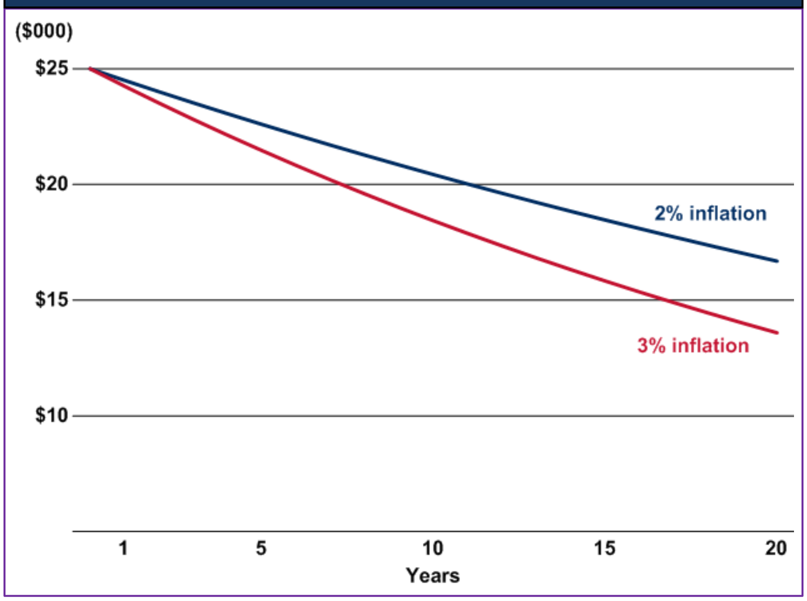
NASRA Issue Brief:
Cost-of-Living Adjustments

July 2015

Cost-of-living adjustments (COLAs) in some form are provided on most state and local government pensions. The purpose of a COLA is to offset or reduce the effects 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 inflation or the condition of the plan. COLAs add both value and cost to a pension benefit. Public pension COLAs have received increased attention as many states look to make adjustments to the cost of benefits amid challenging fiscal conditions and the current low-inflationary environment. 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



COLA Purpose

Most state and local governments provide a COLA for the purpose of offsetting or reducing the effects of inflation, which erodes the purchasing power[1] of retirement income, as illustrated in Figure 1. Using two hypothetical inflation rates, after 20 years, the real (inflation-adjusted) pension benefit in this example of $25,000 falls to $16,690 (67 percent of its original value) or $13,595 (54 percent of its original value), depending upon the actual rate of inflation used.

Such depreciation can affect the sufficiency of retirement benefits, particularly for those who are unable to supplement their income due to disability or advanced age. Social Security beneficiaries are provided an annual COLA to maintain recipients' purchasing power. Similarly, most state and local governments provide an inflation adjustment to their retiree pension benefits. This is particularly important for those public employees – including nearly half of public school teachers and most public safety workers – who do not participate in Social Security. Unlike Social Security, however, state and local retirement systems typically 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.

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.

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

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. Under a compound COLA arrangement the annual benefit increase is calculated based upon the original benefit as well as 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

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), and the CPI measures used by most public pension plans are either the CPI-U (based on all urban consumers) and 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 condition	Fixed percentage or other factor	Total
Automatic	45	12	13	70
Ad-hoc	2	4	20	26
Total	47	16	33	96

Note: COLAs for some employees of local governments who participate in statewide systems are discretionary based on the decision of individual local government. 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 one statewide system, for example, the COLA is a range tied to CPI based on the funding level of the plan. Annuitants with another state system 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.

Delayed-onset or Minimum Age

Another characteristic contained in some automatic COLAs is to delay its onset, either by a given number of years, or until attainment of a designated age. A COLA may also take on any of the characteristics stated above and will become available to a retiree once he or she meets the designated waiting period or age requirements.

Limited Benefit Basis

Some retirement systems award a COLA calculated on a portion of a retiree's annual benefit, rather than the entire amount. For example, one system provides a COLA of three percent applied to only the first $18,000 of benefit. In such cases, the COLA can also be tied to an external indicator, such as CPI, and factors such as delayed onset may also be present.

Self-funded Annuity Option

Some state retirement plans offer post-retirement benefit increases through an elective process known as a self-funded annuity account. Under this design a member effectively self-funds his or her 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 retirement systems 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 there is a stipulation attached that the fund itself must reach a certain size for any COLA to be granted in a given year.

