

# Alabama lawmakers discuss cost behind COLA increases for retired teachers



BIRMINGHAM, Ala. — Alabama educators who retired in 2008 are living on the same retirement income today, despite inflation driving costs up nearly 50%.

The state's retirement contributions structure makes it very expensive to give retired teachers a cost of living adjustment, or COLA, Retirement Systems of Alabama Legislative Counsel Neah Scott told a panel of lawmakers on Wednesday.

With a price tag of nearly \$1 billion for a meaningful increase, lawmakers are making no promises.

Alabama has no automatic COLA built into retirement benefits. Instead, lawmakers decide when or if to grant COLAs to retirees. Plans with automatic COLAs require a higher employer contribution rate, Scott said.

Some surrounding states do give those automatic increases. Georgia provides a semi-annual 1.5% COLA for retirees, but its employer contribution rate sometimes exceeds 20%, Scott said. In Alabama, that rate is closer to 14%.

In other words, automatic retirement increases are built in by collecting more contributions while a teacher is working.

Rep. David Faulkner, R-Mountain Brook, asked for clarification whether education employees are led to expect COLAs when they begin their careers. "Do we tell people you're going to get a COLA and it's going to be this much when they sign up for work?" he asked.

Rep. Alan Baker, R-Brewton, a retired educator, said no such expectation should exist.. “Educators... are aware that this is a defined benefit,” he said. “Not a defined benefit plus COLA.”

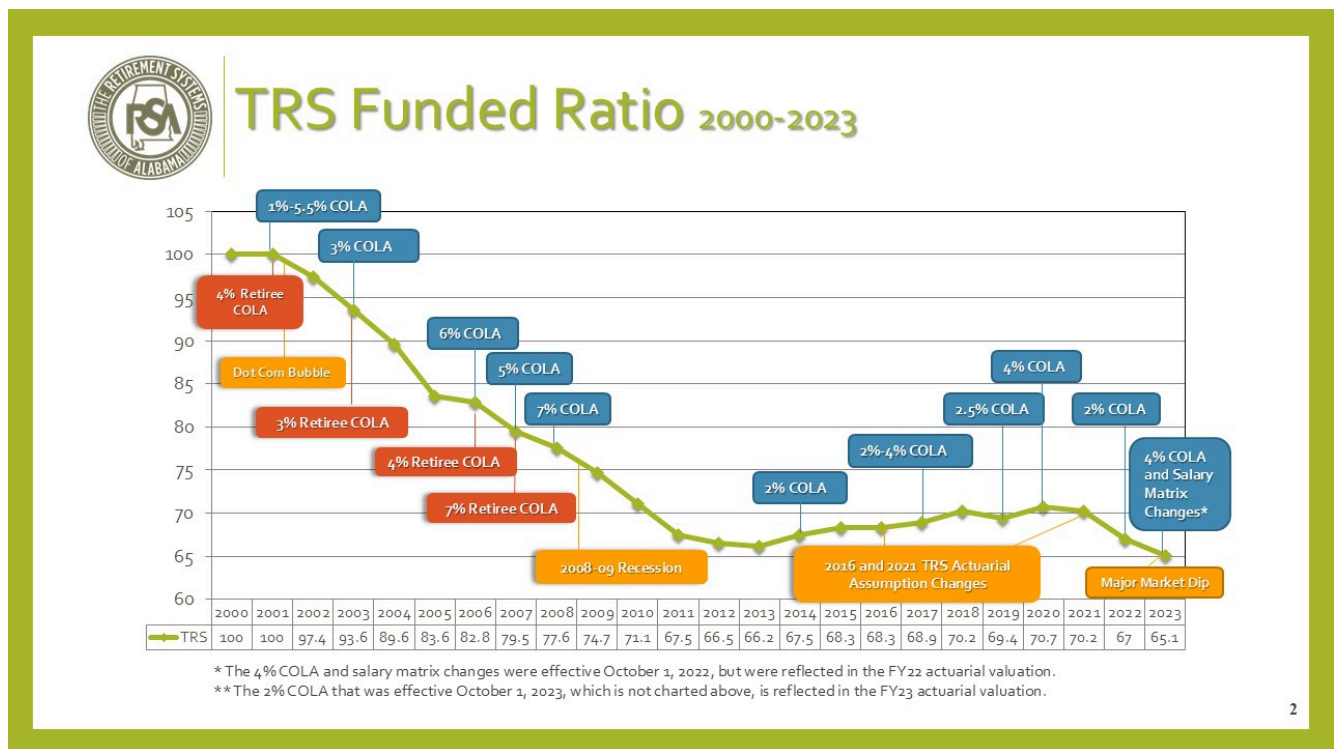
Baker said retirees may not realize how states like Georgia afford those automatic increases.

“Either the employer or the employee were making significantly higher contributions during their active years of service, which has not been done by our retirees,” he said.

Because Alabama did not structure their educator retirement benefit plan with expectations for automatic COLAs, for now, lawmakers should consider funding any COLA increases upfront, Scott said. Without fully funding the increase, retiree COLAs become an unfunded liability.

For example, the cost of the 7% COLA given in 2007 added \$924 million in unfunded liability to TRS.

Scott presented a timeline of how teacher raises and retiree COLAs have impacted TRS funds since 2000. The chart, pictured below, showed TRS benefits fully covered until 2001, when they began a downward trajectory, meaning the system was paying out more than it was taking in.



This chart was presented to the House Education Budget committee on Feb. 12 in Montgomery, Ala.

Scott said giving unfunded COLAs became an “unaffordable practice” as financial pressures of the Great Recession pushed contribution rates up and investment returns down.

Committee chairman Danny Garrett, R-Trussville, agreed.

“When we’ve done that, we’ve dug the hole deeper, and now we’re at a point where if we were to do that, it’s pretty expensive,” Garrett said.

He pointed out that the chart Scott shared, pictured above, shows TRS currently can cover 65% of its liabilities. Best practices say that should be around 80% instead, Garrett added.

Since 2007, lawmakers have granted one-time bonuses – \$1 or \$2 for each month of service – three separate times since 2007. While these bonuses don’t add to liabilities, they also don’t make a

significant impact on retirees' finances.

"It's not much money," Garrett said.

One-time bonuses would cost \$32 million, while a COLA would be far more expensive. A 1% COLA would cost \$236 million, while a 4% adjustment – the level that has been discussed – would approach \$1 billion.

"To do something decent, it's a billion dollars out of our education budget," Garrett said. "That would be a billion dollars that's not going into current education."

Lawmakers set current year spending at \$9.3 billion and will consider a \$9.9 billion budget proposal for 2026.

Alabama currently has 96,000 education retirees and pays an annual average of \$25,500 in benefits to each retiree, according to information shared by Scott.