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Policy Research Shop

Cost-of-Living Adjustment (COLA) Designs for New Hampshire

How State and Federal Government Retirement Plans Maintain Purchasing Power

Presented to the New Hampshire House Special Committee On Public Employee Pensions Reform

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EXECUTIVE SUMMARY

Cost-of-living adjustments (COLAs) for retirees in the New Hampshire Retirement System are currently awarded on an ad hoc basis, subject to annual approval by the Legislature. The Legislature wishes to explore alternatives to this approach. This report gives a broad overview of the different types of COLAs that other entities—state government pension plans and federal government benefit programs—currently employ to maintain the purchasing power of benefits, as well as maintain the solvency of their funds. The COLAs for other states' pension plans are based on: ad hoc determinations by the legislature or pension plan administrator, fixed rate adjustments, the ability of a reserve account to fund an adjustment, an index of the CPI, the investment returns of the fund, and the level of contributions. We performed a comparative analysis of state COLA designs, and will end with a set of policy recommendations.

1. INTRODUCTION

COLAs for New Hampshire Retirement System pensions are currently voted on annually on an *ad hoc* basis by the state legislature.[1] Most recently, in 2011, the legislature did not include a cost-of-living adjustment of pension benefits.[2] Dating back to 2010, 17 states have made changes to how they determine COLAs, all decreasing commitments.[3] This is especially relevant for New Hampshire: COLAs have always been dependent on the ability of the pension fund to cover the actuarial cost of the additional allowances. This has been the case ever since the first provision concerning COLAs was adopted in 1977.[4] An actuarial valuation report, presented to the New Hampshire Retirement System by Gabriel Roeder Smith & Company,[5] measured the funded status of the pension plan as 58.5 percent.[6] Given that there is a large gap between the actuarial value of assets to the actuarial accrued liability, the ability for New Hampshire to finance future COLAs seems uncertain.

Demographic trends are also not working in New Hampshire's favor. As of 2010, the New Hampshire Retirement System maintains 50,467 active members who contribute to the retirement system (along with their employers), and 25,845 retirees who are pension beneficiaries.[7] In 2001, there were 47,639 active members and 15,416 retirees, indicating that there have been more than 3.5 new retirees drawing from the pension fund for every active member added to the retirement system over the last decade.[8] Thus, it may be fiscally advantageous for New Hampshire to modify how COLAs are determined. Below is an overview of how other entities manage their COLAs.

2. TYPES OF COLA DESIGNS

2.1 Overview

Table 1. COLA Designs[9]

Type of COLA	Overview
Ad hoc	The legislature or other sponsoring entity has full discretion over when to disburse the COLA
Fixed Rate	The COLA is automatically granted at the same rate each year
Based on a Reserve Account	The COLA is disbursed if there are sufficient resources in a special reserve account that funds the COLA
Based on CPI	The COLA is automatically provided based on the CPI increase each year
Based on Investment Earnings	The COLA is provided when investment earnings surpass a predetermined benchmark
Based on Break-Even Contributions	The COLA is paid out when the current disbursements do not exceed the current contributions and funding is sufficient

States use a variety of COLA designs for their pension plans. While New Hampshire uses an ad hoc design, other states base their COLAs on the Consumer Price Index (CPI), a reserve account, break-even contributions, or investment earnings, or utilize a fixed rate plan.[10] Each of these has distinct advantages and disadvantages, but it is important to note that the ad hoc system is the only plan that depends on political authorization to enact the COLA. Most other plans have COLAs that are determined on an automatic basis, based on inflation or market forces. While the ad hoc system ensures that future COLAs are granted only when deemed necessary and affordable, it may also result in infrequent or insufficient adjustments.

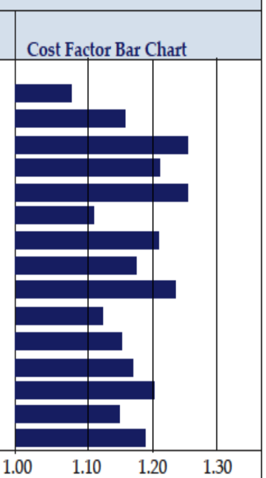
Different COLA systems have distinct benefits and limitations. The fixed rate plan many states utilize allows them to plan funding in advance and assures retirees that they will receive a COLA each year.[11] However, fixed COLAs may be insufficient in years of high inflation and excessive in other years with limited inflation or deflation. Other states base their COLAs on a measure of the CPI. The payouts automatically include a COLA based on the pricing differences for a certain basket of goods. This ensures retirees will receive a pension that maintains its purchasing power. Like the fixed rate plan, COLAs based on the CPI are usually funded because inflation-based adjustments are included in actuarially determined contributions.[12] However, most COLAs based on the CPI limit the percentage payout so that payouts will not be devastating to state budgets in times of high inflation. While this helps funds retain solvency, it also makes it difficult for retirees to preserve their purchasing power at times.