COLA Costs

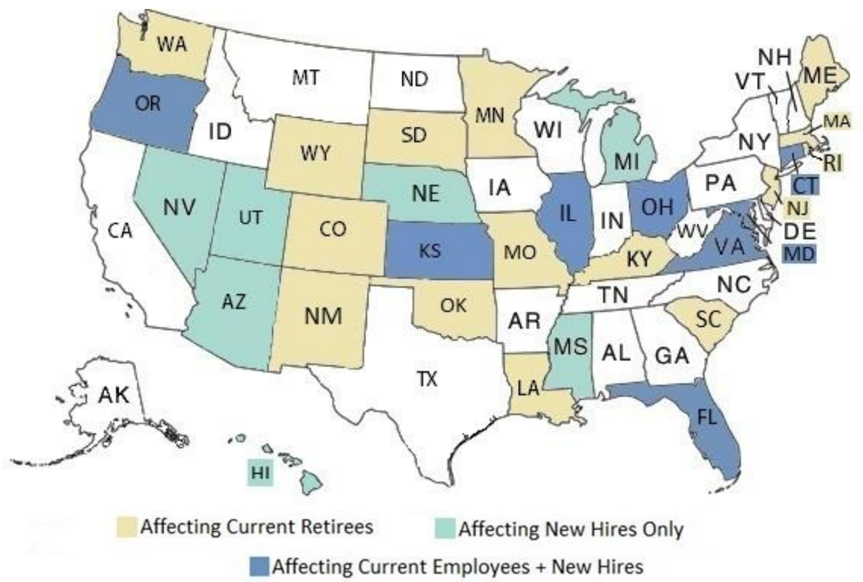
The cost of a COLA predictably depends on the level of the COLA benefit. Such factors as its size; the portion of the benefit to which the COLA applies; whether or not the COLA is paid annually or sporadically; whether the adjustment is simple or compounded, and other features, all affect its cost. It 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.[2]

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.

Recent Changes to COLAs

As part of efforts to contain costs and to ensure the sustainability of public pension plans, and in response to the current period of historically low inflation, many states recently have made changes to COLA provisions by adjusting one or more of the elements mentioned above[3] (see Figure 2). As described in Appendix A, since 2009, fifteen states have changed COLAs affecting current retirees, eight states have addressed current employees' benefits, and six states have changed the COLA structure only for future employees. The legality of these modifications in several states has been, or is, being challenged in court, as noted in Appendix A.

Figure 2: State Retirement Systems Undergoing COLA Legislative Changes, 2009-2015



Conclusion

The effects of a COLA can be consequential both in protecting purchasing power and in adding costs to a plan. As states consider measures to ensure the sustainability of their pension plans for both those currently retired or employed, and for future generations of workers, policymakers are reexamining all aspects of benefit design and financing, including the way COLAs are determined and funded. Just as high periods of inflation in the past placed pressure on states to add or adjust COLAs upward, the recent low rates of inflation, combined with rising pension plan costs, have spurred action to reduce COLA levels. Some states have included provisions that would enable COLAs to increase should inflation grow or funding status or fiscal conditions improve.

See also

Gary Findlay, "Addressing Inflation in the Design of Defined Benefit Pension Plans," http://bit.ly/1hrKcOx

Gabriel, Roeder, Smith & Company, "Postemployment Cost-of-Living Adjustments: Concepts and Recent Trends," April 2011, http://bit.ly/19v0FBl.pdf

Cost-of-Living Adjustments @NASRA.org

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[2] Gabriel, Roeder, Smith & Company, "Postemployment Cost-of-Living Adjustments: Concepts and Recent Trends," April 2011
[3] National Conference of State Legislatures

