

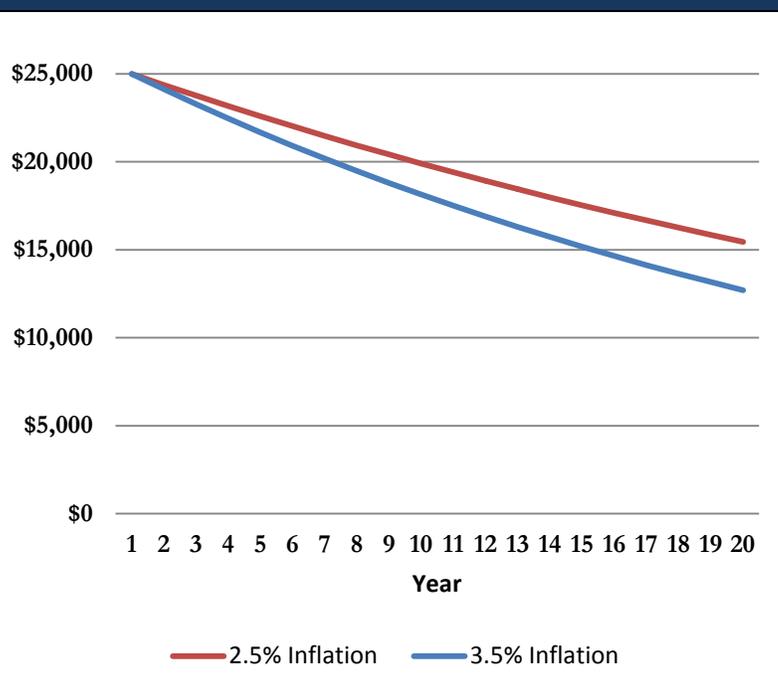
# NASRA Issue Brief: Cost-of-Living Adjustments



February 2014

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<sup>1</sup> 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 \$25,135 falls to \$15,454 (62 percent of its original value) or \$12,705 (51 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

<sup>1</sup> 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

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.

***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.

***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

**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	2	22	26
<b>Total</b>	<b>47</b>	<b>14</b>	<b>35</b>	<b>96</b>

*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.*



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

Plan	COLA Provision	Recent 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 with 8 or more years of service (annuitant must reside in-state to receive the COLA)	
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 with 8 or more years of service (annuitant must reside in-state to receive the COLA)	
Alabama ERS	Ad hoc as approved by the legislature	
Alabama Teachers	Ad hoc as approved by the legislature	
Arkansas PERS	Automatic 3% compounded	
Arkansas Teachers	Automatic 3% compounded	
Arizona Public Safety Personnel	Sliding scale of 2.0% to 4.0%, contingent on investment earnings above 8.0%	
Arizona SRS	Up to 4% annually, contingent on excess earnings above 8%	
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 an employer contribution of about 2.5% of worker pay	
Colorado Affiliated Local	Based on election of individual participating employers	
Colorado Fire & Police Statewide	Ad hoc as approved by board	
Colorado Municipal	Varies by date of hire, automatic 2% unless negative investment return in previous year, then lesser of average monthly CPI-W or 2%, compounded	Changed from automatic 3.5%; legal challenge to this change was upheld by state district court and is under appeal to state supreme court.
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%, compounded	Changed from automatic 3.5%; legal challenge to this change was upheld by state district court and is under appeal to state supreme court.
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	Changed from automatic 3.5%; legal challenge to this change was upheld by state district court and is under appeal to state supreme court.
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.