Other types of COLAs base their payouts on other factors. Some states use COLAs that are funded when investment earnings for an account exceed a predetermined benchmark. This allows the payouts to be provided by earnings and not workers' contributions, but also means that such COLAs are subject to market volatility.[13] Certain states calculate their COLA from break-even contributions, which means the state's contributions are matched with the current contributions from workers. This gives the program financial security, but it may limit payouts, since contributions depend on economic conditions and surpluses are needed for down years.[14] Finally, many states place funding in a separate reserve account that finances the COLA. This assures that the COLA can be disbursed when deemed necessary, but faces the same issues as other investments: payouts may be infrequent and could lower future funding. New Hampshire currently uses a partial reserve account system, as it maintains a Special Account that pays out benefits when the legislature approves the COLA.[15]

2.2 Relative Cost Impacts

Exhibit 1
COLAs and Their Relative Cost Impact
(Assumes Cost-of-Living Increases at 3% Annually, Unless Otherwise Noted)

COLA Scenario	Notes	Cost Factor
No COLA		1.00
1% COLA	Compound	1.07
2% COLA	Compound	1.16
3% COLA	Compound	1.26
3% Simple COLA	3% of original benefit with fixed-dollar increases	1.21
Full Consumer Price Index (CPI)	Assumes 3% compound increase	1.26
50% of CPI	Assumes 1.5% compound increase	1.11
CPI capped at 3%	Assumes 2.5% per year to approximate cap	1.21
CPI deferred to age 65	Assumes later of 2 year deferral or age 65	1.17
CPI deferred for 3 years	Deferred 3 years instead of 2 years	1.23
CPI only on first $12,000	Maximum annual COLA = $360	1.12
CPI only on first $12,000 - indexed	Index $12,000 cap at 3% assumed COLA	1.15
CPI only on first $24,000	Maximum annual COLA = $720	1.17
CPI only on first $24,000 - indexed	Index $24,000 cap at 3% assumed COLA	1.20
CPI prorated on service less than 30 years	Maximum 3% COLA with 30 years of service	1.16
CPI capped at 50% of original benefit	Maximum benefit = 150% of original benefit	1.19



Source: Gabriel Roeder Smith and Company, 2011

The graph above was calculated by Gabriel Roeder Smith & Company (GRS) on behalf of the Wyoming Retirement System. GRS is also the actuarial services firm that performed the most recent pension plan actuarial evaluation for New Hampshire's state employee retirement system. This chart indicates the many different types of COLA designs, including the costs that it would take to implement them given a baseline of having no COLA. For example, a cost factor of 1.07 means a plan design that would be seven percent more expensive than the plan with a cost factor of 1.00, which here represents a plan with no COLA. These results show a predictable pattern: the more benefits guaranteed, the larger the projected liabilities of the plan. According to this chart, the most expensive COLA plans are a three percent compounded increase, either through a fixed plan or by matching a CPI increase of the same amount. These costs can be diminished significantly if a limit is placed on the amount of income that is eligible to receive a COLA.

2.3 COLA Changes

The recent economic downturn has caused budget difficulties in New Hampshire and other states around the country. Pension plans, and the COLA formula in particular, have been targeted by numerous lawmakers looking for areas to cut spending. In the past two years, seventeen states have modified how their pension program handles COLAs, all reducing future commitments.[16] None of these modifications used an ad hoc system. Instead, most included automatic triggers and decreased the limits on payouts, removed compounding interest on the COLA, or increased the age limits of those eligible for the COLA.[17] It is clear that states are targeting the COLA as a place to cut budgets, but they are doing so by modifying the formulas that determine the COLA and limiting access to the adjustments. Retirees are still receiving COLAs—just with less frequent, devalued payouts.

