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Cost-of-Living Adjustments

For Plan 1 members of the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS)

A Cost-of-Living Adjustment (COLA) is an adjustment to your monthly benefit after you retire. There are several different types of COLAs that might impact your benefit. Each COLA has its own unique rules and eligibility requirements.

Optional COLA

When you apply for retirement you can choose to receive the Optional COLA. This COLA reduces your benefit initially, but provides you with an automatic annual adjustment based on the Consumer Price Index (CPI), which can be positive or negative. The CPI used is the index for the Seattle-Tacoma-Bremerton area. The annual adjustment cannot increase or decrease your benefit by more than three percent of your previous year's benefit and it can never reduce your benefit to less than your original amount.

More information about the Optional COLA is provided in your estimate. The selection is part of your retirement application. Once you submit your application, your choice is permanent. To help decide if the Optional COLA is right for you, visit the *Optional COLA Calculator* on our website.

EXAMPLE

The Optional COLA increase is calculated by multiplying your gross monthly benefit by the COLA rates based on the year you retired.

$1,500 (Benefit) x 3% (2012 COLA rate) = $45(Increase to benefit)

Your new monthly benefit is $1,545.

Adjusted Minimum Benefit

For certain qualifying retirees (and survivors), there is a minimum benefit amount that has been established by legislation. There are two requirements you must meet before the adjusted minimum benefit can be applied to your benefit calculation. First, you must have at least:

- 25 years of service credit and been retired at least 20 years; or
- 20 years of service credit and been retired at least 25 years.

Second, your gross monthly benefit must be less than $1,591.35 (as of July 1, 2012). The minimum benefit amount is subject to a three percent cost of living adjustment each July.

After we've verified that you meet the criteria, your benefit will be adjusted. Any reductions (such as survivor option choice, early retirement or an annuity withdrawal, etc.) made to your original benefit will reduce this amount. An example is shown on the next page.

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EXAMPLE

Mary retired in July 1986 with 25 years of service credit and an Average Final Compensation (AFC) of $925. She selected a 50 percent survivor benefit option for her husband who is two years younger, which carries a reduction factor of .93. Her retirement benefit was determined as follows:

2% x $925 x 25 years x .93
= $430.13

Since she retired, Mary has received COLAs totaling $606.19, increasing her current benefit to $1,036.32 ($430.13 + $606.19).

Mary is eligible for the adjusted minimum benefit in July. To determine her benefit amount, we multiply the base benefit of $1,591.35 by the reduction factor for Mary's survivor benefit option (.93).

$1,591.35 x .93 = $1,479.96

Since her current benefit of $1,036.32 is less than $1,479.96, Mary's monthly benefit will increase to $1,479.96.

EXAMPLE: If Mary leaves a survivor

To determine if Mary's survivor qualifies for the adjusted minimum benefit, we will multiply the base benefit of $1,591.35 by the reduction factor for Mary's choice of a 50 percent survivor benefit option (.93). Mary's survivor would then receive 50% of the benefit Mary would have received.

Here's how the 50% survivor benefit option is calculated:

$1,591.35 x .93 = $1,479.96 x 50% benefit option choice = $739.98.

Mary's survivor will receive the adjusted minimum benefit of $739.98.

Minimum Benefit and Annual Increase

The Minimum Benefit and Annual Increase are independent from any other COLA. You do not apply for this benefit and there are no age requirements, other than eligibility for retirement.

If you qualify at retirement, you will receive the Minimum Benefit and in the years that follow, the Annual Increase will be applied to your pension amount. If you qualify after retirement, you won't receive the Minimum Benefit; instead, the Annual Increase will be added to your current pension amount.

The current minimum for 2012 is $46.57 per year of service credit. It will increase each year. The current annual increase for 2012 is $2.00 per year of service credit. Those eligible for the Minimum COLA and Annual Adjustment generally received lower compensation while working and/or did not have many years of service.

EXAMPLE: Eligibility At Retirement

Sam is retiring July 1, 2012 with 10 years of service and an AFC of $1,500. He selected an Option 2 survivor benefit for his wife who is 4 years younger, which carries a reduction factor of .862. We compare his initial benefit using the 2% formula with the minimum benefit formula. Whichever is greater is the formula used to calculate Sam's benefit.

Initial Benefit using the 2% Formula:

2% x 10 x $1,500 x .862 = $258.60 (monthly benefit)

Minimum Benefit Formula:

10 x $46.57 (2012 Minimum Benefit Amount) x .862
= $401.43 (monthly minimum benefit amount)

Sam's benefit calculation falls under the minimum amount therefore, Sam will receive $401.43 as a monthly benefit in July 2012 and the Annual Increase every year after.

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EXAMPLE: Eligibility After Retirement

Jack retired July 1, 2011 with 10 years of service and an AFC of $2,300. He selected an Option 2 survivor benefit for wife who is 4 years younger, which carries a reduction factor of .862. We compare his initial benefit using the 2% formula with the minimum benefit formula.

2011 Initial Benefit using the 2% Formula:

2% x 10 x $2,300 x .862 = $396.52 (monthly benefit)

2011 Minimum Benefit Formula:

10 x $44.57 (2011 Minimum Benefit Amount) x .862 = $384.19 (monthly minimum benefit amount in 2011)

Since Jack received a higher benefit under the 2% formula, he did not qualify for the Minimum Benefit at his retirement.

But in July 2012, the minimum benefit amount increased to $46.57 per year of service credit. Jack did not receive any other cost of living adjustments, so his current benefit of $396.52 was compared again to the 2012 minimum benefit amount:

2012 Minimum Benefit Formula:

10 x $46.57 (2012 Minimum Benefit Amount) x .862 = $401.43 (monthly minimum benefit amount in 2012)

Jack's benefit now falls under his 2012 minimum benefit threshold. We apply the 2012 Annual Increase of $2.00 per year of service credit.

New Monthly Benefit

Annual Increase = 10 (Years of Service) x $2.00
= $20.00

$20.00 + $396.52 (current pension benefit)
= $416.52 (Jack's new 2012 monthly benefit)

Age 65 COLA

The Age 65 COLA legislation was enacted in July of 1989 and was replaced by the Uniform COLA in 1995. PERS Plan 1 and TRS Plan 1 members, who lost 40 percent of the purchasing power possessed at age 65, were eligible. Those previously covered under the Age 65 COLA were given the choice to stay with the Age 65 COLA instead of being converted to the Uniform COLA. Only those retirees who chose this COLA in 1995 are eligible. This COLA is not an option for new retirees.

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Contacting DRS

For more information about cost of living adjustments, visit the DRS website or contact DRS directly. DRS office hours are 8 a.m. to 5 p.m., Monday through Friday, except legal holidays.

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Summary Description

The rules that govern cost of living adjustments are contained in state retirement law. This publication is a summary, written in non-legal terms. It is not a complete description of the law. If there are conflicts between what is written in this publication, and what is contained in the law, the applicable law will govern.