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

Plan	COLA Provision	2009-2015 Changes
Alaska PERS	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 PERS 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.	
Alaska Teachers	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 TRS 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	Ad hoc as approved by the legislature.	
Alabama Teachers	Ad hoc as approved by the legislature.	
Arkansas PERS	Automatic 3% compounded.	
Arkansas State Highway Employees Retirement Plan	Automatic 3% compounded.	
Arkansas Teachers	Automatic 3%; compounded on an ad hoc basis as determined by the Board.	
Arizona Public Safety Personnel	Those retired before 8/1/11, who have been receiving benefits for two years and are age 55 and higher are eligible for a benefit increase not to exceed 4.0%, based on available funds in the Future Benefit Increase Reserve. This reserve is funded with half of any annual investment returns in excess of 9.0% and can carry a balance from year to year. Those retired after 8/1/11 are eligible for a Permanent Benefit Increase of 2.0% to 4.0%, depending on the plan's funding ratio and available when the investment return exceeds 10.5%. There currently are no assets in the reserve fund for these members.	Legislation approved in 2011 created a new benefits tier that ties the Permanent Benefit Increase (PBI) for those retired after 8/1/11 to the plan's actuarial funding level and increases from 9.0% to 10.5% the investment return threshold needed to trigger a PBI.
Arizona SRS	Up to 4% annually, contingent on excess earnings above 8%.	2013 legislation eliminated the permanent benefit increase for members hired on or after 9/13/13.
California PERS	Automatic based on CPI up to 2%, compounded.	
California Teachers	Automatic 2% simple, plus adjustments designed to maintain retirees' purchasing power 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

Plan	COLA Provision	2009-2015 Changes
		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.
Colorado Affiliated Local	Based on election of individual participating employers.	
Colorado Fire & Police Statewide	Ad hoc as approved by board.	
Colorado Local Government	Varies by date of hire; automatic 2% unless negative investment return in previous year, then lesser of average monthly CPI-W or 2% for three years, compounded. For those hired on or after 1/1/07, the sum of the COLA paid to benefit recipients cannot exceed 10% of the divisions' annual increase reserve.	2010 legislation reduced the COLA from automatic 3.5%. The law was challenged, and upheld by the CO Supreme Court in 2014.
Colorado School	Varies by date of hire, automatic 2% unless negative investment return in previous year, then lesser of average monthly CPI-W or 2% for three years, compounded. For those hired on or after 1/1/07, the sum of the COLA paid to benefit recipients cannot exceed 10% of the divisions' annual increase reserve.	2010 legislation reduced the COLA from automatic 3.5%. The law was challenged, and upheld by the CO Supreme Court in 2014.
Colorado State	Varies by date of hire, automatic 2% unless negative investment return in previous year, then lesser of average monthly CPI-W or 2%, compounded. For those hired on or after 1/1/07, the sum of the COLA paid to benefit recipients cannot exceed 10% of the divisions' annual increase reserve.	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% up to a maximum 7.5% calculated based on the following formula: 60% of the annual increase in the CPI-W up to 6% and 75% of the annual increase in the CPI-W over 6%.	A 2011 agreement between the state and public-sector unions reduced the minimum COLA for employees who retire after October 1, 2011.
Connecticut Teachers	For members who retired before 9/92, automatic, based on CPI, with 3% minimum and 5% max, compounded; for those after 9/92, no COLA is provided.	
DC Police & Fire	Automatic based on CPI, up to 3%, compounded, for members hired as of 11/10/96. Automatic, based on CPI, compounded (uncapped) for members hired before 11/10/96.	
DC Teachers	Automatic based on CPI, up to 3%, compounded, for members hired as of 11/1/96. Automatic, based on CPI, compounded (uncapped) for members hired before 11/1/96.	
Delaware State Employees	Ad hoc as approved by the general assembly.	
Florida RS	Automatic 3%, compounded.	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.	

