

Report from the COLA Committee

The committee structure was adopted at the EXCOM meeting on January 14th. There were some volunteers from EXCOM and standing committee chairs present at that meeting. Further members were solicited from the Legislative committee and others.

Committee Chair: Larry Alferink, (ISU)

Other Committee Members: Bruce Appleby (SIUC), Jane Lehmann (ECC), Jim Lockard(NIU), Nick Pano (WIU) and Steve Rugg(UIUC)

Liaison for the Committee: Jane Guagliardo (CCC) Legislative Co-chair

COMMITTEE CHARGE

- To help in development of member survey questions on some specific issues.
- To review ideas/concepts listed below with respect to the SURS COLA put forward by other groups/individuals
- To obtain and review data as appropriate.
- To make specific recommendations regarding possible changes in the COLA for SURS recipients.

COLA PROPOSALS TO CONSIDER FOR DATA COLLECTION AND/OR POSSIBLE APPROVAL

- Delay in COLA until age 67
- Temporary COLA freeze (4 – 6 years) or less?
- Limit COLA to only the first \$25,000 of the pension or more?
- Implementing a non-compounded COLA
- Limit COLA to the average pension income
- Reduce COLA to 1% - 2% of salary/income
- Tie COLA to social security system, or chained CPI, or CPI-E
- Pensionable salary limit for actives equal to existing salary of Social Security Wage Base (\$113,100 in 2013) (member survey?)
- Choice between COLA or Health Insurance
- Taxation of Pensions

REPORT ON FIRST COMMITTEE CONFERENCE CALL ON JANUARY 30, 2012

The Committee reviewed the suggested survey questions and made some modifications to make the questions clearer. We also reviewed information on the cost of the COLA to SURS participants as there is likely widespread misunderstanding on this issue. After the COLA was introduced in 1991, SURS elected to allocate .5% of the total 8% cost of pension benefits to SURS participants as the cost of the COLA (AAI). However, this figure is misleading as it is simply a

change in accounting practices. The cost of pension benefits for SURS participants was 8% both before the COLA was introduced and after it was introduced. *There were no added costs to SURS participants for this added benefit.*

We specifically focused on two questions. One questions asked whether individuals would choose health insurance or whether they would choose the COLA if they were forced to make such a choice. After considerable discussion, the committee agreed that it would be very difficult for individuals to make an informed choice at the present time given that the cost of the health insurance has not as yet been set by CMS. Secondly, some members favored a more detailed question that included information about why the individual made that choice. There was concern that this might make the survey too long or too complicated. Finally, there was concern that individuals might misunderstand the purpose of the question given that the question did not match the beginning instruction “**As part of a compromise, if necessary, I could support:**” *Therefore, the committee elected to delete this question from this survey.*

Secondly, as you know there are some members that are willing to consider *taxing a portion of retirement income.* The committee discussed that all pension income would need to be subject to the income tax. It would not be constitutional to tax only some pension income. It is also the case that the levels that would have to be taxed to generate enough revenue to make it worth paying the political costs would have to be maybe \$40,000 or so, not that much above the average SURS pension There is also resistance in the legislature of including social security for political reasons. Overall, it seemed odd to the committee to have this item in the survey and not a broader set of questions on revenue issues. *The committee elected not to include this question at the present time.*

Survey Results

A famous scientist once said, “There are two kinds of people: those that believe in dichotomies and those that don’t”. The survey clearly indicates that we have two kinds of members: those that are willing to have SUAA agree to some sacrifices and those that are adamantly opposed to any changes.

