

The Prevalence of COLA Adjustments in Public Sector Retirement Plans

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Key Findings and Policy Implications

This paper analyzes changes in the cost-of-living adjustment formulas, or COLAs, of state and local pension plans between 2005 and 2018. It also simulates the potential effect of COLA changes on labor supply and Social Security claiming. The authors compile COLA reform data from 49 pension systems in 30 states and covering over half of all non-federal public sector workers. These data are linked to the American Community Survey. The paper finds that:

- Each year during the 2005-2018 period, between 27 and 57 percent of public sector workers in the sample experienced a change in the COLA formula. The direction of change varied over time. In 2005 and 2006, before the Great Recession, 75 to 80 percent of COLA changes were increases. Many more negative than positive COLA changes occurred in 2007-2010 and 2013-2016. In 2013, for example, just 1 of the 19 COLA changes was positive. By 2017 and 2018, there was again an increase in the share of pension plan COLA changes that were positive.
- For a hypothetical full-career public sector worker, eliminating a 3 percent COLA reduces the discounted value of their retirement wealth by an estimated 35 percent. Apply elasticities from previous studies, this reduction translates to a delay in retirement of approximately 4.5 months.

About 14 percent of the U.S. workforce is comprised of state and local employees who are eligible for benefits from state or locally administered pension plans. Many of these plans have unfunded liabilities, but legal restrictions often prevent them from reducing benefits for current employees. They can, however, reduce future liabilities by changing the plan COLAs. The sheer number of workers affected by these changes – 60 million over the 14 years covered in our database – suggests that these changes, which have not been studied on a broad scale, could have significant changes on retirement and Social Security.

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