

# Cost-of-Living Adjustments (COLAs)

**There's a lot of information out there regarding the New Hampshire Retirement System, some of it fact, some of it fiction. This document, along with others in the "NHRS ... Now You Know" series, is designed to provide you with straight talk about the retirement system.**

The most common question NHRS receives from our retirees is, "Will there be a COLA this year?"

Cost-of-living adjustments (COLAs) are not automatic every year. Currently, the Legislature must vote on what, if any, COLAs or other post-retirement allowances will be granted.

The first NHRS allowances were granted by the Legislature in 1974. Historically, two types of post-retirement allowances have been granted:

A COLA – referred to in statute as a "supplemental allowance" – is a permanent percentage increase to a pension benefit. (Example: A 2% COLA on a \$10,000 pension increases the benefit to \$10,200 in perpetuity;

the next year, an additional 2% COLA would increase the pension benefit from \$10,200 to \$10,404; and so on.)

A "temporary supplemental allowance" (TSA) is a one-time, lump-sum payment that does not become a permanent addition to the monthly pension benefit. A TSA is sometimes referred to as a "thirteenth check" or an "extra check."

In the early years of the retirement system, COLAs and other post-retirement payments were funded through the state budget and/or employer assessments. Beginning in the early 1980s, COLAs were paid from a so-called "Special Account" funded from "excess" investment earnings. The diversion of a portion of investment earnings over a certain level to pay for COLAs or other additional benefits is referred to as "gain-sharing."

When the economy is strong and investment returns are regularly above expectations, gain-sharing can seem like a good idea. But when investment earnings fail to meet expectations, and the additional income earned in positive years is already committed to fund other benefits, gain-sharing creates an unanticipated liability in the pension fund. Between 1990 and 2000, the Special Account was responsible for approximately \$900 million being diverted from the pension trust fund, which was a significant

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contributing factor to the current NHRS unfunded actuarial accrued liability (UAAL). The flaws of gain-sharing became apparent in the wake of the “dot-com” recession of 2001-02, and the Great Recession of 2008-09 laid bare the fact that the Special Account was no golden goose. In 2007, the Legislature limited transfers into the Special Account and repealed the account entirely in 2012.

While the retirement system understands and appreciates our retirees’ concern about cost-of-living adjustments, this is not an issue where NHRS has discretion. The Legislature holds the authority on deciding whether to fund a COLA or supplemental allowance.

Retirees who are concerned about this issue can reach out to their local state representatives and senator to share their thoughts. Contact information for legislators is available here: [www.gencourt.state.nh.us/](http://www.gencourt.state.nh.us/)

| <b>NHRS COLA HISTORY, 2003-2022</b> |  |                |               |             |
|-------------------------------------|--|----------------|---------------|-------------|
|                                     | <b>EMPLOYEE</b>  | <b>TEACHER</b> | <b>POLICE</b> | <b>FIRE</b> |
| <b>2022</b>                         | No COLA; \$500 TSA for members who retired on or before July 1, 2017, or any beneficiary of such member who is receiving a survivor pension benefit; and whose annual retirement allowance on June 30, 2022 was not greater than \$30,000.   |                |               |             |
| <b>2021</b>                         | None   | None           | None          | None        |
| <b>2020</b>                         | 1.5% COLA on the first \$50,000 of an annual pension benefit to members who retired on or before July 1, 2014, or any beneficiary of such member who is receiving a survivorship pension benefit. The COLA will take effect on the retired member’s first anniversary date of retirement occurring after July 1, 2020. |                |               |             |
| <b>2019</b>                         | None ( <i>Note: COLA bill was enacted in 2019 with effective date of July 1, 2020</i> )  |                |               |             |
| <b>2018</b>                         | No COLA; \$500 TSA for members who retired with at least 20 years of creditable service; have been receiving an allowance for at least 5 years prior to July 1, 2018; and whose annual retirement allowance on June 30, 2018 was not greater than \$30,000.  |                |               |             |
| <b>2013-17</b>                      | None   | None           | None          | None        |
| <b>2011-12</b>                      | No COLA; \$500/\$1K TSA for political subdivision retirees receiving Medical Subsidy (\$300/\$600 for Medicare-eligible political subdivision retirees receiving Medical Subsidy)  |                |               |             |
| <b>2008-10</b>                      | 1.5% COLA on first \$30K of base pension, plus: \$1K TSA if base pension is less than \$20K and retiree had at least 15 years of creditable service; \$500 TSA if retired before 1/1/93; \$500/\$1K TSA if receiving Medical Subsidy and retired from political subdivision.   |                |               |             |
| <b>2007</b>                         | 2.25%  | 2.25%          | 2.25%         | 2.25%       |
| <b>2006</b>                         | 1%   | 1%             | 1%            | 1%          |
| <b>2005</b>                         | 1%   | 1%             | 1%            | 1.5%        |
| <b>2004</b>                         | 1%   | 1%             | 1%            | 2.25%       |
| <b>2003</b>                         | 2%   | 2%             | 2%            | 3.5%        |