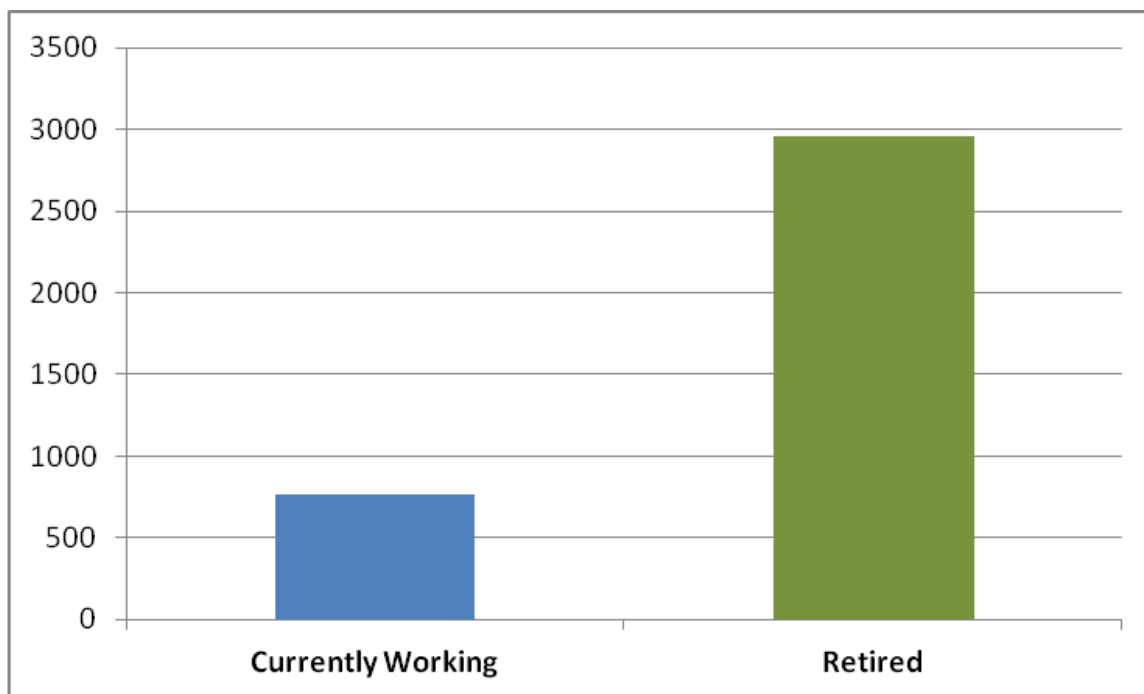
The COLA committee discussed the survey results on a telephone conference call on January 30. In general, the committee notes that there are indicators that the effort to obtain these results was highly successful with a total return rate of 44.7%. These results suggest that our membership is highly concerned and motivated by these issues.

	E-mail Records	Number of Responses	% Responses
First Mailing (Jan 22)	8,373	2,967	35.4%
Second Mailing (Jan 25)	8,373	772	9.2%

Total Mailing	8,373	3,739	44.7%
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SURS Pension System Status

The figure below provides data on the one demographic question (Q8) that was part of the survey. Seventy-Nine percent (2962) of the respondents indicated they were retired while 764 or 31% are currently working. These percentages are quite close to the retired and actively working percentages in the SUAA database where 81% of individuals are coded as retired and 29% are coded as currently working. *This suggests that the survey sample may have been a representative sample.* However, there are several member categories that are not included in these percentages, but who might be included in the survey responses. There are 560 SUAA members who are spouses or partners, 400 who are surviving spouses, and 132 whose status is unknown. Comments indicate that at least some of the responses were obtained for these other categories. Given that the totals for those that responded to this demographic question are slightly less than the total number of response, not all respondents answered question 8. It is reasonable to assume that these may be individuals that did not fit either of the two categories. However, we do not know if some selected one or the other choice simply because the correct option was not available.



The committee agreed that interpreting the results on many questions is complicated because the committee does not have access to data that would help identify factors that may have contributed to the responses we obtained. While the

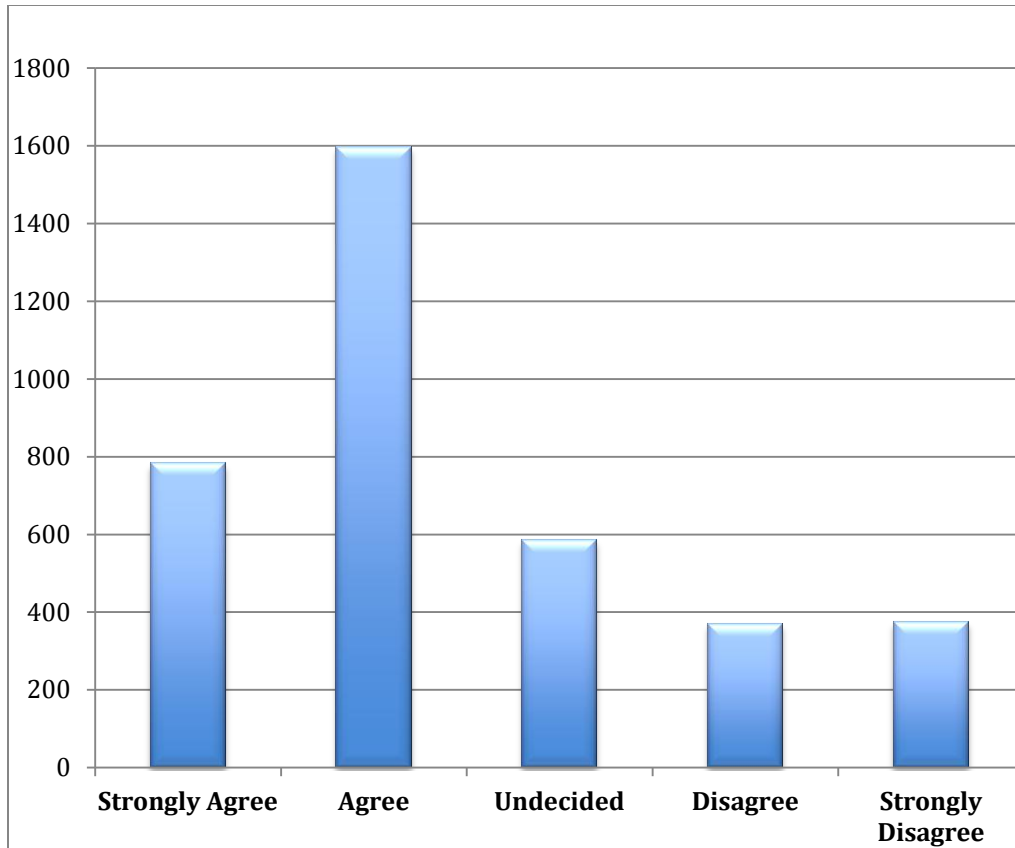
survey asked whether respondent were currently working or retired, there are certain additional demographic questions that may have been useful to help understand responses to certain questions. We will discuss these demographic issues as they arise. In addition, in a few cases, the committee was not certain that respondents had the same understanding of the question that was being asked as did members of the committee. Committee members are all experienced in addressing pension issues and are familiar with provisions of current pension legislation that led to the survey questions. The same is not necessarily true for each and every respondent. These factors place limitations on the ability to interpret the results and may contribute to reasons to include follow-up questions if a decision is made to do additional surveys.

