floor of 0% and a cap of 3.5% and is applied to the first $25,855 of retirement benefit, with such amount indexed annually in the same percentage as determined above. The COLA commences upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. A COLA is granted annually as long as the plan is at least 80% funded. If the plan funding is below 80% the COLA is granted every four years until 80% funding is reached.	The Rhode Island Legislature in 2011 revised COLA provisions from automatic 3% non-compounded, effective 7/1/12. A challenge to the law was settled in mediation in 2015.
South Carolina Police	Automatic, based on CPI up to 1% annually, subject to an annual cap of $500.	Per 2012 legislation, COLA is subject to an annual cap.
South Carolina RS	Automatic, 1% annually, subject to an annual cap of $500.	Per 2012 legislation, COLA is subject to an annual cap.
South Dakota RS	If the system is fully funded or greater, COLA is equal to CPI-W with a minimum of 0.0% and a maximum of 3.5%. If the system is less than fully funded, COLA is equal to CPI-W with a minimum of 0.0% and a maximum equal to a “restricted COLA maximum” which is to be calculated at a level necessary to restore the system to full funding.	2021 legislation reduced the minimum COLA payable from 0.5% to 0.0%. 2017 legislation modified the COLA formula, effective 7/1/18, to equal CPI-W with a minimum of 0.5%, and a maximum depending on the system’s funded status.
TN Political Subdivisions	Participating employers may choose from 1 of 2 options: a) no COLA; b) automatic based on CPI, up to 3%, compounded.	
TN State and Teachers	Automatic based on CPI, up to 3% compounded.	2013 legislation provides for the potential reduction or suspension of the COLA if employer cost or unfunded liability thresholds are exceeded.
Texas County & District	Ad hoc, approved by individual employers. Employers can choose no COLA, a flat % COLA (limited based on CPI), or a CPI-based COLA (10% - 100% of CPI), compounded.	
Texas ERS and LECOS	Ad hoc as approved by the legislature; per state law, the plan’s amortization period must be less than 31 years for legislature to approve a COLA. A COLA was last granted in 2001.	

Plan	COLA Provision	2009-2024 Changes
Texas Municipal	Based on individual employer election; employers may choose no COLA or one based on 30%, 50%, or 70% of CPI, compounded.	
Texas Teachers	Ad hoc, as approved by the legislature; per state law, the plan's amortization period must be less than 31 years for legislature to approve a COLA.	In 2023, the Legislature approved COLAs of 2% for those retired by 8/31/20 and after 8/31/13; 4% for those retired by 8/31/13 and after 8/31/01; and 6% for those retired before 8/31/01. These COLAs are payable in January 2024 and are contingent on voter approval in November 2023 of a constitutional amendment to avoid violating state spending limitations. Also approved one-time payments of $7500 for those age 75 and $2400 for those age 70 and below 75 as of 8/31/23, payable in September 2023. The Legislature in 2021 approved a 13th check in the amount of the lesser of each retiree's gross monthly annuity or $2400.
Utah Noncontributory	For those hired before 7/1/11, automatic based on CPI up to 4.0%, simple; for those hired after 6/30/11, based on CPI up to 2.5%, simple.	Legislature reduced maximum COLA for those hired after 6/30/11 from 4% to 2.5%.
Virginia Retirement System	Automatic based on CPI for the first 3%, and one-half of the next 4% of CPI, with an annual cap of 5%, compounded; effective 1/1/13, COLAs for non-vested active members are based on the first 2% of CPI and one-half of the next 1%, with an annual cap of 3%, compounded.	Effective 1/1/2013, COLAs for non-vested members are capped at 3% rather than 5%; for early retirees, COLA onset is delayed until July 1 one year following retirement.
Vermont State Employees	For those eligible for normal retirement before 7/1/22 and who have been retired for 12 months, automatic based on CPI, with a minimum of 1% and a maximum of 5%, compounded. For those eligible for normal retirement after 6/30/22 who have been retired for 24 months, automatic based on CPI, with a minimum of zero and a maximum of 4%, compounded.	2022 legislation reduced the COLA range from 1-5% to 0-4% and lengthened the COLA waiting period from 12 to 24 months. 2014 legislation increased the COLA for those retiring after 6/30/08, from one-half of CPI to the full CPI.
Vermont Teachers	For those eligible for normal retirement before 7/1/22 and who have been retired for 12 months, automatic based on one-half of CPI, up to 5%, compounded. For those eligible for normal retirement after 6/30/22 who have been retired for 24 months, automatic, based on one-half of CPI, with a minimum of zero and a maximum of 4%, compounded.	2022 legislation reduced the COLA range from 1-5% to 0-4% and lengthened the COLA waiting period from 12 to 24 months. The law expresses the General Assembly's intent to consider a path to a higher COLA benefit for teachers once the plan's actuarial funding level reaches 80%.
Washington LEOFF Plan 1	Automatic, full CPI, compounded.	
Washington LEOFF Plan 2	Automatic based on CPI, up to 3% compounded.	
Washington PERS and Teachers Plan 1	Ad hoc as approved by the legislature	2024 legislation provided a one-time COLA of 3% to those with retirement dates prior to 7/1/23, not to exceed $110/month. 2011 legislation

