Does Pennsylvania's House Bill 1416 Meet Cost-of-Living Adjustment Design Gold Standards?

Cost-of-Living Adjustment (COLA) Gold Standards	Status Quo	HB1416 (2023)
COLA Benefit Objectives are Clearly Defined *Plan sponsors that integrate a formal COLA benefit policy into the overall objectives of a retirement plan provide retirees clarity, set transparent expectations, and guide future policymakers facing changing circumstances.*	No	No
COLA Benefit Eligibility, Amount, and Procedures are Transparent *Clearly specifying eligibility, applicable benefits, and payment dates protects the value of benefits while avoiding costly and arbitrary cost increases.*	Some	Some
Participants Receive Continuous COLA Benefit Education *Retirees with a firm understanding of their pension's COLA benefits are better equipped to manage their retirement assets and income most effectively.*	No	No
Objective Inflation Benchmarks Determine COLA Benefit Amount *Cost-of-living adjustments should reflect an objective inflation benchmark to provide a more predictable amount of inflation protection and equitable distribution of benefits for similarly situated retirees.*	No	No
COLA Benefits Adjust Under a Ceiling *Establishing limits on COLA benefits distinguishes between "normal" inflation and periods of high inflation that are more difficult to predict, providing for more sustainable funding approaches.*	Some	Some
Adjustments are Pre-Funded as Part of a Retirement Plan's Normal Cost *Pre-funding COLA benefits ensures the consistent delivery of inflation protection to retirees and avoids transferring unfunded liabilities to future generations.*	No	No

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Objective	Gold Standard	*HB1416 (2023)*
COLA Benefit Objectives are Clearly Defined	*Plan sponsors that integrate a formal COLA benefit policy into the overall objectives of a retirement plan provide retirees clarity, set transparent expectations, and guide future policymakers facing changing circumstances.*	*PA statutes governing PSERS and SERS do not include a formal statement of purpose or objectives for providing COLA benefits. The Pennsylvania General Assembly, however, has provided ad-hoc supplemental annuities in the past. No COLA benefit has been provided since a supplemental increase was awarded to certain retirees retiring in FY 2001 and before. The absence of a formal statement regarding COLA benefits for PSERS and SERS contributes to the past and current practice of making such awards only on an ad-hoc and unpredictable basis.*
COLA Benefit Eligibility, Amount, and Procedures are Transparent	*Clearly specifying eligibility, applicable benefits, and payment dates protects the value of benefits while avoiding costly and arbitrary cost increases.*	*HB1416 (2023) and prior attempts to issue an ad hoc COLA benefit clearly identify eligibility and amount of the COLA awards. The ad-hoc and intermittent nature of awards, including those in HB1416 (2023), however, does not meet the timing criteria with sufficient specificity.*
Participants Receive Continuous COLA Benefit Education	*Retirees with a firm understanding of their pension's COLA benefits are better equipped to manage their retirement assets and income most effectively.*	*The ad-hoc nature of the proposed PSERS and SERS COLA benefits is itself inconsistent with predictable inflation protection expectations and leaves retirees with no long-term assurances to examine or learn about.*
Objective Inflation Benchmarks Determine COLA Benefit Amount	*A cost-of-living adjustment should reflect an objective inflation benchmark to provide a more predictable amount of inflation protection and equitable distribution of benefits for similarly situated retirees.*	*The ad-hoc approach to providing COLA benefits for PSERS and SERS does not reflect adherence to an objective inflation benchmark as the basis for determining the amounts provided. Each historical supplemental annuity and the current amounts under HB 1416 may reflect some inflation benchmark, but there is no policy statement clarifying the basis upon which amounts are being set. Policymakers in the General Assembly are left to make these important benefit-increase decisions without a consistent underlying measurement or data.*
COLA Benefits Adjust Under a Ceiling	*Establishing limits on COLA benefits distinguishes between "normal" inflation and periods of high inflation that are more difficult to predict, providing for more sustainable funding approaches.*	*Using an ad-hoc approach to providing COLA benefits does provide some level of control over funding impacts on PSERS and SERS. However, there is no actual limit established as a matter of benefit policy under HB1416 save for the maximum increase amount set on the ad hoc increase itself. This creates the possibility of increases being made in an amount or at times when such increases are not affordable.*
Adjustments are Pre-Funded as Part of a Retirement Plan's Normal Cost	*Pre-funding COLA benefits ensures the consistent delivery of inflation protection to retirees and avoids transferring unfunded liabilities to future generations.*	*While the General Assembly has ultimate discretion to award COLA increases under the current ad-hoc approach, the resulting cost always creates new unfunded actuarial liabilities that must be amortized over future years. HB1416 (2023) requires the resulting unfunded actuarial accrued liability (UAAL) be paid for by increased employer contributions amortizing the UAAL on a level dollar basis over a 10-year period beginning July 1. 2024. A better approach is to pre-fund COLA benefits in the normal cost component of the systems' actuarial funding methods.*

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