Plan	COLA Provision	2009-2015 Changes
Georgia Teachers	Automatic 1.5% every 6 months as long as CPI increases, compounded.	
Hawaii ERS	Automatic 2.5% simple; 1.5%, simple, for new hires after 6/30/12.	The automatic COLA was reduced from 2.5% to 1.5%, simple, for those who become members of the system after 6/30/2012.
Iowa PERS	Those who retired prior to 7/1/90 are eligible for an annual non-compounded dividend payment not to exceed 3.0%.	
Idaho PERS	Automatic 1% compounded (as long as CPI rises at least 1%), plus investment-based increase.	
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 as of 1/1/11 from automatic 3%, simple.
Illinois SERS	Those hired before 1/1/11 receive an automatic COLA of 3.0%, 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 3.0% or one-half of the CPI, not compounded, upon attainment of the later of age 67 or one year after retirement.	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.
Illinois Teachers	Those hired before 1/1/11 receive an automatic COLA of 3.0%, compounded, upon attainment of the later of age 61 or one year after retirement. Those hired after 12/31/10 receive a COLA of the lesser of 3.0% or one-half of the CPI, not compounded, upon attainment of the later of age 67 or one year after retirement.	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.
Illinois Universities	Those hired before 1/1/11 receive an automatic COLA of 3.0%, compounded, upon attainment of the later of age 61 or one year after retirement. Those hired after 12/31/10 receive a COLA of the lesser of 3.0% or one-half of the CPI, not compounded, upon attainment of the later of age 67 or one year after retirement.	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	Ad hoc as approved by the legislature.	
Indiana Teachers	Ad hoc as approved by the legislature.	
Kansas PERS	Ad hoc as approved by the legislature; the new cash balance for employees hired after 12/31/14 provides for an optional self-funded COLA as an annuity payment option at retirement.	In 2012, the auto 2% COLA is removed for those hired after 6/30/09; also established optional self-funded COLA in new cash balance plan for those hired after 12/31/14 .[4]

[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	2009-2015 Changes
Kentucky County	Automatic, tied to CPI, not to exceed 1.5% after 12 months of retirement, compounded.	2011 legislation mandates that a COLA be granted only if the system is over 100% funded or if the legislature prefunds the COLA.
Kentucky ERS	Automatic, tied to CPI, not to exceed 1.5% after 12 months of retirement, compounded.	2011 legislation mandates that a COLA be granted only if the system is over 100% funded or if the legislature prefunds the COLA.
Kentucky Teachers	Automatic 1.5% compounded.	
Louisiana SERS	Subject to approval by the legislature and contingent upon funding available in COLA account consisting of excess investment returns; COLA amount is based on plan funded percentage and investment returns; COLA amount ranges from the lesser of 1.5% or CPI-U (55% funded) to 3% (80% funded), if certain actuarial rates of return are met; COLA applies only to first $60,000 of benefit, indexed to CPI; minimum COLA eligibility at age 60, if retired at least one year; COLAs may be granted only every other year until system is at least 85% funded; participants may elect retirement option providing an actuarially reduced benefit with auto annual 2.5% COLA beginning at age 55.	2014 legislation tied the amount of future COLAs to the plan's funded status, limited COLAs to every other year if funds are available, and capped deposits into the accounts from which COLAs are funded.
Louisiana Teachers	Subject to approval by the legislature and contingent upon funding available in COLA account consisting of excess investment returns; COLA amount is based on plan funded percentage and investment returns; COLA amount ranges from the lesser of 1.5% or CPI-U (55% funded) to 3% (80% funded), if certain actuarial rates of return are met; COLA applies only to first $60,000 of benefit, indexed to CPI; minimum COLA eligibility at age 60, if retired at least one year; COLAs may only be granted every other year until system is at least 85% funded; participants may elect retirement option providing an actuarially reduced benefit with auto annual 2.5% COLA beginning at age 55.	2014 legislation tied the amount of future COLAs to the plan's funded status, limited COLAs to every other year if funds are available, and capped deposits into the accounts from which COLAs are funded.
Massachusetts SERS	Ad hoc, typically based on CPI up to 3% applied to first $13,000 of benefit, subject to legislative approval and enactment. An individual 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.
Massachusetts Teachers	Ad hoc, typically based on CPI up to 3% applied to first $13,000 of benefit, subject to legislative approval and enactment. An individual 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	For all service after 6/30/2011, automatic based on CPI, capped at 2.5% based on attainment of 7.55% rate of actuarial investment return. If that threshold is not met, COLA is 1%. COLA on service prior to 7/1/2011 is automatic based on CPI, capped at 3%.	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.