1. Establishing a pensionable salary limit similar to Social Security wage base (currently \$113,700 for FY13) or current salary, whichever is higher.

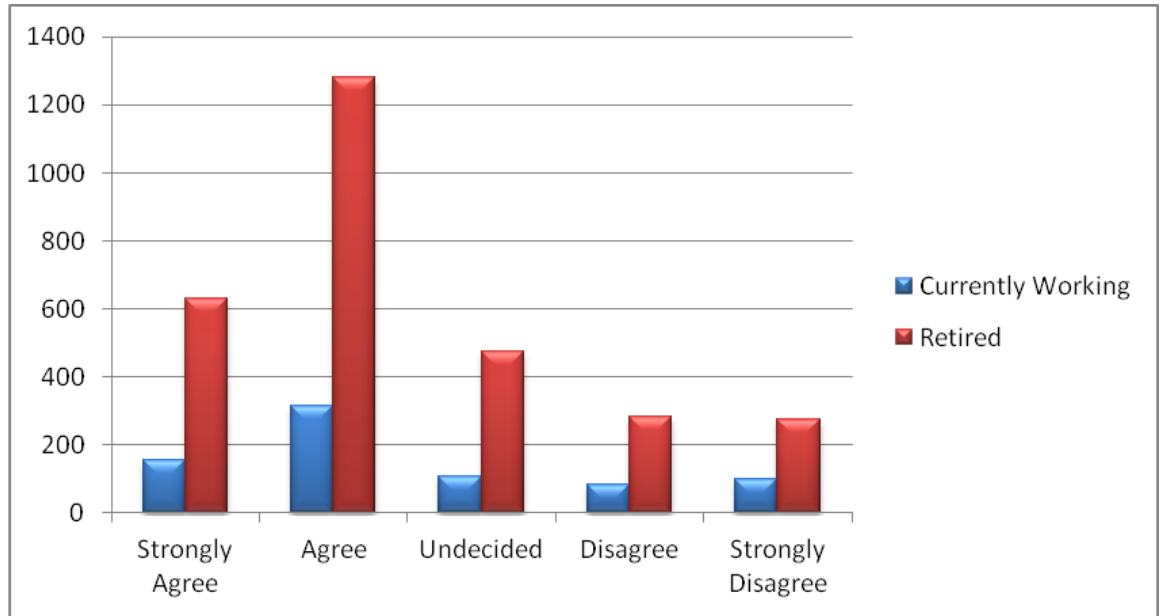
The first question was intended to assess whether our members were willing to support having an upper limit on income that was subject to a pension. Such a limit is in place for new employees in Tier II and is proposed in SB 1. Individuals with current salaries in excess of the social security limit will have paid 8% of their salary above that limit and would get to keep the benefits they earned while those currently at or below that limit would not make SURS contributions on salary in excess of the social security limit, nor would the excess salary above the cap be used to determine pension benefits.

