OLR RESEARCH REPORT

June 28, 2012 2012-R-0262

RETIRED TEACHER COST-OF-LIVING ADJUSTMENTS

By: Judith Lohman, Assistant Director

You asked for an explanation and history of the annual cost-of-living adjustments (COLAs) required for retired teachers and surviving spouses receiving benefits from the Teachers Retirement System (TRS). You were interested in whether the legislature has any authority over retired teacher COLAs.

SUMMARY

By law, retired teachers are eligible for annual COLAs starting nine months after they retire and begin receiving benefits from the TRS. State law provides for three different mandatory COLAs. All teacher COLAs are tied to annual increases in the federal Social Security benefits and all are subject to certain limits. Teachers who retired before September 1, 1992 are guaranteed a minimum annual COLA of 3%. There is no minimum COLA for those who retired on or after that date.

The TRS is a legislatively enacted retirement system and its benefits, including annual COLAs, are set by state law. The legislature has amended the law regarding TRS COLAs twice since 1992, both times to reduce the COLA. In each case, the reductions were prospective, the first reduction applying to teachers retiring on or after September 1, 1992 and the second to teachers who joined the TRS on or after July 1, 2007. (OLR Report 2010-R-0391 contains a fuller discussion of the General Assembly's authority to change the TRS.)

In their debates on the 2007 COLA changes, legislators assumed the TRS COLAs were guaranteed for those retiring on or after September 1, 1992 and would always be paid. But, by linking TRS COLAs to the Social Security COLA, which is federally determined, and eliminating the minimum COLA, the law leaves open the possibility that COLAs for those retirees could be zero in any given year, a circumstance that actually occurred in both 2010 and 2011, when there were no Social Security COLAs.

TRS COLAS

Statutory COLAs

By law, retired teachers are eligible for annual COLAs starting nine months after they retire and begin receiving benefits from the Teachers' Retirement Fund (TRF). State law provides for three different mandatory COLAs. All are tied to annual increases in the federal Social Security benefits and all are subject to certain limits. In addition, for teachers retiring on or after September 1, 1992, annual COLAs depend on (1) when the teacher retires or he or she became a TRS member and (2) the TRF's annual investment performance (CGS § 10-183g(j)-(l)).

1. Teachers who retired before September 1, 1992 receive an annual 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 Social Security COLAs.

2. Teachers who retired on or after September 1, 1992 receive a COLA equal to the Social Security COLA, with a maximum percentage tied to the TRF's annual investment performance. The maximum is 6% if the fund earns at least 8.5% for the year. If the fund's performance is lower, the maximum is 1.5%. Unlike earlier retirees, these retirees are not guaranteed a minimum COLA.

3. Teachers who became members of the TRS on or after July 1, 2007 will, when they retire, receive a COLA equal to the Social Security COLA, also with limits related the TRF's annual investment performance. If the fund earns less than 8.5%, the maximum COLA is 1%; if it earns between 8.5% and 11.5%, the maximum is 3%; and if it earns more than 11.5%, the maximum is 5%. Like other post-1992 retirees, these teachers will have no minimum COLA.

COLAs Paid, 1993-2012

Table 1 shows annual TRS and Social Security COLAs since 1993. TRS retirees receive COLAs in January or July depending on when they began receiving TRS benefits. Social Security COLAs are payable January 1.

Table 1: Teachers Retirement System Cost of Living Adjustments Since 1993

YEAR	DATE	TEACHERS' RETIREMENT SYSTEM COLA		SOCIAL SECURITY COLA
		Retirement Date Prior to 9/1/92 (Min. 3%/Max. 5%)	Retirement Date on or after 9/1/92 (No Min/Max. 6%)	
2012	July	3.0%	3.6%	3.6%
	January	3.8	3.6	
2011	July	4.1	0	0
	January	3.0	0	
2010	July	3.0	0	0
	January	3.0	0	
2009	July	3.0	1.5	5.8
	January	3.0	1.5	
2008	July	4.5	2.3	2.3
	January	4.6	2.3	
2007	July	3.0	3.3	3.3
	January	3.0	3.3	
2006	July	4.3	4.1	4.1
	January	3.5	4.1	
2005	July	3.0	2.7	2.7
	January	3.7	2.7	
2004	July	3.0	1.5	2.1
	January	3.0	1.5	
2003	July	3.0	1.4	1.4
	January	3.0	1.4	
2002	July	3.0	1.5	2.6
	January	3.0	1.5	
2001	July	3.7	3.5	3.5
	January	3.5	3.5	
2000	July	3.3	2.5	2.5
	January	3.0	2.5	
1999	July	3.0	1.3	1.3
	January	3.0	1.3	
1998	July	3.0	2.1	2.1
	January	3.0	2.1	
1997	July	3.0	2.9	2.9
	January	3.3	2.9	
1996	July	3.0	2.6	2.6
	January	3.0	2.6	
1995	July	3.2	2.6	2.8
	January	3.0	1.5	