Plan	COLA Provision	2009-2024 Changes
		eliminated the automatic COLA which provided a postretirement benefit increase based on a $/years of service calculation. The law was challenged and upheld by the WA Supreme Court in 2014.
Washington PERS, School Employees, and Teachers Plan 2/3	Automatic, based on CPI, up to 3%, compounded.	
Wisconsin Retirement System	Dividend adjustment provided based on investment returns, and can increase or decrease, but not below base benefit.	
West Virginia PERS and TRS	Ad hoc as approved by the legislature.	The Legislature in 2011 provided a 13th check of $1200 for all retirees with 20 or more years of service and an annual benefit of $7200 or less. In 2019, all current retirees with 25 or more years of service were guaranteed a minimum annuity of $750/month. For existing beneficiaries, if the retiree has 25 years of service, is deceased and originally elected a joint & survivor 50% annuity, the minimum monthly annuity is $375/month.
Wyoming Public Employees	Effective 7/1/12, the COLA is removed until the actuarial funded ratio reaches 100 percent "plus the additional percentage the retirement board determines is reasonably necessary to withstand market fluctuations."	Prior to 7/1/12, COLAs were ad hoc and linked to perceived affordability.

COLA provisions listed above are in effect as of May 2024

White, Jacob (LEOFF)

From: DeCamp, Mitch <Mitch.DeCamp@leg.wa.gov>
Sent: Friday, September 13, 2024 9:31 AM
To: Nelsen, Steve (LEOFF)
Cc: White, Jacob (LEOFF); Won, Lisa; Stineman, Kyle
Subject: LEOFF 2 COLA Bank Payout Pricing Estimate

Follow Up Flag: Follow up
Flag Status: Flagged

External Email

Hi Steve,

As requested, we have provided the estimated liability and funded status impacts for a one-time Cost-of-Living Adjustment (COLA) bank payout to current LEOFF 2 annuitants.

Summary and Highlights

This proposal provides LEOFF 2 annuitants with a one-time permanent increase in benefits equal to their COLA "bank". Under current law, inflation that exceeds the 3% annual COLA cap is added to the bank for use in future years when inflation falls below the cap. Inflation in each of calendar years 2021-2023 surpassed the 3% annual COLA cap.

We did not receive draft bill language for this request and therefore made the following assumptions related to the proposal policy:

- The proposal is effective July 1, 2025.
- The COLA bank is zero after the payout.
- Annuitants will receive the COLA bank payout in addition to the current law COLA on the effective date.
- Eligible annuitants include retirees, survivors, and legal order payees.

Pricing Estimate Results			
(Dollars in Millions)	2023 AVR	Change	Pricing Estimate
Present Value of Benefits (PVFB)	$25,412	$650	$26,062
Funded Status	102%	-3.4%	98%

Note: Totals may not agree due to rounding.

Highlights of Actuarial Analysis

- Our analysis estimated the change in liability from this proposal at $650 million. The actual costs of this proposal could be higher or lower depending on calendar year 2024 inflation. Actual inflation could change the COLA bank released under this proposal.
  - The results could also change depending on actual COLA banks for individual eligible annuitants calculated by DRS. The DRS COLA banks were not available for this pricing estimate.
  - The proposal liability impact of $650 million is comprised of approximately (1) $930 million in costs from the bank payout and (2) -$280 million in savings from an expected reduction in future COLAs. The savings under item (2) may not occur if inflation averages at least 3% over the next 10-15 years. This would increase the costs of the proposal toward the amount identified in item (1).

- This analysis represents an estimate relying on assumptions and methods that could change if provided draft bill language or for an Actuarial Fiscal Note (AFN) during the 2025 Legislative session.
- We did not estimate the change in contribution rates for this pricing estimate. This proposal would increase the Aggregate rate but does not change the Normal Cost of the Entry Age Normal Cost Method (EANC) because new benefits are not provided to active members.

Assumptions, Methods, and Data

Unless otherwise noted below, we relied on the same assumptions, methods, assets, and data as the 2023 Actuarial Valuation Report (AVR).

- We assumed COLA banks for all members were zero prior to 2021 after reviewing the inflation history available here.
- We considered inflation from 2021-2023 to estimate an average COLA bank of 10% and applied that average to all eligible annuitant benefits on July 1, 2023. See table below for CPI data and COLA bank estimate.

Inflation Data			
Calendar Year	CPI Change	COLA Received*	Approximate COLA Bank
2021	4.80%	3.00%	1.80%
2022	8.80%	3.00%	5.80%
2023	5.50%	3.00%	2.50%
		Total	**10.10%**

**COLAs are applied July 1 and based on the prior calendar year CPI. For example, the CPI change in Calendar Year 2021 was used to inform COLAs applied on July 1, 2022.*

- We reduced the future COLA assumption for current annuitants from 3.00% to 2.75% to match our long-term inflation assumption. The COLA assumption of 3.00% reflects the current levels of COLA banks which are released under this proposal.
- This proposal could impact additional members that retire after our June 30, 2023 AVR measurement date. Additionally, some current annuitants will not survive to the assumed effective date. We did not make adjustments for either new retirements or current annuitant survival as we assume they will approximately offset. We may revisit this assumption in future analysis.
- We considered applying estimated COLA banks by retirement date but found this method change did not significantly impact the estimate.

Disclosures

We prepared this analysis at your request in September 2024. Any changes to the proposal policy outlined above may result in a materially different estimate than provided here.

We believe the actuarial assumptions, methods, and data are reasonable for the purposes of this pricing estimate. If a bill were to advance during session, we would create an AFN with sensitivity and commentary on analysis and may revise our assumptions and methods. The results of that AFN may change from what we have shown above.

The actual costs under this proposal could differ from our estimate as discussed in the Highlights of Actuarial Analysis section. This analysis does not assume any other proposed changes to the retirement plan. The combined effect of several changes could exceed the sum of the individual components.