There was *strong agreement* that the membership was willing to accept a salary cap. It would be useful to have demographic data on the salary of current employees, or whether the salaries of retirees exceeded the social security limitation at the time of their retirement. The latter figure might be complicated to obtain, but their current pension might provide a useful estimate. In interpreting the data, the committee's discussion included a concern that responses might have been influenced by whether or not they would have been affected by such a salary cap. Given that the average SURS pension is well below the pension that a salary at or above the cap would generate, respondents might have been willing to cap the pensionable salaries of those with high incomes since it would not have affected them. It would have been interesting to have data on whether the "Disagree" or "Strongly Disagree" responses came from individuals with high salaries.

The Committee was also concerned that there may not have been the same understanding of the question that all members of the committee had before the survey was distributed. Could including "or current salary" in the question been understood to mean that the current salary would determine the pension, even if that salary came to exceed the pension cap after the cap was put into place by legislation. This would inflate the "agree" and "strongly agree" choices. It is not possible to exclude this possibility based on data available to the committee.

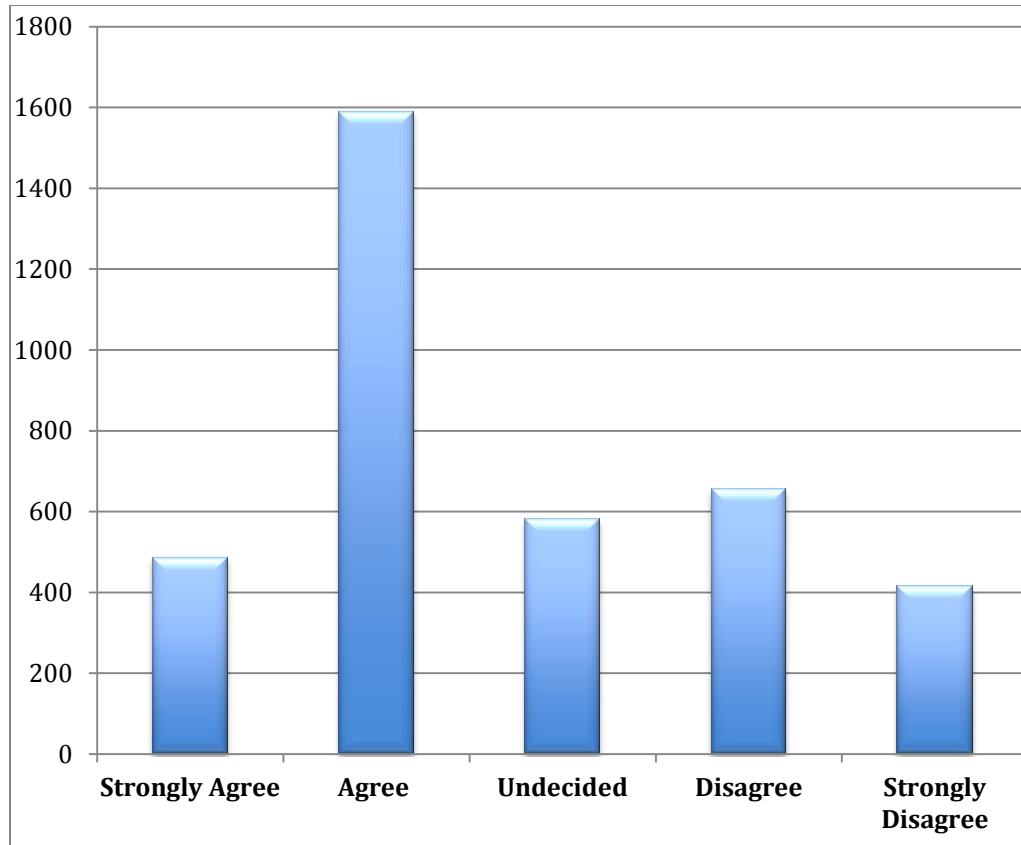


We also considered any differences between the responses of those that are currently working and those that are retired. These results are provided in the figure below and are very similar to the aggregate data. There is little to suggest that whether the respondent was currently working or retired had much relationship to how they answered this question