Plan	COLA Provision	Recent Changes
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	
DC Teachers	Automatic based on CPI, up to 3%, compounded	
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	
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	Non-guaranteed post-retirement payment from a reserve account established from excess investment earnings	
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	Legislation in 2010 reduced the COLA for new hires after 12/31/10 from automatic 3%, simple.
Illinois SERS	Beginning 2015 the COLA becomes a maximum of the retiree's years of service multiplied by \$1,000 (for non-Social Security covered service) or \$800 (for Social Security covered service). The maximum COLA is indexed each year to CPI. Those with an annuity less than the maximum COLA will receive a 3% compounded COLA each year until their annuity reaches the maximum COLA amount. Employees who retire on or after January 1, 2014 will have annual COLAs skipped, depending on their age, up to a maximum of 5 (nonconsecutive) years for employees under 32 years of age as of that date.	Legislation in 2010 reduced the COLA for new hires after 12/31/10 from automatic 3%, compounded; 2013 legislation provides for a COLA formula beginning in 2015 that expresses annual COLA as a maximum depending on Social Security covered status and benefit levels. The new law also determines annual COLAs to be skipped, depending on the employee's age as of 7/1/14. The change is under legal challenge.
Illinois Teachers	Beginning 2015 the COLA becomes a maximum of the retiree's years of service multiplied by \$1,000 (for non-Social Security covered service) or \$800 (for Social Security covered service). The maximum COLA is indexed each year to CPI. Those with an annuity less than the maximum COLA will receive a 3% compounded COLA each year until their annuity reaches the maximum COLA amount.	Legislation in 2010 reduced the COLA for new hires after 12/31/10 from automatic 3%, compounded; 2013 legislation provides for a COLA formula beginning in 2015 that expresses annual COLA as a maximum depending

Plan	COLA Provision	Recent Changes
Illinois Universities	<p>Employees who retire on or after January 1, 2014 will have annual COLAs skipped, depending on their age, up to a maximum of 5 (nonconsecutive) years for employees under 32 years of age as of that date.</p> <p>Beginning 2015 the COLA becomes a maximum of the retiree's years of service multiplied by \$1,000 (for non-Social Security covered service) or \$800 (for Social Security covered service). The maximum COLA is indexed each year to CPI. Those with an annuity less than the maximum COLA will receive a 3% compounded COLA each year until their annuity reaches the maximum COLA amount. Employees who retire on or after January 1, 2014 will have annual COLAs skipped, depending on their age, up to a maximum of 5 (nonconsecutive) years for employees under 32 years of age as of that date.</p>	<p>on Social Security covered status and benefit levels. The new law also determines annual COLAs to be skipped, depending on the employee's age as of 7/1/14. The change is under legal challenge.</p> <p>Legislation in 2010 reduced the COLA for new hires after 12/31/10 from automatic 3%, compounded; 2013 legislation provides for a COLA formula beginning in 2015 that expresses annual COLA as a maximum depending on Social Security covered status and benefit levels. The new law also determines annual COLAs to be skipped, depending on the employee's age as of 7/1/14. The change is under legal challenge.</p>
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	<p>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 .<sup>2</sup></p>
Kentucky County	Automatic, tied to CPI, not to exceed 1.5% after 12 months of retirement, compounded	<p>2011 legislation mandates that a COLA be granted only if the system is over 100% funded or if the legislature prefunds the COLA.</p>
Kentucky ERS	Automatic, tied to CPI, not to exceed 1.5% after 12 months of retirement, compounded	<p>2011 legislation mandates that a COLA be granted only if the system is over 100% funded or if the legislature prefunds the COLA.</p>
Kentucky Teachers	Automatic 1.5% compounded	
Louisiana SERS	Contingent upon funded status of system and/or actuarial return; must be approved by the Legislature; lesser of 2% or CPI-U, plus up to 1% additional depending on actuarial return	
Louisiana Teachers	Subject to approval by the legislature and contingent upon funding available in COLA account consisting of excess investment returns; COLA lesser of 3% or CPI-U if investment returns meet or exceed actuarial assumption; if investment returns are less than actuarial assumption, COLA lesser of 2% or CPI-U, if system at least	

<sup>2</sup> 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	Recent Changes
	80% funded; COLA applies only to first \$70,000 of benefit, indexed to CPI; participants may elect retirement option providing an actuarially reduced benefit with auto annual 2.5% COLA beginning at age 55	
Massachusetts SERS	Ad hoc, typically based on CPI up to 3% applied to first \$13,000 of benefit, subject to legislative approval and enactment	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	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 7.70% rate of actuarial investment return (investment return target decreasing in .05% increments each year until FY16). 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 credit 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.
Maryland Teachers	For all service after 6/30/2011, automatic based on CPI, capped at 2.5% based on attainment of 7.70% rate of actuarial investment return (investment return target decreasing in .05% increments each year until FY16). 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 credit 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 4%	
Maine State and Teacher	COLA is suspended through 7/1/14, after which it will be based on the CPI up to 3% applicable to the first \$20,000 of benefit, indexed for inflation	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 will be reduced. The change is under legal challenge.
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	Reduced auto-COLA from 2.5% in 2010; change was affirmed by a state judge 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%	Reduced auto-COLA from 2.5% in 2010; change was affirmed by a state judge in 2011.