These changes have come under fire in a number of states. Retiree groups have filed lawsuits over COLA modifications in Minnesota, Colorado, and South Dakota in recent years.[18] COLA changes are very controversial because many pension programs do not guarantee COLAs at a certain level, yet retirees depend on them to protect their purchasing power and livelihood. Each of the lawsuits involved state pension programs decreasing the allocation for COLAs. The cases in Colorado and Minnesota were dismissed recently, while the South Dakota case has not been ruled on yet.[19] The judges in Colorado and Minnesota ruled that the COLA decreases were appropriate given the dire economic circumstances, and that COLAs were not guaranteed at a certain rate indefinitely.[20] However, these legal challenges show that changing the COLA has important political and constitutional ramifications. This is particularly true in New Hampshire because of the state's large retired population. Retirement-program reform has been a hot-button issue in New Hampshire for many years.[21] Those receiving benefits will likely meet any change to the COLA design that will reduce payouts with harsh resistance. However, the proposal may be more successful if it is framed in a way that emphasizes consistent, automatic payouts and long-term solvency, all of which could be benefits of implementing a new COLA design.

3. FEDERAL GOVERNMENT PROGRAMS

3.1 Social Security COLAs

The federal government manages several retirement programs, both for federal employees and for the public at large, in the form of Social Security. COLAs are calculated several ways for these federal programs.

Social Security indexes its cost-of-living adjustment to a measure of CPI, calculated by the Bureau of Labor Statistics. CPI is a measure of inflation based on the rise in price of a basket of goods—food, housing, clothing, and medical care from year-to-year. The specific measure of CPI used by the Social Security Administration is CPI-W, which represents a typical basket of goods that would be bought by an "Urban Wage Earner and Clerical Worker," a middle class urban worker. This is a subset of CPI-U, which represents the basket of goods bought by an "Urban Consumer." These baskets of goods include what the normal middle class wage worker would buy: food, clothing, housing, fuel, etc.[22] According to the Social Security Administration, the COLA is calculated by taking the "increase (if any) in the average CPI-W for the third quarter of the current year over the average for the third quarter of the last year in which a COLA became effective." If there is no increase, there is no cost-of-living adjustment.[23] Thus, the COLA maintains the purchasing power of Social Security benefits.

3.2 Federal Government Employee Retirement Plan COLAs

Federal government employees enjoy roughly the same benefit, with a twist. The federal government employee retirement program is made up of three parts: a defined benefit pension component, a 401k-like 'Thrift Savings Plan,' and Social Security, which is also available to the wider population. Automatic COLAs only apply to the defined benefit pension component. If an employee was hired today, under current law, the employee can expect the COLA on the pension to be a measure of CPI-W with certain limitations. If the Bureau of Labor Statistics comes up with a CPI-W increase of 2 percent or less, the COLA for federal employees is the same number. If the Bureau comes up with a number greater than 2 percent but not more than 3 percent, the COLA is 2 percent for the next year. If the Bureau comes up with a CPI number greater than 3 percent, than the COLA is that number minus one (e.g. CPI-W of 4.5 percent means a COLA of 3.5 percent).[24]

3.3 Possible COLA Design Changes

3.3.1 Chained-CPI-U

In 2002, the Bureau of Labor Statistics started to calculate a new measure of CPI to try to more accurately measure the increase in cost-of-living. Some believed that keeping the quantities of goods in the typical "basket" of goods constant was misleading. Consumers respond to prices—when prices go up, they buy less of something and if prices go down, they buy more. The old measure, CPI-W, doesn't assume that consumers adjust their spending patters in response to price change differences. The new measure, Chained-CPI-U, is designed to take the concept of product substitution into account to calculate the prices of the baskets of goods.[25] For example, if the price of beef goes up much faster than the price of chicken, Chained-CPI-U assumes that people will buy less beef and more chicken and adjust the basket of goods accordingly. These adjustments are calculated monthly. According to a research paper from the Office of Research, Evaluation, and Statistics in the Social Security administration, based on data from when the Chained-CPI-U was calculated, if the Chained-CPI-U was used, the COLA would have risen 0.38 percentage points slower than a COLA based on the current measure.[26]

Bipartisan deficit reduction committees, such as the Simpson-Bowles Commission, are looking at using Chained-CPI-U as a part of a broad effort to make Social Security solvent in the long run. Because using the Chained-CPI-U measure would yield a slightly smaller COLA increase, it is seen as a way to reduce benefits.[27]