We prepared this analysis to assist the LEOFF Plan 2 Retirement Board in evaluating the costs of this proposal at their September 2024 meeting. Do not use these results for other purposes. Please replace this analysis if a 2025 Legislative Session fiscal note becomes available.

Lisa Won, ASA, FCA, MAAA served as the reviewing and certifying actuary for this estimate and is available to answer questions.

Please let us know if you have questions or need additional information.

Mitch DeCamp, ASA, MAAA | *Senior Actuarial Analyst*
Office of the State Actuary
PO Box 40914 | Olympia, WA 98504
mitch.decamp@leg.wa.gov | Office 360.786.6157 | Cell 509.679.7931
OSA website
"Supporting financial security for generations."

COLA/Inflation

Initial Consideration
September 25, 2024

Issue

- Recent inflation has greatly exceeded projections which has created concerns for some retirees about how long it will take for the current COLA to catch up with lost earning power

Policy Goals of a COLA

COLAs must balance

1. Benefit adequacy
2. Plan sustainability
3. Affordability

Types of COLAs in Pension Plans

- Automatic or Ad hoc
- Simple or Compound
- Inflation based or fixed percentage
- Delayed on-set or minimum age
- Investment Performance Based or Reserve Account
- Delayed-onset or Minimum Age
- Limited Benefit Basis
- Self-funded Annuity

*Source: NASRA.org

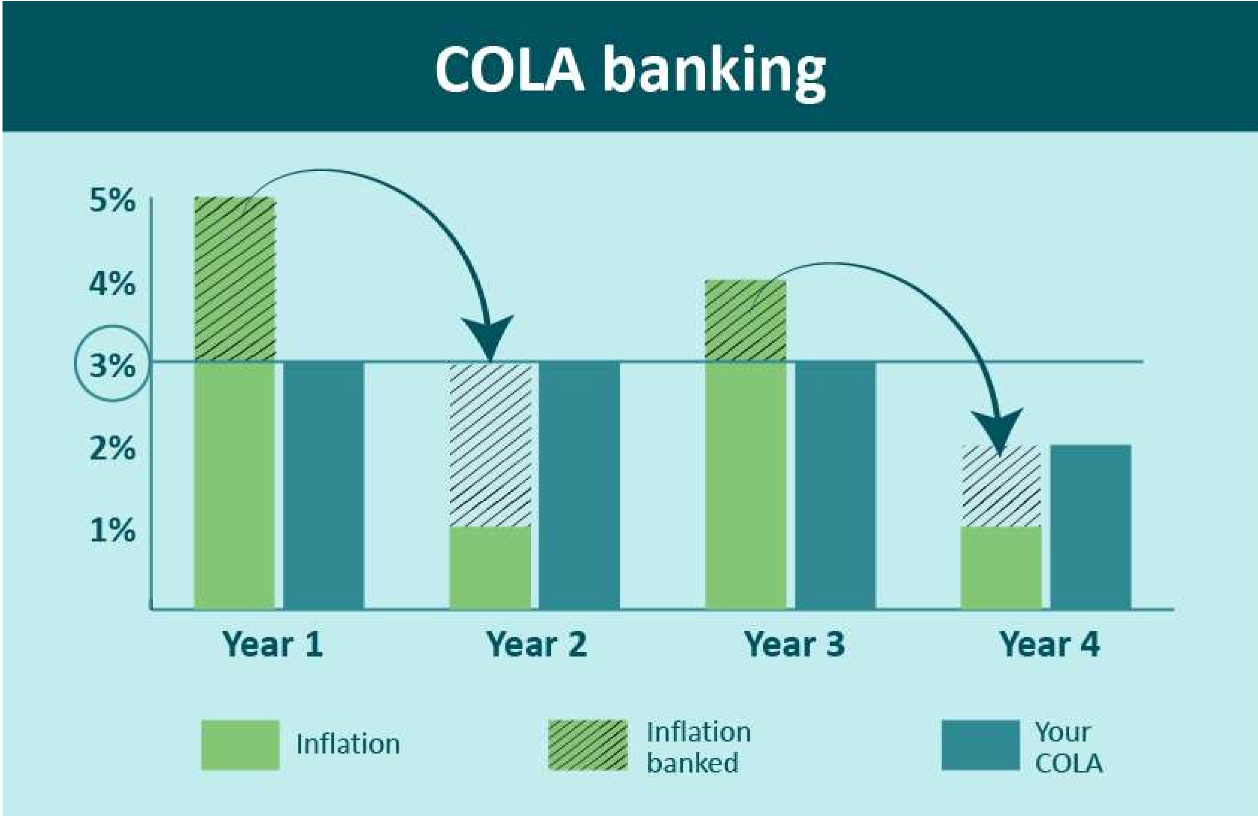
Washington State Pension Plan COLAs

- LEOFF 1 - compounding automatic CPI based COLA without cap
- Other Plan 1s - Adhoc COLAs and self funded annuity
  - Not prefunded
- Plan 2s (including LEOFF 2) – automatic CPI based compounding COLA with cap and banking
  - Based on Seattle-Tacoma-Bellevue CPI
  - Maximum of 3%, Minimum of 0%
  - If CPI is more than 3%, overage amount is “banked”
  - Banked COLA amount is applied to years when COLA is below 3%
  - Prefunded by members/employers/state

LEOFF 2 COLA

- Based on Seattle-Tacoma-Bellevue Consumer Price Index
- Maximum of 3%
- Minimum of 0%
- If CPI is more than 3%, overage amount is “banked”
- Banked COLA amount is applied to years when COLA is below 3%