Plan	COLA Provision	Recent Changes
Minnesota Teachers	Suspended through 2012, after which COLA will be automatic 2.0% compounded, until the plan's funding level reaches 90%, when it returns to 2.5%	Reduced auto-COLA from 2.5% in 2010; change was affirmed by a state judge 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 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; subject to a lifetime cap.
Missouri State Employees	80% of CPI up to 5% compounded; members hired before 8/28/97 receive a minimum of 4% and a maximum of 5% compounded, up to 65% of original benefit, and then 80% of CPI up to 5% thereafter	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.
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	Automatic 3%, simple, until age 55, then compounded thereafter	
Montana PERS	Automatic 1.5% compounded as long as the system is funded at 90%. COLA reduced 0.1% for each 2% below a 90% funding level. If amortization period is 40 years or greater the COLA is 0%	2013 legislation reduced the automatic COLA from 3% compounded and tied its provision to PERS funding ratio. The change is under legal challenge.
Montana Teachers	Automatic 1.5% compounded beginning 3 years after onset of annuity if the plan is 90% funded or higher; 0.5% compounded if the plan is below 90% funded	2013 legislation reduced the COLA for current and new TRS members and tied its provision to the TRS funded ratio. The change is under legal challenge.
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	2013 legislation created a new tier for

Plan	COLA Provision	Recent Changes
	after 7/1/13; Based on CPI, up to 2.5%, compounded for other members	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's fiscal committee	
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.
New Jersey Teachers	COLAs suspended until the plan funding level reaches 80%, after which a panel will assess the prudence of paying a COLA	Legislation approved in 2011 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.
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	
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	
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 up to 3%, simple. Retirees receive a COLA	2012 legislation pinned COLA to CPI, up to 3% for all active members.

Plan	COLA Provision	Recent Changes
	beginning 12 months after their effective date of retirement.	Legislation includes a five-year transition period. Members retiring within the first five years after 1/7/13 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 permanent disabilitants	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 before 7/1/13 will not receive a COLA during the 2014 fiscal year. After missing one COLA retirees resume COLA at a reduced rate.
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 1.25%, compounded, on benefit up to \$60,000, and 0.15% on benefits above \$60,000. Retirees also receive a one-time supplemental payment of 0.25% of their benefit (retirees earning less than \$20,000 in benefits receive a second supplemental payment of 0.25% of their benefit). Supplemental payments are in effect for six years and are not compounding.	2013 legislation lowered the maximum COLA for retirees 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 one-time supplemental COLA payments depending on benefit levels. The change is under legal challenge.
Pennsylvania School Employees	Ad hoc as approved by the general assembly	
Pennsylvania State ERS	Ad hoc as approved by the general assembly	
Rhode Island ERS	Effective 7/1/12, the COLA will be compounded based on a 5-year smoothed investment return less 5.5% with a 0% floor and 4% cap, applied to first \$25,000 of benefit, indexed; application of the COLA is delayed until later of Social Security eligibility, normal retirement age under the plan, or 3 years after retirement	In late 2011, legislature revised COLA provisions from automatic 3% compounded, effective 7/1/12. The change is under legal challenge.

Plan	COLA Provision	Recent Changes
Rhode Island Municipal	Effective 7/1/12, the COLA will be compounded based on a 5-year smoothed investment return less 5.5% with a 0% floor and 4% cap, applied to first \$25,000 of benefit, indexed; application of the COLA is delayed until later of Social Security eligibility, normal retirement age under the plan, or 3 years after retirement	In late 2011, legislature revised COLA provisions from automatic 3% compounded, effective 7/1/12. The change is under legal challenge.
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. No COLA prior to 2012.
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%.
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	
Texas Municipal	Based on individual employer election; employers may choose no COLA or based on 30%, 50%, or 70% of CPI, compounded	
Texas Teachers	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	
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, non-vested active members will have future COLAs 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, non-vested members will have future COLAs 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	Automatic, full CPI, compounded	

Plan	COLA Provision	Recent Changes
Plan 1		
Washington LEOFF Plan 2	Automatic based on CPI, up to 3% compounded	
Washington PERS 1	None	Legislature eliminated automatic COLA of 3% in 2011; change is currently under legal challenge.
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	Legislature eliminated automatic COLA of 3% in 2011; change is currently under legal challenge
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	
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.