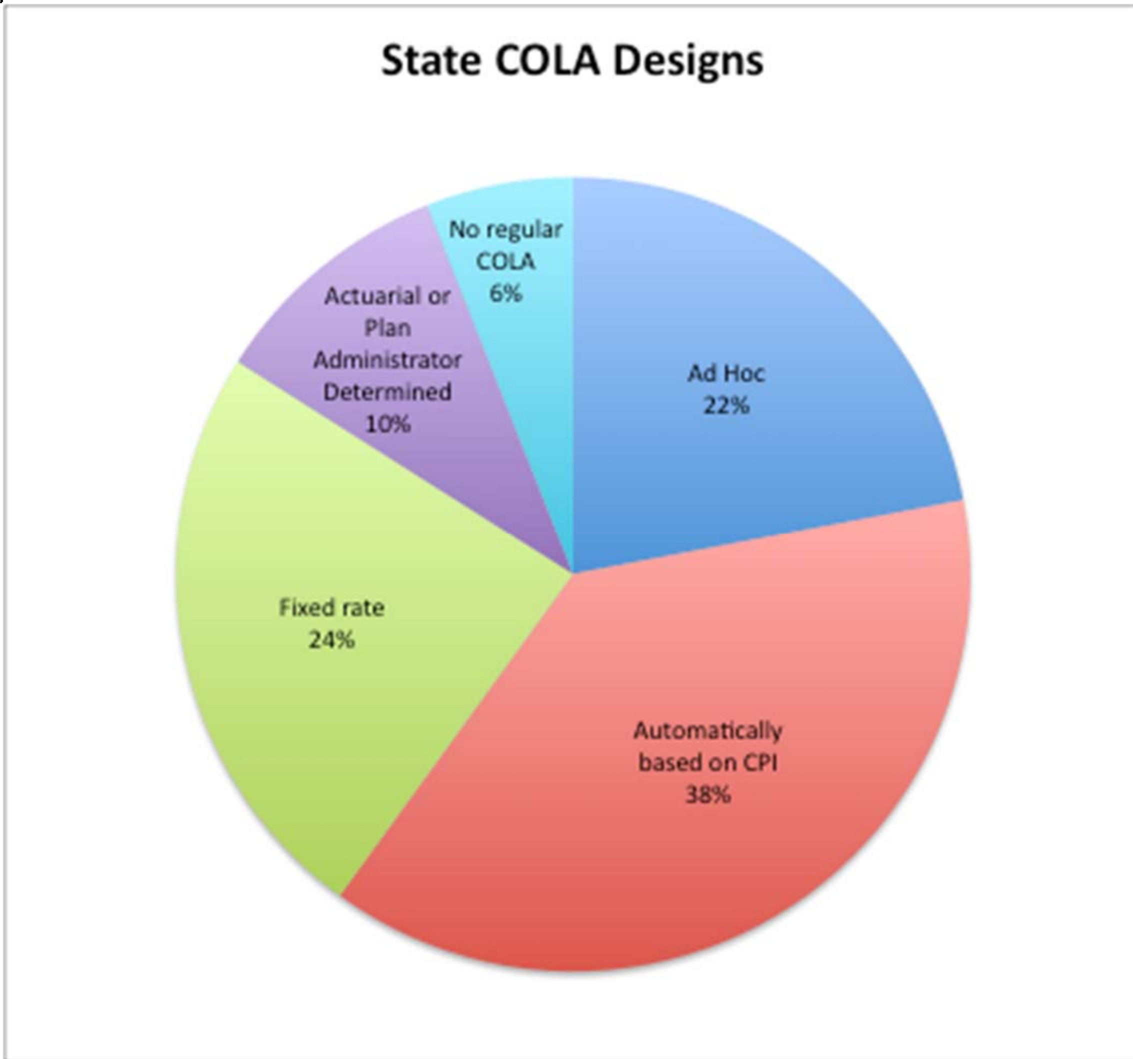
3.3.2 CPI-E

Other researchers argue that those who are elderly are more likely to spend more of their income on goods other than those used by the regular "Urban Wage Earner and Clerical Worker." The elderly are more likely to spend money on medical services and medications. Thus, the CPI-E was created—a measure of inflation that weighs medical services and products more heavily in the typical 'basket' of goods. Unlike Chained-CPI-U, the value of the basket of goods and services for CPI-E does not reflect changes in consumer purchasing behavior.[28] The Social Security Administration has identified several minor concerns with this metric, including variation in the cost of medical services around the country and the difference in housing costs between those folks who have paid off their homes, are still renting, or are living in houses with high property values. It is also important to account for differences in where and how senior citizens shop, as well as reduced prices offered to senior citizens for many goods and services. Nevertheless, the CPI-E is a useful metric, if only to show that price inflation of medical goods and services is higher than regular inflation. If the COLA was based on CPI-E instead of CPI-W, the amount of benefits paid would be higher, as long as medical inflation exceeds regular inflation. According to the SSA, the average difference between CPI-E and CPI-W is 0.33 percentage points higher between 1984 and 2006.