COLA Banking



Recent Inflation

Annual Inflation				
	CPI Index		Percent Change	
Year	Regional CPI-W	U.S. City CPI-W	Regional CPI-W	U.S. City CPI-W
2023	993.3	890.6	5.52%	3.82%
2022	941.4	857.8	8.81%	8.46%
2021	865.2	790.9	4.75%	5.26%
2020	826.0	751.4	1.90%	1.21%
2019	810.5	742.4	2.14%	1.66%

COLA Bank Payout Pricing

- This proposal provides LEOFF 2 annuitants with a one-time permanent increase in benefits equal to their COLA "bank"
- The proposal is effective July 1, 2025
- The COLA bank is zero after the payout
- Annuitants will receive the COLA bank payout in addition to the current law COLA on the effective date
- Eligible annuitants include retirees, survivors, and legal order payees
- Assumed average COLA bank of 10%

Pricing Estimate

Pricing Estimate Results			
(Dollars in Millions)	**2023 AVR**	**Change**	**Pricing Estimate**
Present Value of Benefits (PVFB)	$25,412	$650	$26,062
Funded Status	102%	-3.4%	98%

Note: Totals may not agree due to rounding.

Next Steps

1. Motion for Comprehensive Report
2. No further action at this time

Thank You

Jacob White

Senior Research and Policy Manager

360-586-2327

jacob.white@leoff.wa.gov

Salary Setting Responsibility

September 25, 2024

Background

- Board received update on legislation enabling salary setting for certain staff positions at June meeting.
- Passed a motion to contract with third party to conduct market research consistent with the law.

Current Status

- Contract with Trupp HR
- Scope of work
  - Provide market comparability analysis for LEOFF staff positions
  - Create salary structure with ranges/bands
  - Provide guidance for position placement in the structure
  - Make recommendations on future market analysis

Next Steps

- Market analysis is in final stages
- Presentation at the October strategic planning meeting on the full scope of work

Thank You

Karen Durant

Senior Research and Policy Manager

(360) 586-2325

karen.durant@leoff.wa.gov

September 25, 2024

Authorized Leave of Absence Service Credit

INITIAL CONSIDERATION

By Jacob White
Senior Research & Policy Manager
360-586-2327
jacob.white@leoff.wa.gov

ISSUE STATEMENT

Some LEOFF 2 members are unable to purchase service credit when they are out on temporary non-duty disability leave because of the definition of basic salary and the requirements of purchasing service credit.

OVERVIEW

There was concern brought to the Board that DRS may be treating basic salary differently based on whether the member was out on temporary duty versus temporary non-duty leave. Specifically, in instances where the member was injured, took paid leave, and then utilized the employer's "buy-back" program by providing their disability or worker's compensation check to the employer in exchange for having their annual leave backed out of the system and put back into their leave bank.

After researching the concern further, DRS is treating member's basic salary the same in both situations. The service credit and basic salary for the leave that has been "bought back" is not reportable compensation in either situation. The confusion stems from how DRS is applying the Temporary Duty Disability (TDD) purchase service credit versus the Authorized Leave of Absence (ALOA) purchase service credit. One of the options that DRS provides to employers for TDD purchase service credit gives the impression that the member's service credit and basic salary for the personal leave they bought back is being reported. Instead, what has occurred is the member has purchased service credit with their workers-compensation or disability insurance money, not bought-back their annual leave.

Nonetheless, there remains a scenario where LEOFF 2 members are unable to purchase service credit when they are out on temporary non-duty disability. After being presented this issue at the December 2023 board meeting the Board voted to further study the issue during the 2024 interim.

BACKGROUND AND POLICY ISSUES

In 2023, SB 5625, Concerning public employee retirees, was proposed but did not pass. Section 18 of that bill sought to address a concern that DRS was treating basic salary different based on whether the member was out on temporary duty versus temporary non-duty leave. The law does not differentiate between duty and non-duty in this respect, so the bill sought to clarify that basic salary should be treated the same for purposes of sick leave or vacation leave used by the member. However, DRS is treating basic salary the same for temporary duty and non-duty disability. Instead, the procedure for temporary duty and non-duty disability to purchase service for a break in service due to their disability is different. This procedural difference is due to differences between the type of purchase service credit that members on duty disability are eligible for purchasing, versus the type that members on non-duty disability are eligible for purchasing.

In 1989, SB 5353 was enacted into law. This allowed for members of LEOFF 2 to purchase up to 6 consecutive months of service credit for periods of temporary duty-related disability without paying interest. The member was responsible for paying the member contributions and the employer paying the employer contributions.

In 2017, SHB 1271 was enacted into law. This allowed for members of LEOFF 2 (and other DRS administered retirement plans) to purchase up to 24 consecutive months of service credit for periods of temporary duty-related disability with interest. The member was responsible for paying the member contributions plus any interest incurred and the employer paying the employer contributions. During the implementation of SHB 1271 (2017) DRS issued an Employer Notice (see Appendix A) providing two methods for employers to report to DRS member's purchasing TDD service credit.

Method 1 allowed the employer to report to DRS the regular compensation the member would have earned if not on TDD. Under method 2 the employer reports the leave used, then makes adjustments to back-out and restore the member's leave and allows the member to contact DRS directly to purchase TDD service credit. After the member contacted DRS, DRS would create an invoice of contributions and interest for the employer, compounded monthly until the employee purchases their share of the service credit.