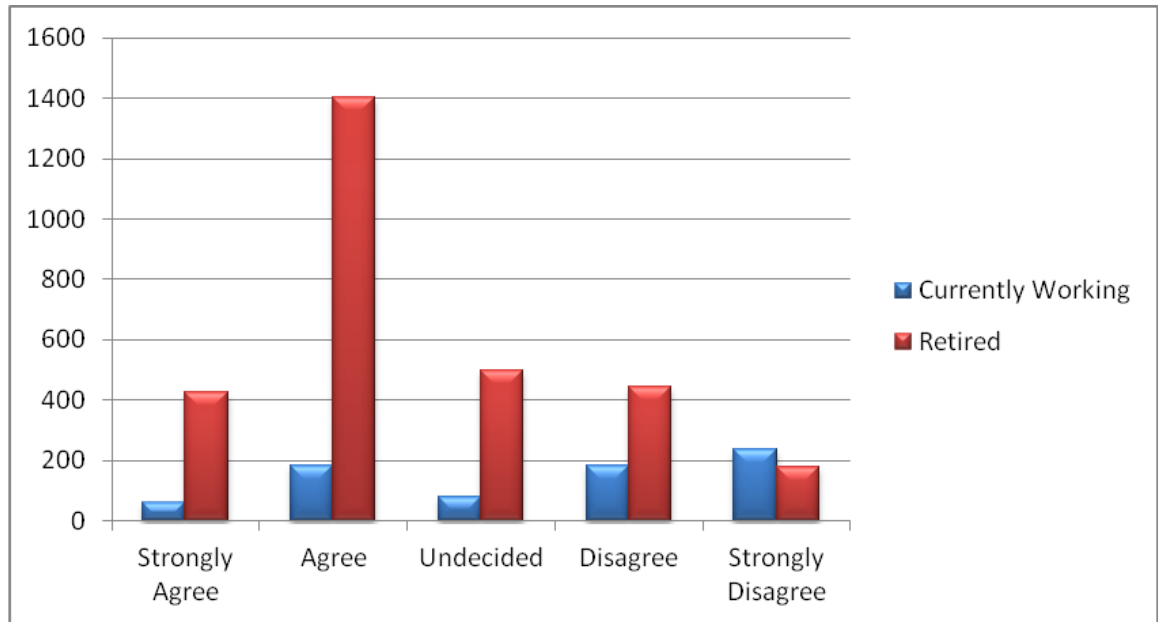
2. Increasing the age of retirement for current employees

The second question was concerned with pension legislation that would increase the age to receive full SURS retirement benefits from age 60 to age 67. The latter is the age at which individuals born after 1959 would receive full social security benefits. Again there was *agreement* that members would be willing to accept this increase with 56% checking either “Agree” or “Strongly Agree”. Age 67 is currently the full SURS retirement age for Tier II participants who began work in 2001 or thereafter.