[29] Each of these forms of the CPI has advantages and disadvantages. If New Hampshire switches to a COLA design based on the CPI, it will be important to consider each of the types of CPI to find an appropriate balance between benefits and savings.

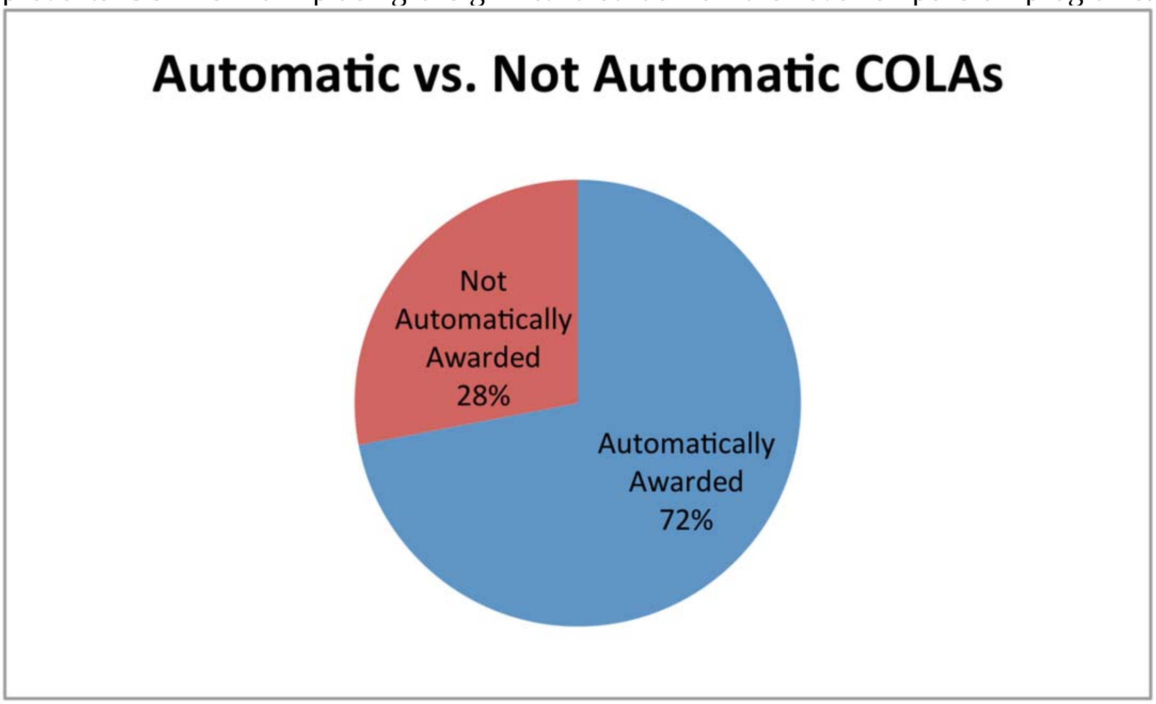
4. STATE GOVERNMENT PLANS

4.1 Comparative Analysis of Relevant State Plans

States use a number of different methods to determine their COLAs, though the vast majority of them have automatic triggers. Plans that use some form of the CPI with a limit on the percentage disbursed are the most common (See Appendix A for a state-by-state listing of COLA designs). Many other states use a flat annual rate, with those remaining using a hybrid formula, investment or reserve accounts, the ad hoc model, or simply not awarding a COLA at all. Most states that base their COLA on the CPI place a cap on the percentage that can be awarded, and many place a minimum percentage as well. The limits have been decreasing lately, with most caps now in the two to three percent range. Most minimum percentages are in the one to two percent range. No states allow a 'negative' COLA – that is, no states decrease benefits during deflationary periods.