In developing "Method 1" it appears DRS sought to simplify the process for members, employers, and DRS, while also limiting the amount of interest members would potentially incur. This method does not increase costs for the retirement systems because the

contributions would be the same under either method. “Method 1” helps prevent lost investment earnings from occurring due to delayed contribution payments.

Members who have a break in service due to temporary non-duty disability are not eligible for TDD Purchase Service Credit. Instead, they are eligible for Authorized Leave of Absence (ALOA) Purchase Service Credit. ALOA purchase service credit is paid for completely by the member to DRS, both the member and employer contributions. If the member does not purchase the service credit within 5 years, they must pay the full actuarial value of the service credit. ALOA may apply to different situations that could result in a member having a break in service, not just temporary non-duty disability. For example, it is commonly used for maternity or paternity leave.

A member who is injured and unable to work may choose to use paid leave instead of purchasing service credit. Since paid leave is considered basic salary the member would earn service credit for that time. Workers’ compensation or disability payments are not considered basic salary. Below is a chart from DRS identifying what types of payments are or are not basic salary and the corresponding WAC for each type of payment.

Type of Payment	LEOFF 1 Basic Salary?	LEOFF 2 Basic Salary?
Additional Duty Pay	Yes - WAC **415-104-3205**	Yes - WAC **415-104-360**
Allowances (i.e. uniform)	No - WAC **415-104-3404**	No - WAC **415-104-390**
Basic Monthly Rate	Yes - WAC **415-104-3200**	Yes - WAC **415-104-360**
Cafeteria Plans	No - WAC **415-104-3303**	Yes - WAC **415-104-367**
Deferred Wages Attached to Position	Yes - WAC **415-104-3201**(1)	Yes - WAC **415-104-363**(1)
Deferred Wages not attached to a Position	No - WAC **415-104-3306**	No - WAC **415-104-363**(2)
Disability Payments	No - WAC **415-104-340**	No - WAC **415-104-380**
Education Attainment Pay	No - WAC **415-104-3301**	Yes - WAC **415-104-375**
Employer taxes/contributions	No - WAC **415-104-3401**	No - WAC **415-104-383**
Fringe Benefits, including insurance	No - WAC **415-104-3402**	No - WAC **415-104-385**
Illegal Payments	No - WAC **415-104-3403**	No - WAC **415-104-387**
Leave Cash Outs/Severance	No - WAC **415-104-3304**	No - WAC **415-104-401**
Longevity	Yes - WAC **415-104-311**	Yes - WAC **415-104-375**
Overtime	No - WAC **415-104-3305**	Yes - WAC **415-104-370**
Paid Leave	Yes - WAC **415-104-3203**	Yes - WAC **415-104-373**
Payments in Lieu of Excluded Items	No - WAC **415-104-350**	No - WAC **415-104-405**
Performance Bonuses	No - WAC **415-104-3302**	Yes - WAC **415-104-377**
Retroactive Salary Increase	Yes - WAC **415-104-3202**	Yes - WAC **415-104-365**
Reimbursements	No - WAC **415-104-3404**	No - WAC **415-104-390**
Retirement or Termination Bonuses	No - WAC **415-104-3406**	No - WAC **415-104-395**
Shift Differential	Yes - WAC **415-104-3204**	Yes - WAC **415-104-379**
Special Salary or Wages	No - WAC **415-104-330**	Yes - WAC **415-104-375**
Standby Pay	No - WAC **415-104-3405**	No - WAC **415-104-393**
Tuition/Fee Reimbursement	No - WAC **415-104-3404**	No - WAC **415-104-390**
Workers' Compensation	Not Applicable	No - WAC **415-104-380**

The potential issue initially raised was regarding the treatment of the salary and service credit for a member out on temporary duty or non-duty disability who used paid leave, but through their employer “buy-back” program had that paid leave backed out of the system in exchange for providing their employer with their worker’s compensation or disability insurance payment. In this situation DRS does not consider whether the member was out on duty or non-duty disability, in either instance the time would not be reportable as basic salary because the member no longer used paid leave for that period.

The scenario that results in a member being unable to receive service credit for the time they were out on temporary duty disability occurs when the member has a CBA that requires them to utilize the buy-back program, and the member retires instead of returning to work. If the member’s CBA made the buy-back optional they could choose to not utilize that and instead

use paid leave. However, since they are required to use the buy-back program and because they are ineligible for ALOA purchase service credit because they never returned to work, they cannot receive service credit for this time.

The member in this situation would still have the option to utilize the Purchase Service Credit[1] and/or the Purchase of Additional Annuity[2] benefit at the time of retirement. These benefits would allow the member to purchase an annuity; however, it would cost the member more and the annuity purchase through these benefits does not count towards the qualifying for service credit based LEOFF 2 benefits, such as early retirement or the tiered multiplier benefit enhancement. Purchase Service Credit and the Purchase of Additional Annuity benefits require the member to pay the full actuarial value, while the ALOA PSC benefit costs the member only the member and employer contributions (so long as it is purchased within 5 years of the member returning to work).

SUPPORTING INFORMATION

Appendix A: DRS Employer Notice 17-007, Employer Reporting Related to Workers' Compensation/Temporary Duty Disability.

[1] RCW 41.26.432: Additional service credit purchase—Rules. (wa.gov)
[2] RCW 41.26.463: Optional actuarially equivalent life annuity benefit—Rules—Definition. (wa.gov)

DRS Email 17-007, Employer Reporting Related to Workers' Compensation/Temporary Duty Disability

Posted on March 28, 2017

Notice No.: 17-007
Date: March 28, 2017
Applies to: All Employers Except WSPRS
Subject: Employer Reporting Related to Workers' Compensation/Temporary Duty Disability

Workers' compensation, also known as temporary duty disability (TDD), can be a complex payroll issue. This notice provides information on reporting data to DRS for members in TDD status.