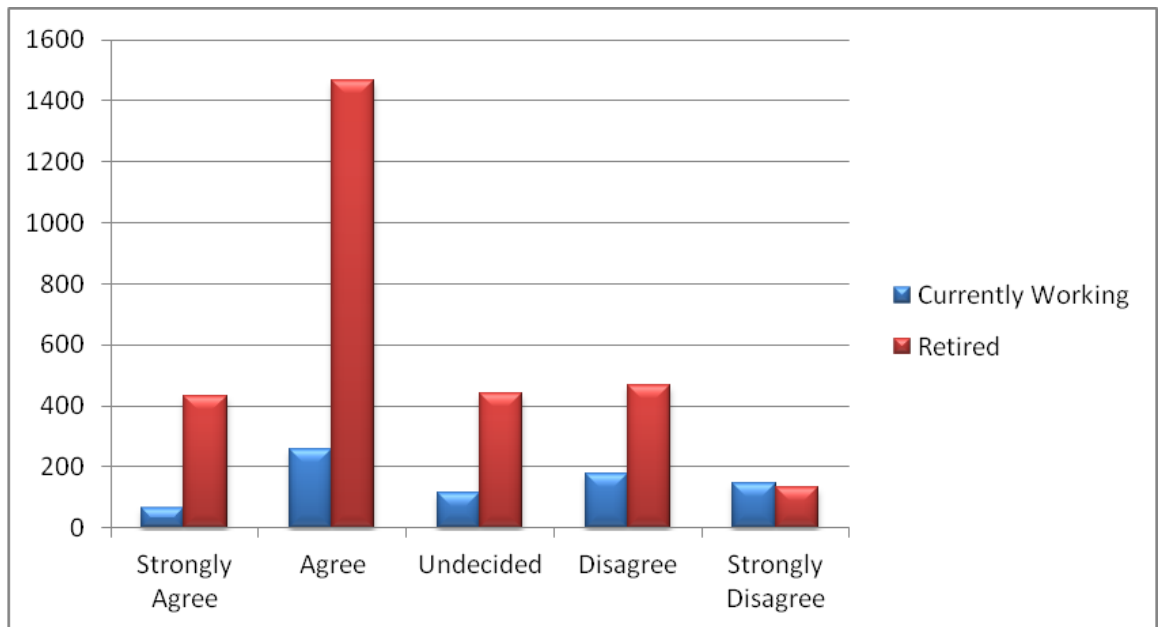
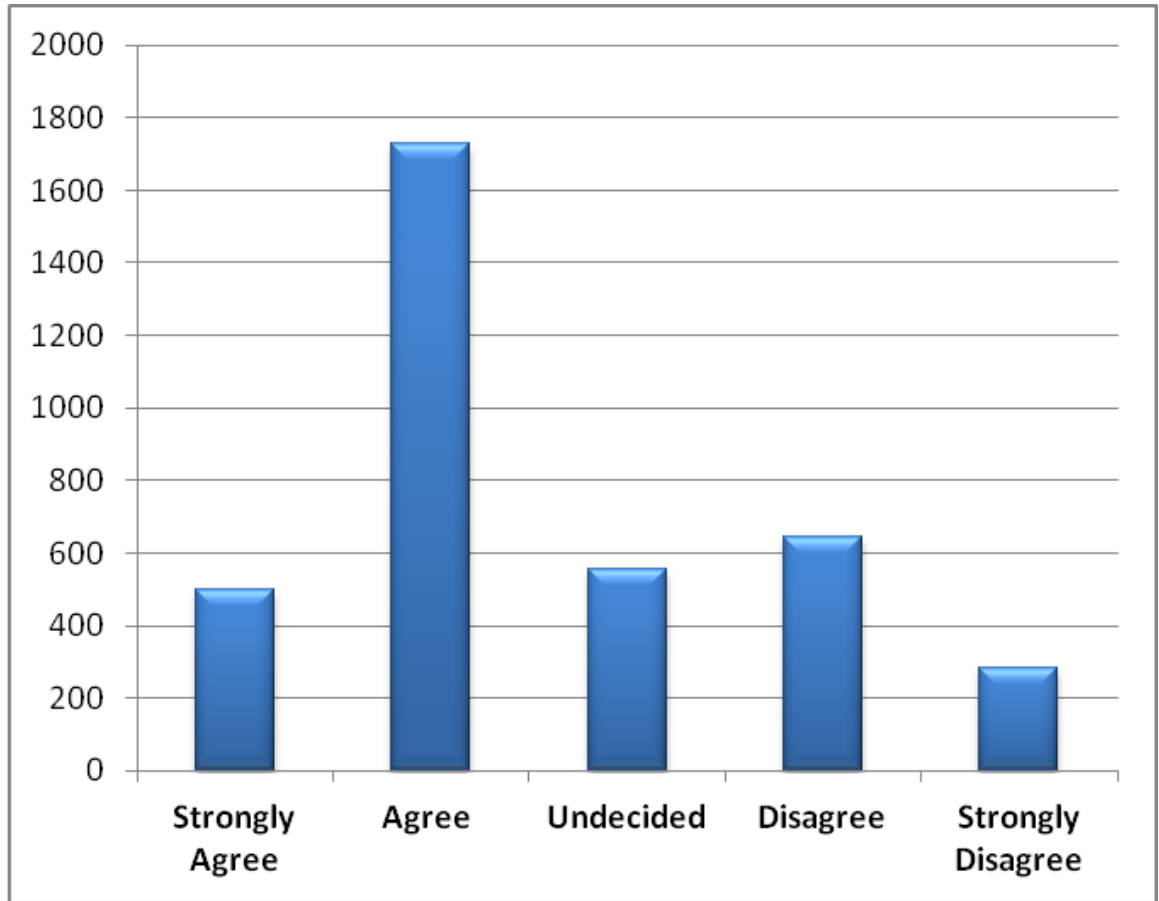
The committee also reviewed data on how individuals who were currently retired or currently working responded and these results are presented below. *Current employees did not support this change* as the “strongly disagree” response received the highest number of responses. Employment status clearly was a factor in how individuals responded to this question. Retirees may be more inclined to support such a change as it would not affect them.

In retrospect, it would have been useful to obtain a breakout of what retirement age respondents would support. The average age of retirement for SURS participants is approximately 62. It would have been useful to know whether individuals would have been willing to support a retirement age of 67 or whether they would want to limit this to an age closer to the current SURS average.