States have become increasingly creative with their COLA design. While the majority of COLAs are awarded based on the CPI or a fixed rate, some states are designing models that protect themselves from inflationary periods while still providing some adjustment for their retirees. Budget crises nationwide have prompted states to try to limit COLAs to save money, but they are still obligated to maintain retirees' purchasing power. In addition to caps on the CPI, some states only match up to 50 percent of the CPI for the COLA. Others limit payouts but award COLAs semiannually, or adjust how they compound the payouts. Certain states distinguish between groups of state retirees and vary the COLA based on the type of service the retiree provided. Others, such as Arizona, base the COLA on factors related to the financial health of the pension program: the ratio of the actuarial value of assets to accrued liability.[30] Another option some states are utilizing is a cap on the amount of income that is eligible for COLAs. Massachusetts, for example, bases the COLA on the CPI, but caps the eligible income at $12,000.[31] This type of plan authorizes a COLA so retirees have some insulation from inflation but also prevents COLAs from placing a significant burden on the level of pension programs.



Most other states in the New England region use a COLA design with an automatic trigger for adjustments. Vermont bases its COLA on the CPI to the nearest 1/10 percentile, though it caps the payments at 5 percent.[32] It also ensures that the COLA will be a minimum of 1 percent each year. Maine and Connecticut both base their COLAs on the urban CPI. Both are fairly generous, as Maine does not place limits on its COLA, while Connecticut stipulates the COLA must fall in the range between 2.5 and 6 percent annually. Rhode Island, like New Hampshire, does not automatically award COLAs, but the determinations are not political, either, because retirement program administrators set the COLA.[33] New Hampshire's retirement program faces issues more similar to Vermont and Maine since it has an aging population and fewer urban cities.

4.2 Solvency Concerns

One of the main dangers of the ad hoc system is that COLAs can be infrequent, and that large disbursements put pressure on state budgets. For example, Alabama uses an ad hoc system for COLAs. When the state legislature last approved the COLA in 2006, an increase of 7 percent, it cost the state $62 million a year and increased its long-term pension obligation by $817 million.[34] According to a 2007 Government Accountability Office report, states with a funding ratio above 80 percent are considered to have financially tenable pension plans.[35] The funding ratio is the ratio between the actuarial value of assets to liabilities. New Hampshire is far below that benchmark, with a funding ratio of 58.3 percent according to the Public Fund Survey.[36] This threatens the financial future of the program and necessitates change to retain solvency for years to come.

Many state pension programs, including those in the Northeast, are struggling financially as well. A few, however, are in more secure positions fiscally. These include New York, Pennsylvania, and Delaware. New York is able to maintain a funding ratio of over 100 percent by providing a COLA between one and three percent annually, with the exact COLA value determined as 50 percent of the CPI.[37] It is important to note, though, that New York's population dwarfs New Hampshire's, and New York has many more young, working residents. Pennsylvania has a slightly smaller population, but it maintains healthy funding ratios with an ad hoc plan for COLAs similar to New Hampshire's.[38] Pennsylvania legislators grant a COLA every few years depending on the availability of funds. Delaware has a pool of retirees similar in size to that of New Hampshire, but it only provides COLAs to certain groups of retirees, including firefighters and the state police.[39] This allows it to retain a funding ratio of over 98 percent.[40] A variety of COLA designs can be used to fund financially solvent programs, but it is important to consider a number of alternatives to find the most appropriate program for New Hampshire.

5. POLICY OPTIONS

Below, we outline a series of recommendations for the Committee based on the experiences of other states.

5.1 Option # 1: No Change

The New Hampshire State Retirement System can keep the COLA calculation method as it is. This would continue the ad hoc system of awarding COLAs from a reserve account. This ensures that a COLA won't be awarded unless there are sufficient monies to cover the increased liability. But it yields less certainty for retirees and current workers. It also makes it harder for the pension plan to project long term liabilities.

5.2 Option # 2: Indexed to measure of CPI

Another option would be to do what many states are doing right now: to index a COLA to a measure of the CPI, which would be automatically awarded every year. This would remove much of the uncertainty that retirees face; the benefit adjustment would be guaranteed, and would help keep their benefits from being eroded by inflation. The legislature would have to choose between the different measures of cost-of-living published by the Bureau of Labor Statistics.

5.2.1 Compounding

If the Legislature chooses this option, it must also choose whether to make the benefit adjustment compound, or whether to make the adjustment ‘simple.’ A ‘simple’ COLA is one that is based only on the initial benefit amount. So, a 3 percent ‘simple’ adjustment on an initial benefit of $1000 would be a $30/year increase, every year. A 3 percent ‘compounded’ adjustment would be $30 the first year (3 percent of 1000), $30.90 the second year (3 percent of $1030) and so on.