Some employers may allow employees to:

- use accrued leave while waiting for workers' compensation/TDD determinations
- use accrued leave to supplement their workers' compensation/TDD payments
- use their worker's compensation/TDD payments to restore leave balances through a buy-back program
- use shared leave while on TDD
- be made whole without using accrued leave

There are two methods for reporting data to DRS for members in TDD status.

Method 1 – Employer reports the regular compensation the employee would have earned if not on TDD.

Steps to complete:

1. Employers should enter into a written agreement with the employee regarding the obligation to repay the member contributions to the employer.

2. Employers must report the regular compensation the employee would have earned. This must be reported on the current transmittal and cannot be reported retroactively.

Note: Buy back/restoration of accrued leave remains an internal accounting function and does not affect retirement reporting.

Method 2 – Employer reports the leave used, and makes adjustments to reverse leave restored and allows employee to contact DRS directly to purchase service, creating an invoice of contributions and interest for the employer and compounded monthly until the employee purchases their share of the service credit.

Steps to complete:

1. Employer reports leave used to DRS, if reportable compensation (shared leave is not reportable for some plans).

2. Employee turns in worker's compensation check to employer to restore (buy back) some or all leave used.

3. Employer credits the employee's leave balance based on the amount of hours of leave the workers' compensation check will restore.

4. Employer uses the retirement transmittal to back out the restored leave previously reported to DRS in Step 1.

5. Employee applies directly to DRS to purchase service credit for each period of absence due to TDD status.

6. Employee will receive an Optional Bill for the member contributions from DRS.

7. Employers will receive an invoice for employer contributions only if and when the employee pays the optional bill amount. Payments are subject to interest (currently 7.8%) compounded monthly from the time of the disability.

Relevant statutes:

- PERS: **RCW 41.40.038**
- SERS: **RCW 41.35.070**
- PSERS: **RCW 41.37.060**
- TRS: **RCW 41.32.0641**
- LEOFF: **RCW 41.26.470 (3)**

Prior notices:

- **E07-020** (All Employers)
- **94-006** (PERS)
- **89-004** (LEOFF)
- **86-011** (PERS)

If you have any questions regarding this DRS Notice, please contact Employer Support Services at 360-664-7200, option 2, or 800-547-6657, option 6, option 2; or **email us**.

Authorized Leave of Absence Service Credit

Initial Consideration

September 25, 2024

Issue

- Some LEOFF 2 members are unable to purchase service credit when they are out on temporary non-duty disability leave because of the definition of basic salary and the requirements of purchasing service credit

Example Situation

- LEOFF 2 member tears his ACL while playing with his golden retriever and is out on an Authorized Leave of Absence while recovering
- Member uses paid leave while recovering from injury
- Member has private insurance to replace his income if he is injured outside of work
- Member is required under CBA to “buy back” the paid leave they have taken while out on temporary disability using their insurance payments
- Member does not return to work, instead retires
- Member does not receive service credit for time out on ALOA and is unable to purchase service credit for that time

Basic Salary

- Paid Leave is basic salary
- Disability payments/Workers Compensation/private insurance are not basic salary
- Some employers require employees to "buy back" the paid leave they have taken while out on temporary disability using their insurance payments
  - Requirement comes from Collective Bargaining Agreements
- Members may be able to purchase service credit for the time they bought back

Authorized Leave of Absence

- A break in service for a non-duty injury is not covered by the TDD Purchase Service Credit laws
- Instead, it would fall under the general Authorized Leave of Absence Purchase Service Credit Law
  - Up to 24 months of service credit
  - Only available to members who return to work after their leave of absences, not those who retire
  - Must purchase before or at the time of retirement

Leave of Absence Purchase Service Credit

- TDD
  - TDD Purchase Service Credit - 6 months no interest + 24 months with interest
  - Employer collects member contributions (employer pick-up)
  - Employer pays employer contributions
  - State pays state contributions
- Temporary Non-Duty Disability
  - Authorized Leave of Absence - 24 months
  - Member pays all contributions if within 5 years of returning to work
  - After 5 years member pays actuarial value of the service credit

Annuity Options at Retirement

- Purchase Service Credit or Purchase of Additional Annuity
- More expensive for member than Authorized Leave of Absence Purchase Service Credit
  - Member pays full actuarial costs
- These are annuity options and are not actual service credit for purposes of qualifying for service credit-based plan benefits
  - i.e. Benefit enhancement (tiered multiplier and lump sum benefit), early retirement

Possible Solutions

- Changes to CBAs, such as making buy back programs optional if the employee is on non-duty disability and separates from employment without returning to work
- Legislation to change Authorized Leave of Absence Purchase Service Credit eligibility requirements

Next Steps

1. Comprehensive Report
2. No further action

Thank You

Jacob White

Senior Research and Policy Manager

(360) 586-2327

jacob.white@leoff.wa.gov

September 25, 2024

Duty Disability Health Insurance

COMPREHENSIVE REPORT

By Jacob White
Senior Research & Policy Manager
360-586-2327
jacob.white@leoff.wa.gov

ISSUE STATEMENT

Members who separate due to a duty disability only have temporary access to employer provided health insurance through COBRA.

