OLR RESEARCH REPORT

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RETIRED TEACHER AND STATE EMPLOYEE COST OF LIVING ADJUSTMENTS

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You asked why retired teachers' cost of living adjustments (COLAs) are tied to Social Security COLAs while retired state employee COLAs are not.

SUMMARY

The reason for the difference is legislation adopted in 1992 that, for teachers retiring on or after September 1, 1992, changed the Teachers' Retirement System (TRS) COLA and linked it to the Social Security COLA. The expressed goal of the 1992 legislation was to reduce the state's contribution to TRS by reducing the actuarial impact of annual COLAs to retirees in the system. Tying the TRS COLA to the Social Security COLA also served to eliminate the guaranteed minimum COLA for post-1992 TRS retirees.

The TRS is a statutory system that can be changed by legislative action, while retiree benefits under the State Employees Retirement System (SERS) are subject to collective bargaining between the state and the State Employees Bargaining Agent Coalition (SEBAC). SERS COLAs are calculated using the same inflation index that TRS and Social Security use. But unlike the other two systems, SERS continues to guarantee a minimum annual COLA for retirees, though the recent agreement between state and SEBAC reduced the minimum for SERS members retiring after October 1, 2011 from 2.5% to 2%.

CHANGE IN TRS COLAS

PA 92-205

The link between the TRS COLA and the Social Security COLA was established in 1992. In that year, the General Assembly revamped the TRS COLA by (1) tying it to the Social Security COLA and (2) establishing maximum COLAs based on the annual investment earnings of the Teachers' Retirement Fund (TRF). One of the 1992 law's other effects was to eliminate the minimum COLA for post-1992 TRS retirees.

By law, teachers who retired before September 1, 1992 receive a COLA of between 3% and 5% based on the annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), which is also the index used to calculate both the SERS and the Social Security COLAs. Under the 1992 act (PA 92-205), teachers retiring on or after September 1, 1992, and who joined TRS before July 1, 2007, receive the Social Security COLA, up to 6% if the TRF earns at least an 8.5% return for the fiscal year or 1.5% if it earns less.

In 2007, the legislature changed the TRS COLA again to reduce the percentages for teachers who join the TRS on or after July 1, 2007. Those teachers will receive the Social Security COLA, up to 5% if the TRF earns at least an 8.5% return for the fiscal year or 1% if it earns less (CGS §§ 10-183g(j)-(l)).

1992 Legislative Debate

The 1992 changes in the TRS COLA were adopted in an amendment to a House bill requiring studies of TRS funding (HB 5920, House "B"). In bringing out the amendment, Appropriations Committee chairman Representative Reginald Jones listed its goals as:

1. saving "what is now estimated to be approximately $130 million in the next fiscal year in the state's budget,"
2. reducing the TRF's unfunded liability by $1 billion, and
3. raising its funded ratio from 60% to 80%.

Jones continued, "You will remember that under the Governor's budget, the Governor, recognizing that cost of living adjustments in the future would create huge liabilities . . . on the teachers' retirement plan, had proposed that teachers who retire after this summer, would no longer be eligible for any cost of living adjustments." He also explained that the amendment put teachers "in the same position in terms of COLA increases as those on Social Security." When asked what the Social Security COLAs had been, Jones said that, over the previous seven years, they had averaged about 4% annually but also explained that smaller COLAs were possible under the amendment (House Transcript, May 6, 1992).

The bill, as amended, passed the House unanimously. The Senate passed the amended bill later the same day with minimal discussion, no reference to the COLA change, and one dissenting vote (Senate Transcript, May 6, 1992).

SERS COLAS

Unlike the TRS, SERS benefits are a mandatory subject of collective bargaining between the state and SEBAC. Therefore, they may be changed only through negotiations.

Like the pre-1992 TRS COLAs, SERS COLAs are tied to the annual change in the CPI-W. Each year's percentage COLA is calculated according to the annual increase in the CPI-W for the 12 months preceding the retiree's January 1 or July 1 anniversary date. The COLA formula is 60% of the annual CPI-W increase up to 6% plus 75% of any CPI-W increase over 6%.

Although SERS, TRS, and Social Security all use the CPI-W to calculate annual COLAs, SERS retirees, unlike post-1992 TRS retirees and Social Security recipients, are guaranteed a minimum COLA. Annual COLAs for pre-October 1, 2011 SERS retirees range from a minimum of 2.5% to a maximum of 6%. As a result of the recent agreement between the state and SEBAC mandating health and pension benefit changes, state employees retiring after October 1, 2011 will receive COLAs ranging from a minimum of 2% to a maximum of 7%.

These provisions require the SERS to pay at least the minimum COLA every year even if the CPI-W does not change.

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