5.2.2 CPI caps

Some states index their COLAs to a measure of the CPI, but cap it at a certain percentage. This reduces the adjustment in high inflationary periods, but the tradeoff is a lower average COLA increase.

5.2.3 Income Caps

Some states cap the amount of pension income subject to a COLA. This would ensure that lower income beneficiaries receive a cost of living increase that reflects inflation, while limiting COLA increases for pensioners with large benefit amounts. For example, a cap of $20,000 would mean that the COLA would be calculated as a rate increase on the first $20,000 of the annual benefit. Any benefit income above $20,000 would not be adjusted with a COLA.

5.3 Option #3: Fixed Rate Increase

New Hampshire could also adopt an automatic COLA that is not tied to any index. A flat rate COLA would be a predictable increase based on a predetermined percentage—typically between 2-3 percent. In low inflationary periods, this option would adjust benefits higher than the rise in prices, with the converse situation in high inflationary periods—a COLA that doesn’t keep pace with the rise in general prices. If the rate is set lower than the historical average rise in prices, there is a risk that such a formula would not keep pace with inflation in the long run.

If the New Hampshire legislature chooses this option, it would also have to choose whether to institute income caps and whether to compound the benefit adjustments, as described above.

5.4 Option #4: Actuarial/Plan Administrator Determinations

Finally, another policy option would be to put the awarding of COLAs in the hands of the pension plan administrators. Such a policy would make the awarding of COLAs automatic—the Legislature would no longer need to vote on an ad hoc COLA. Instead, plan administrators, with the advice of actuaries, would determine how much the benefits should be adjusted, given economic conditions.

5.4.1 Based on Investment Returns

Some states direct their pension plan administrators to make COLAs yearly based on the investment return of the pension fund. If New Hampshire chooses this option COLAs would be awarded based on how well the investment portfolio performed, with generally larger increases in good economic times, and no increases in bad economic times. A potential drawback to this approach would be that these increases don't necessarily track changes in prices—it's possible to be in a bad economic situation and in a high inflationary environment simultaneously.

5.4.2 Based on Solvency Concerns

Another way to focus plan administrator decision-making would be to direct them to focus on the funding ratio. A small minority of states has chosen to tie the solvency of the pension plan to the awarding of COLAs. If the plan is not solvent, there is no COLA for that year, or the COLA is reduced. Since this option limits benefit increases, pension plans keep more of the money, lifting their funding ratios. With this option, the Legislature can choose to tie the awarding of a COLA to a benchmark funding ratio level; if actuaries determine that the pension plan doesn't meet the benchmark, plan administrators would have the authority to forgo a COLA for that year. This option would have the potential to increase plan solvency. The drawback is that COLAs may not be awarded every year.

6. CONCLUSION

This broad overview of the COLA designs of many different government employers is meant to indicate the breadth of options available to New Hampshire. There are many factors to consider if New Hampshire wants to change the current ad hoc system into an automatic system of COLAs. At the forefront among these are cost and actuarial soundness of the plan, as well as the desire for a predictable cost-of-living adjustment. Our purpose in presenting this report is to illustrate that New Hampshire has options. It can choose to maintain the current system. It can choose to index COLAs to CPI – and if it chooses this option, it can choose among the many different measures of CPI, like CPI-W, or CPI-U, or Chained CPI-U, which all come with benefits and drawbacks. It can institute a series of caps to ensure that high inflation periods don't erode plan solvency. It can make COLA benefits automatic, but abandon CPI altogether in favor of another metric. And New Hampshire can design a plan that halts all COLAs until the plan is well funded. These are all designs that are in use, have been tried, or are being discussed on the state and national level.