OVERVIEW

This issue came to the Board from the Washington Council of Police and Sheriffs (WACOPS) (see Appendix A). In their letter to the Board, WACOPS explained a situation where a LEOFF 2 member was injured at work and while still recovering from their injuries they were going to lose their employer provided health insurance coverage. This specific member situation was resolved but there is concern that the same issue could impact other LEOFF 2 members. The Board received an Educational Briefing at the May Board meeting and requested a Comprehensive Briefing.

BACKGROUND AND POLICY ISSUES

If a LEOFF 2 member suffers a duty related injury or disabling condition that necessitates them missing work to recover from their injuries their access to employer covered health insurance is only guaranteed temporarily. LEOFF 2 members are guaranteed at least 6 months of Disability Leave Supplement coverage while they recover. Disability Leave Supplement Benefit is not a LEOFF 2 benefit; it is not paid out of the LEOFF 2 trust fund. Instead, the benefit is paid by employers. The Disability Leave Supplement benefit provides LEOFF 2 members with their base salary income, employer health insurance coverage for a minimum of 6 months while they recover, and protects LEOFF 2 members from losing their jobs while they are unable to perform them due to their injuries.[1] Some employees have collectively bargained with employers to extend the minimum of 6 months to allow for additional time for them to recover from their injuries.

[1] RCW 41.04.500

If the Disability Leave Supplement benefit coverage has been exhausted by the LEOFF 2 member before they are able to return to work the employer may choose to terminate the member's employment, which would cause the member to also lose their access to employer provided health insurance. However, these members would have extended access to their employer's health insurance through Consolidated Omnibus Budget Reconciliation Act (COBRA). COBRA typically lasts for 18 months, but it can be extended to 29 or 36 months in some cases.[2] COBRA does not subsidize the cost of health insurance.

For LEOFF 2 members who are injured in their LEOFF 2 position they also have the option of LEOFF 2 Duty or Catastrophic Disability retirement. While many think of disability retirement as a permanent situation, LEOFF 2 allows for it to be temporary while a member recovers from their disabling condition. LEOFF 2 disability retirement can assist members with replacing a portion of their income, as well as requiring their employer to allow them to return to their position once they recover from their injuries. Since 2004 only four LEOFF 2 Duty Disability retirees have recovered and return to their LEOFF 2 position.

The qualifying standard for Duty Disability is that a member is no longer able to perform the duties of their position.[3] Catastrophic Disability requires the member to no longer be able to perform any substantial gainful employment.[4]

LEOFF 2 Duty Disability allows for early retirement without a reduction in benefit or 10% of the member's Final Average Salary (FAS), whichever is higher.[5] However, LEOFF 2 Duty Disability does not provide members with continued coverage of their employer health insurance or any other subsidized health insurance benefit. There is no minimum amount of time for a LEOFF 2 member to be disabled to qualify for a Duty Disability retirement.

LEOFF 2 Catastrophic Disability allows for early retirement without a reduction in benefit or 70% FAS, or 100% FAS offset by Social Security and LNI payments.[6] LEOFF 2 also reimburses Catastrophic Disability retirees for premiums paid for employer-provided health insurance, COBRA, and Medicare Parts A and B.[7]

---

[2] Continuation of Health Coverage (COBRA) | U.S. Department of Labor (dol.gov)
[3] RCW 41.26.470
[4] id
[5] id
[6] id
[7] id

While COBRA and LEOFF 2 Duty Disability do not subsidize health insurance premiums, there are other savings programs that may help disabled members with these costs. A voluntary employees' beneficiary association (VEBA) plan is a tax-exempt trust typically funded by an employer to help employees pay for eligible medical expenses.[8] Firefighters also have a Medical Expense Reimbursement Plan (MERP) offered through the Washington State Council of Fire Fighters (WSCFF). The MERP is a 501(c)(9) tax-exempt union sponsored plan to allow fire fighters to plan for retirement medical expenses.[9] The MERP allows early access to an actuarially reduced Lifetime Monthly Benefit for disability retirees.

POLICY OPTIONS

Option 1: Reimburse duty disability health insurance premiums through LEOFF 2

- Pros – Aligns catastrophic disability benefit with duty disability benefit
- Cons – Increases cost to the plan; duty disability was designed for members who are still able to work non-LEOFF jobs where they could have access to employer provided health insurance or earn money to pay for private health insurance

Option 2: Extend temporary duty disability

- Pros – Provides additional time for a member to recover from duty injuries and return to work
- Cons - Not a LEOFF 2 benefit (extension may need to be paid by LEOFF 2), some employers already offer extended temporary duty disability benefits

SUPPORTING INFORMATION

Appendix A: Washington Council of Police and Sheriffs Letter to LEOFF 2 Board, April 15, 2024.

[8] https://www.veba.org/
[9] https://www.wscff.org/benefits-retirement/merp/

200 Union Ave SE · Olympia, WA 98501
(360) 352-8224 · **WACOPS.ORG**

PRESIDENT
Chris Tracy

VICE PRESIDENT
Ben Jones

SECRETARY / TREASURER
Tarina Rose-Watson

POSITION 1 | West Side
Greg Sutherland

POSITION 2 | West Side
Bob Lurry

POSITION 3 | East Side
Tony Leonetti

POSITION 4 | East Side
Stacy Roark

POSITION 5 | East Side
Kevin Richey

POSITION 6 | West Side
Chris Breault

POSITION 7 | Associate
Scott Peters

POSITION 8 | Retired
Lloyd Bird

EXECUTIVE DIRECTOR
Teresa Taylor

EVERY OFFICER
EVERY DAY

April 15, 2024

LEOFF 2 Board
PO Box 40918
Olympia, WA 98504

DELIVERED VIA EMAIL

Dear Chairman Lawson,

The Washington Council of Police and Sheriffs (WACOPS) respectfully requests the LEOFF 2 board research potential solutions to a problem we recently became aware of for members recuperating from a serious on the job injury.