YEAR	DATE	TEACHERS' RETIREMENT SYSTEM COLA		SOCIAL SECURITY COLA
		Retirement Date Prior to 9/1/92 (Min. 3%/Max. 5%)	Retirement Date on or after 9/1/92 (No Min/Max. 6%)	
1994	July	3.0	1.5	2.6
	January	3.0	2.6	
1993	July	3.1	1.5	3.0

Sources: Teachers' Retirement Board, Social Security Administration

TRS COLA CHANGES – LEGISLATIVE HISTORY

The legislature has made two major changes in TRS COLAs in the past 20 years. Both changes reduced required COLAs on a prospective basis.

1992

PA 92-205 revamped the TRS COLA by (1) tying it directly to the Social Security COLA and (2) establishing maximum COLAs based on the TRF's annual investment earnings. It also eliminated the guaranteed minimum COLA for teachers retiring on or after September 1, 1992.

The 1992 act created a Cost of Living Reserve Account (CLARA) as a separate account within the TRF to pay COLAs for TRS members who retired on or after September 1, 1992. It funded the CLARA by allocating to it any part of the TRF's total return for the preceding year that exceeded 11.5%. Under the act, the fund's actuaries had to determine, on May 1 annually, how much of a COLA the CLARA account could support. TRS members who retired on or after September 1, 1992 and their surviving beneficiaries were eligible for an annual COLA only if the actuaries determined the CLARA could pay for it. If there was not enough money to pay a full COLA, it would be proportionately reduced or even eliminated.

The 1992 changes were designed to address various problems. On the House floor, Appropriations Committee chairman Representative Reginald Jones, listed three goals for the legislation:

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 explained that, although the legislation under discussion rejected that course, it 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 (Debate on HB 5920, House "B," *House Transcript*, May 6, 1992).

2007

In 2007, the legislature was once again called on to address the TRS unfunded liability. It did so by enacting PA 07-186, which authorized state general obligation bonds to fund up to $2 billion of that unfunded liability. Along with the bond authorization, the act also (1) reduced promised retirement COLAs for members who join TRS on or after July 1, 2007 and (2) revised the COLA funding provisions enacted in 1992 for teachers who retired on or after September 1, 1992.

The 2007 act eliminated the CLARA as of July 1, 2007 and transferred its assets into the TRF. It also repealed the express requirement that COLAs for members who retire on or after September 1, 1992 be reduced or eliminated if the TRS actuaries determined the CLARA could not pay a full COLA in any year.

House and Senate floor debate on the bill focused on its "restoration" of the "guaranteed" COLA and the resulting increase in the TRF's unfunded liability for future COLA obligations, estimated by the Office of Fiscal Analysis at $2.63 billion. As described by Senator Nickerson, "This bill, provides a guaranteed COLA, such that the concept of a COLA payment being dependent on the earnings of the pension investments is no longer the case." (sHB 6141, as amended by House "A," *Senate Transcript*, June 5, 2007)

Finance Committee chairman, Representative Cameron Staples, agreed that the COLA provision imposed the additional liability but argued that it was not a major change since the COLA, although not guaranteed, had always been paid.

> So although that [the annual TRS benefit COLA] has been a contingent liability based on the balance in that fund [i.e.,

> the CLARA], the historical evidence shows that we've always had the resources and we've always funded it. There's no reason to think that wouldn't be the case in the future, particularly since the fund has a balance of a billion and a half dollars right now. But you're correct. Under the Bill, that would become a statutory obligation that would not be based on a fund balance.

Staples argued that the additional liability would be offset by the additional investment earnings attributable to adding the CLARA balance to the TRF's assets and the future reduction in the maximum COLA from 6% to 5% for teachers joining the system on or after July 1, 2007:

> So I think what we take on in a slightly increased liability for that COLA, we get back by having the CLARA account rolled into the Teachers' Retirement System, have the full value of not only the interest earned on that, but also the corpus of that as counted in our retirement system and is counted in our unfunded liability or now our funded liability.
>
> So we gain financially from rolling it in. There is now a commitment to paying, whereas before it was a contingent liability. It is now a firm liability. But we also get a reduction in the maximum interest rate in this Bill from six percent to five percent. (sHB 6141, as amended by House "A," *House Transcript,* June 4, 2005)

Ironically, despite the assumption that the 2007 act would "guarantee" an annual COLA for teachers retiring on or after September 1, 1992, it did not in fact do so because it (1) did not establish a minimum COLA and (2) continued to link TRS COLAs for post-1992 retirees to the Social Security COLA. Thus, the TRS paid no COLAs to those retirees in 2010 or 2011 because there were no Social Security COLAs in those years (see Table 1 above).

JL:ro