APPENDICES

Appendix A. Current COLA Provisions in State Pension Plans

State	COLA Provisions
Alabama	COLAs are ad hoc.[41]
Alaska	COLAs are automatic, based on the CPI and retirees' base benefits.[42]
Arizona	COLAs are automatic, based on the ratio of actuarial value of assets to accrued liability.[43]
Arkansas	COLAs are automatically awarded at 3 percent annually.[44]
California	COLAs are awarded automatically based on the urban CPI, with a maximum allocation of 2 percent compounded.[45]
Colorado	COLAs are automatic and based on the CPI, but capped at 2 percent annually.[46]
Connecticut	COLAs are automatic and based on the urban CPI with a minimum of 2.5 percent and a maximum of 6 percent.[47]
Delaware	COLAs are only granted for firefighter and state police groups.[48]
Florida	COLAs have been suspended at present time until 2016, when the previous 3 percent automatic adjustment will be reinstated.[49]
Georgia	COLAs are provided at a rate of 1.5 percent semiannually with ad hoc increases determined by the state legislature.[50]
Hawaii	COLAs are automatic at a rate of 1.5 percent annually.[51]
Idaho	COLAs are automatic and based on the CPI with a minimum of 1 percent and a maximum of 6 percent.[52]
Illinois	COLAs are automatic and equal to 50 percent of the CPI, with a maximum of 3 percent.[53]
Indiana	COLAs are ad hoc but awarded regularly.[54]
Iowa	COLAs are 3 percent annually with compounding after age 60.
Kansas	COLAs are ad hoc.[55]
Kentucky	COLAs are automatically awarded at a minimum rate of 1.5 percent.[56]
Louisiana	COLAs are awarded automatically at a self-funded rate of 2.5 percent annually.[57]
Maine	COLAs are automatic and based on the all-urban CPI.[58]
Maryland	COLAs are automatic, based on the CPI, with varying caps for different pensions, mostly around 3 percent.[59]
Massachusetts	COLAs are automatic and based on the CPI, with a maximum increase of 3 percent and a cap on the eligible income at $12,000.[60]
Michigan	Michigan uses a hybrid defined benefit plan and does not offer COLAs to most state employees.[61]
Minnesota	COLA rates are reduced to 2 percent until a 90 percent funding ratio is reached.[62]

Mississippi	COLAs are 3 percent annually with compounding after age 60.[63]
Missouri	COLAs are CPI indexed and capped at 4 percent.[64]
Montana	COLAs are automatically awarded.[65]
Nebraska	COLAs are 2.5 percent every year, if beneficiary elects a COLA for their annuity.[66]
Nevada	COLAs are indexed to CPI, with a cap at 5 percent (4 percent for those hired after January 1 2010).[67]
New Hampshire	COLAs are ad hoc.
New Jersey	COLAs are based on 60 percent of difference between current year CPI and retirement year CPI.[68]
New Mexico	COLAs are 3 percent compounded after 2 calendar years of retirement.[69]
New York	COLAs are 50 percent of CPI, not more than 3 percent, not less than 1 percent.[70]
North Carolina	COLAs are ad hoc, depending on availability of funds and CPI.[71]
North Dakota	COLAs are ad hoc.[72]
Ohio	COLAs are 3 percent of the original benefit amount every year, not compounded.[73]
Oklahoma	COLAs are ad hoc, approved by legislature.[74]
Oregon	COLAs are ad hoc, but based on the CPI for the Portland area, capped at 2 percent.[75]
Pennsylvania	COLAs are ad hoc, and approved by the legislature every few year based on legislature's determination of the change in cost-of-living, and on availability of funds.[76]
Rhode Island	COLAs are determined by retirement plan administrators, and capped at 3 percent.[77]
South Carolina	COLAs are automatic, based on CPI-W, and capped at 2 percent.[78]
South Dakota	COLAs are automatic, determined by plan administrator based on CPI and the funded status of the plan. Cannot be less than 2.1 percent, or greater than 3.1 percent a year.[79]
Tennessee	COLAs are automatic, based on CPI, given when CPI rises by more than 1 percent, capped at 3 percent.[80]
Texas	COLAs are not automatic; they are determined by the fund based on actuarial soundness.[81]
Utah	COLAs are automatic, determined by difference between average CPI for current year vs. average CPI for past year.[82]
Vermont	COLAs are automatic and based on the CPI to the nearest 1/10th percentile, with a minimum allocation of 1 percent and a maximum of 5 percent.[83]
Virginia	COLAs are automatic, based on change in CPI-U.[84]
Washington	COLAs are automatic, based on change in CPI-W for the Seattle-Tacoma-Bremerton region.

West Virginia	COLAs are ad hoc.[85]
Wisconsin	COLAs are automatic, based on investment returns in a reserve account; given as a 'dividend' on top of the original benefit amount. The dividend can vary, and may not be given in bad investment years.[86]
Wyoming	COLAs are ad hoc, awarded in consultation with actuaries to determine whether COLAs are actuarially sound.[87]

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