On August 15, 2023, Officer Kevin Bereta, a Bellevue Police Department employee and WACOPS member, sustained critical injuries resulting from a motorcycle crash while performing a department-condoned escort. Bereta has worked for the department and has been a LEOFF 2 member since 2018.

After a three-week stay in the hospital, Bereta was unable to return to work and currently remains under restrictions from his physician while he works toward a full recovery. Under the current contract between the Bellevue Police Officer's Guild and the City of Bellevue, at 6 months post injury Bereta was scheduled to lose his benefits including his family's health insurance since his care team would not release him to work in any capacity.

While a temporary insurance solution has been arranged between Bereta and the City of Bellevue, this event has highlighted an inequity that needs rectification. It appears that RCW 41.04.515 may set a maximum disability leave supplement at 6 months regardless of the medical recovery plan set by the employee's doctors. It appears that individual unions can negotiate for a longer period. In Bellevue, for example, we understand that law enforcement has 6 months of covered benefits, but Bellevue Fire may have as much as 9. We wonder if there is a LEOFF 2 pension solution for members seriously injured, working toward a return to duty, without a separation from employment. LEOFF 2 members should not have to separate from employment as their only option when their recovery plan extends beyond the designated disability leave supplement.

WACOPS respectfully asks the LEOFF 2 board to accept our request to review this situation and assess whether there is a pension related short term solution for these rare, but serious, on the job injuries where the member remains employed while recuperating.

Thank you for your consideration. Please let us know if we can provide any additional information.

Respectfully,

Teresa C Taylor

Teresa C Taylor
Executive Director

Cc: Jason Granneman, Vice Chair

Duty Disability Health Insurance

Comprehensive Report
September 25, 2024

Issue

- Members who separate due to a duty disability only have temporary access to employer provided health insurance through COBRA

Possible Steps for Disabled LEOFF 2 Member

- Employee injured at work and unable to immediately return to duty
- Temporary Duty Disability
- After Temporary Duty Disability
  - Duty Disability retirement
  - Authorized Leave of Absence, or
  - Employer may terminate employment
- If member Duty Disability retirees their right to return to their position is protected

Temporary Duty Disability

- LNI Benefits
  - Wage Replacement – Doesn’t fully replace wage (60-75% only)
  - Loss of Earning Power Benefits – Light duty
  - Medical Care
- LEOFF 2 Benefits
  - TDD Purchase Service Credit
- RCW 41.04.500 – Disability leave supplement

RCW 41.04.500 – Disability Leave Supplement

- Payments begin on the 6th day from the date of injury/illness
- Employee must receive the "base salary" they would have received before the injury
- Employer health insurance coverage is still provided
- Maximum of 6 months
  - Employer may offer additional coverage outside of this law

After Temporary Duty Disability

If Temporary Duty Disability is exhausted and member has not recovered:

1. Authorized Leave of Absence
2. Employer may terminate employment, or
3. Duty Disability retirement

Duty Disability Retirement

- Duty Disability
  - Pension Benefit - Allows for early retirement without a reduction in benefit or 10% FAS
  - No LEOFF 2 subsidized health insurance benefit
  - Eligible for COBRA health insurance coverage (temporary benefit)
- Catastrophic Disability
  - Pension Benefit - Allows for early retirement without a reduction in benefit or 70% FAS, or 100% FAS offset by SS and LNI payments
  - LEOFF 2 reimburses for premiums paid for employer-provided health insurance, COBRA, and Medicare Parts A and B

Return from Duty Disability Retirement

- If a Duty or Catastrophic Disability retiree recovers, member may choose to return to their previous position at same salary and rank previously held
- Employer is required to rehire
- Data from DRS – 4 instances of disability retiree recovering and returning to LEOFF 2 position

VEBA

- A voluntary employees' beneficiary association (VEBA) plan is a tax-exempt trust typically funded by an employer to help employees pay for eligible medical expenses
- A member, especially a younger member, who is injured may not have much if any money in a VEBA account

Medical Expense Reimbursement Plan

- Fire Fighters have access to MERP through the WSCFF
- 501(c)(9) tax-exempt union sponsored plan to allow fire fighters to plan for retirement medical expenses
- MERP allows early access to an actuarially reduced Lifetime Monthly Benefit for disability retirees

Summary

- Duty Disability retirement allows qualified members to temporarily retire until they have recovered from their injuries and provides those members with return rights to their position and salary
- However, Duty Disability does not provide members with continued access to employer provided health insurance or subsidize premium payments for health insurance

Policy Options

1. Reimburse duty disability health insurance premiums through LEOFF 2
   - Pros – Aligns catastrophic disability benefit with duty disability benefit
   - Cons – Increases cost to the plan; duty disability was designed for members who are still able to work non-LEOFF jobs where they could have access to employer provided health insurance or earn money to pay for private health insurance
2. Extend temporary duty disability from 6 to 12 months
   - Pros – Provides additional time for a member to recover from duty injuries and return to work
   - Cons - Not a LEOFF 2 benefit (extension may need to be paid by LEOFF 2), some employers already offer extended temporary duty disability benefits

Next Steps

1. Board may motion to receive a final briefing
   - Identify a policy option to be priced by OSA
2. Board may not take any action at this time
   - No motion required

Thank You

Jacob White

Senior Research and Policy Manager

(564) 999-0738

jacob.white@leoff.wa.gov