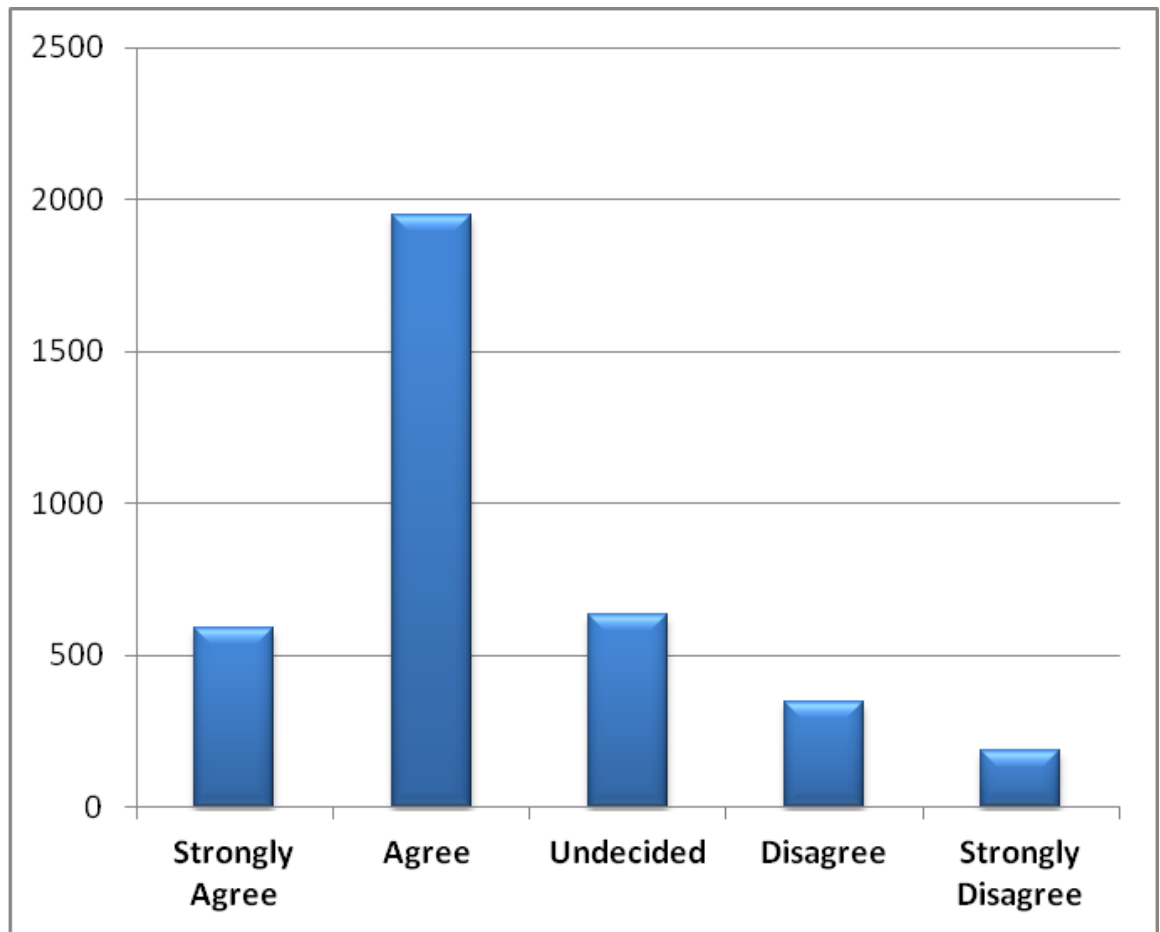
3. Increasing the minimum number of years of service for retirement

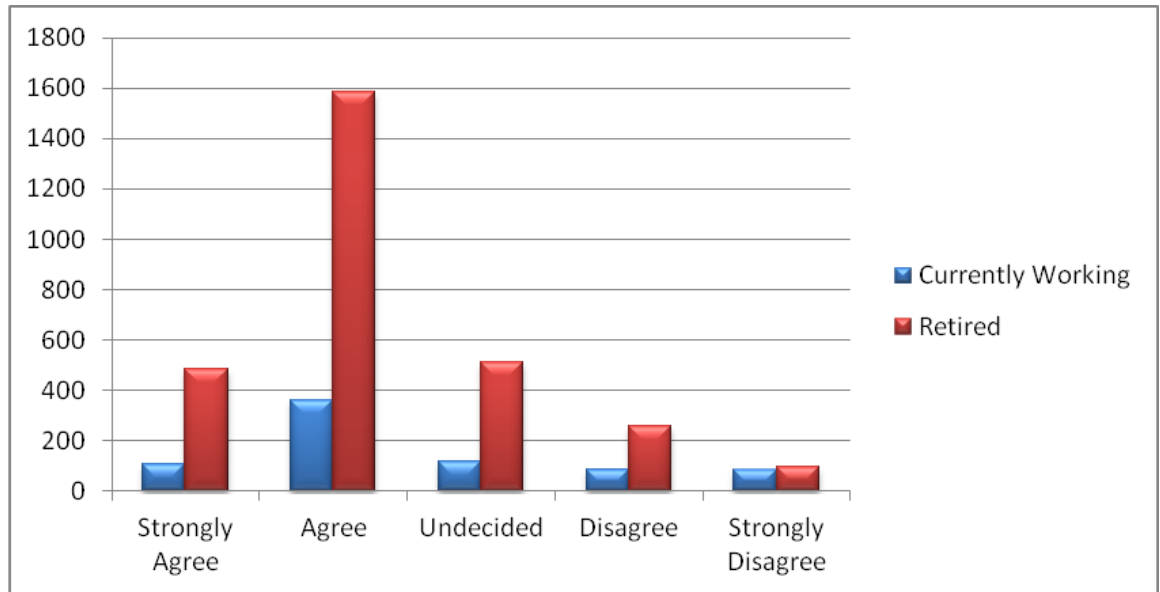
Question 3 asked whether members would agree to increasing the minimum number of years of service for retirement. Commonly known as the vesting period, this period is currently five years for all participants who began work before 2011 and ten years for those who began employment in 2011 or thereafter. There was *strong agreement* with this proposal from participants overall with a similar pattern for those that are currently employed. It again would have been useful to have demographic data on how long each individual had been employed as we can probably assume that the service of most would exceed whatever this increase would be, especially since the average years of service at retirement is about 20 years in SURS. Thus, most respondents would not have been affected. It is easier to agree to raise requirements for other people than for oneself. Therefore, care needs to be taken in drawing conclusions for this question given we can not determine to what extent this situation may have been a factor in the responses to this question. See the conclusion for other concerns regarding the impact such a change would have on earning credits for social security.