Plan	COLA Provision	2009-2015 Changes
Maryland Teachers	For all service after 6/30/2011, automatic based on CPI, capped at 2.5% based on attainment of 7.55% rate of actuarial investment return. If that threshold is not met, COLA is 1%. COLA on service prior to 7/1/2011 is automatic based on CPI, capped at 3%.	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 3%.	
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.
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.	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	1.0%, compounded, until the plan funding level reaches 90%; 2.5% thereafter. After returning to 2.5%, if the funding level falls below 85% for two consecutive years or 80% in one year, the COLA reverts to 1.0%.	Reduced auto-COLA from 2.5% in 2010. The law was challenged, and upheld in a final ruling issued in 2011.
Minnesota State Employees	Automatic 2.0% compounded, until the plan's funding level reaches 90%, after which it will increase to 2.5%. After returning to 2.5%, if the funding level falls below 85% for two consecutive years or 80% in one year, the COLA reverts to 2.0%.	Reduced auto-COLA from 2.5% in 2010. The law was challenged, and upheld in a final ruling issued in 2011.
Minnesota Teachers	Automatic 2.0% compounded, until the plan's funding level reaches 90%, when it returns to 2.5%. After returning to 2.5%, if the funding level falls below 85% for two consecutive years or 80% in one year, the COLA reverts to 2.0%.	Reduced auto-COLA from 2.5% in 2010. The law was challenged, and upheld in a final ruling issued in 2011.
Missouri DOT and Highway Patrol	80% of increase in CPI, up to 5%, compounded.	
Missouri Local	Contingent upon investment return, with a max of the lower of 4% or cumulative CPI since retirement.	
Missouri PEERS	Automatic, compounded at 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 of 80%.	In 2011 the Board changed the auto, compounded COLA from based on CPI, not to exceed 5%, to either 0%, 2%, or 5%, depending on whether the CPI is negative, positive and < 5%, or > 5%, respectively; subject to a lifetime cap.

Plan	COLA Provision	2009-2015 Changes
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.	
Missouri Teachers	Automatic, compounded at 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 of 80%.	In 2011, the Board changed the automatic, compounded COLA from based on CPI, not to exceed 5%, to either 0%, 2%, or 5%, depending on whether the CPI is negative, positive and below 5%, or over 5%, respectively.
Mississippi PERS	For those hired before 7/1/11, automatic 3%, simple, until age 55, then compounded thereafter; for those hired after 7/1/11, automatic 3%, simple, until age 60, then compounded thereafter.	2011 legislation increased the age at which COLA compounding begins from 55 to 60.
Montana PERS	For those retired at least one year, automatic 3.0% compounded for those hired before 7/1/07; automatic 1.5% for those hired thereafter.	2011 legislation reduced the automatic COLA from 3% compounded and tied its provision to PERS funding ratio. A challenge to the law was rejected by a state District Court in 2015.
Montana Teachers	Automatic 1.5% compounded beginning 3 years after onset of annuity.	2011 legislation reduced the automatic COLA from 3% compounded and tied its provision to PERS funding ratio. A challenge to the law was rejected by a state District Court in 2015.
North Carolina Local Government	Ad hoc as approved by the legislature.	
North Carolina Teachers and State Employees	Ad hoc as approved by the legislature.	
North Dakota PERS	Ad hoc as approved by the legislature.	
North Dakota Teachers	Ad hoc as approved by the legislature.	
Nebraska Schools	Based on CPI, up to 1% compounded for employees hired on or after 7/1/13; Based on CPI, up to 2.5%, compounded for other members.	2013 legislation created a new tier for school employees hired on or after 7/1/13. This tier features a reduced maximum COLA.
New Hampshire Retirement System	Ad hoc as approved by the legislature.	
New Jersey PERS	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; change is under legal challenge.
New Jersey Police & Fire	COLAs 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; change is under legal challenge.

Plan	COLA Provision	2009-2015 Changes
New Jersey Teachers	COLAs 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; change is under legal challenge.
New Mexico PERA	Automatic 2% compounded. Retirees earning $20,000 or less receive a COLA of 2.5%.	2013 legislation reduced the automatic COLA from 3% compounded.
New Mexico Teachers	Automatic COLA of 1.8% for retirees' with 25 years of service and 1.6% for all others. These levels will be in place until ERB is 90% funded, at which point COLA levels will become 1.9% for retirees' with 25 years of service and 1.8% for all others.	2013 legislation reduced the automatic COLA from a range of 2%-4% depending on retiree length of service. 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.
Nevada Police Officer and Firefighter	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.
Nevada Regular Employees	After 3 years of receiving benefits, auto 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%.	
NY State & Local ERS	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%.	
NY State & Local 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	Automatic, based on CPI, from 0% to 3%, simple. Retirees receive a COLA beginning 12 months after their effective date of retirement.	2012 legislation pinned 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

Plan	COLA Provision	2009-2015 Changes
		receive a simple 3% COLA until 12/31/18.
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 pinned to CPI; onset delayed for nearly all members.
Ohio School Employees	Automatic 3% simple.	
Ohio Teachers	Automatic 2% simple.	Per 2012 legislation, members who retire on or after 8/1/13 receive a COLA on the fifth anniversary of their retirement.
Oklahoma PERS	Ad hoc as approved by the legislature; subject to required funding.	The Legislature approved a provision in 2011 requiring future COLAs to be funded, which effectively rules out COLAs for the foreseeable future. Prior to this legislative action, a 2% COLA had regularly been approved.
Oklahoma Teachers	Ad hoc as approved by the legislature; subject to required funding.	The Legislature approved a provision in 2011 requiring future COLAs to be funded, which effectively rules out COLAs for the foreseeable future. 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 5/1/13 or earlier, Benefits earned after 6/1/13 are subject to a lower maximum COLA.	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 new law also provides 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 pertains to benefits earned prior to the law's effective date. The court also invalidated the supplementary payments.
Pennsylvania School Employees	Ad hoc as approved by the general assembly.	
Pennsylvania State ERS	Ad hoc as approved by the general assembly.	

Plan	COLA Provision	2009-2015 Changes
Rhode Island ERS	Retirees with an effective retirement date on or before 6/30/12 receive a one-time COLA payment of 2% applied to the first $25,000 of benefits. Effective 7/1/15, COLA payment of 2% applied to the first $25,000 of benefits. Annual COLA 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%. 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.	In late 2011, legislature revised COLA provisions from automatic 3% compounded, effective 7/1/12. A challenge to the law was settled in mediation in July 2015.
Rhode Island Municipal	Retirees with an effective retirement date on or before 6/30/12 receive a one-time COLA payment of 2% applied to the first $25,000 of benefits. 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%. 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.	In late 2011, legislature revised COLA provisions from automatic 3% 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, 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 Dakota PERS	Indexed to CPI and funded status, with a minimum of 2.1%, when plan funding level is below 80%, and a maximum of 3.1%, when plan is funded above 100%	In 2010, legislature revised COLA provision from automatic 3.1%. The law was challenged, and upheld in a final ruling issued in 2012.
TN Political Subdivisions	Participating employers may choose from 1 of 3 options: a) no COLA; b) automatic based on CPI, up to 3%, compounded, or c) same as b), except simple.	
TN State and Teachers	Automatic based on CPI, up to 3% compounded.	
Texas County & District	Ad hoc, approved by individual employers.	
Texas ERS	Ad hoc as approved by the legislature; per state constitution, plan's amortization period must be less than 31 years for legislature to approve a COLA.	
Texas LECOS	Ad hoc as approved by the legislature; per state constitution, plan's amortization period must be less than 31 years for legislature to approve a COLA.	

Plan	COLA Provision	2009-2015 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, plan's amortization period must be less than 31 years for legislature to approve a COLA.	
Utah Noncontributory	For those hired before 7/1/11, automatic based on CPI up to 4%, 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	Automatic based on CPI, up to 5%, compounded.	
Vermont Teachers	Automatic based on one-half of CPI, up to 5%, compounded.	
Washington LEOFF Plan 1	Automatic, full CPI, compounded.	
Washington LEOFF Plan 2	Automatic based on CPI, up to 3% compounded.	
Washington PERS 1	None.	2011 legislation eliminated 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 2/3	Automatic, based on CPI, up to 3%, compounded.	
Washington School Employees Plan 2/3	Automatic, based on CPI, up to 3%, compounded.	
Washington Teachers Plan 1	None.	2011 legislation eliminated 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 Teachers Plan 2/3	Automatic based on CPI up to 3%, compounded.	
Wisconsin Retirement System	Based on investment returns, and can increase and decrease, but not below base benefit.	
West Virginia PERS	Ad hoc as approved by the legislature.	

Plan	COLA Provision	2009-2015 Changes
West Virginia Teachers	Ad hoc as approved by the legislature.	
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, COLA was automatic tied to CPI up to 3%. 2012 legislation removed the COLA until plan funding reaches 100%.

Please note: COLA provisions listed above are subject to change as new information becomes available.