4. Increasing the monthly pension contribution for current employees by 2% over a two-year period

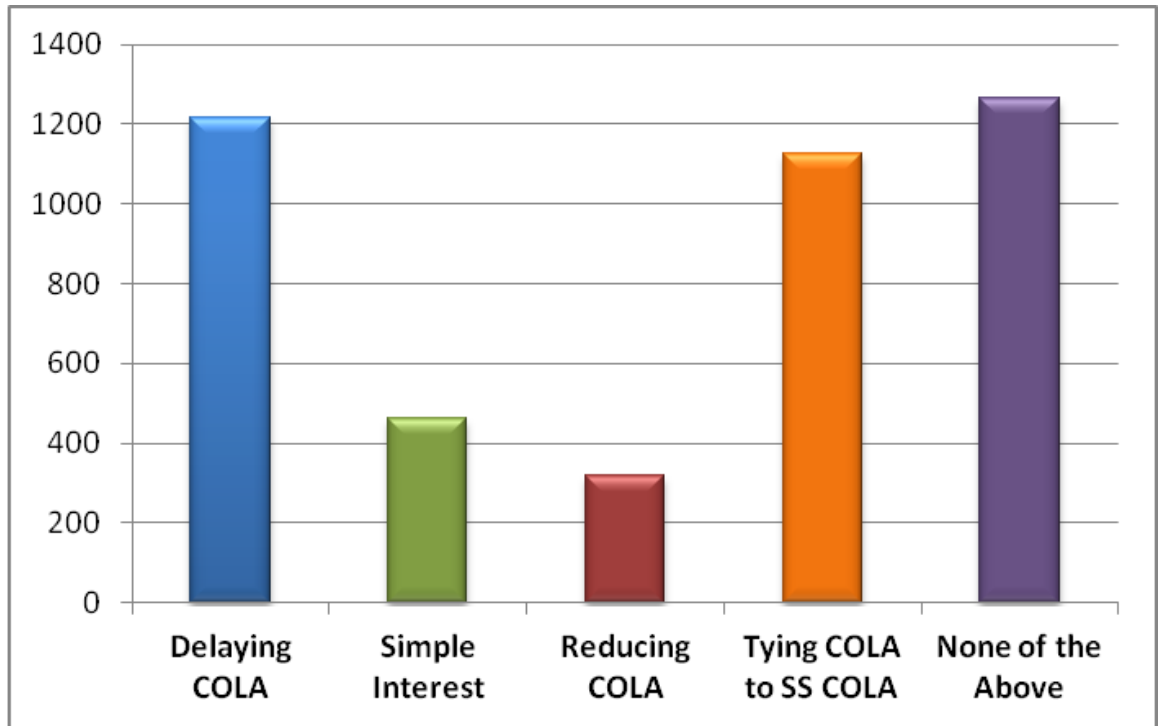
Question 4 asked whether individuals could support a 2% increase in current employee contributions to SURS from 8% of salary to 10% of salary over a two year period. There is *sizeable agreement* with this proposal. Again, since the majority of respondents are retired, it is important that we also have a breakout of data based on whether the individual is currently working or is retired. Interestingly, the pattern among those currently working is similar to that obtained for retirees. It might be useful to obtain a sample of interviews from those that are currently working to get a deeper perspective on their reasons for choosing this option when they could have taken a stance opposing all changes to their pensions. The committee would note that any proposal to make such a change without consideration offsetting this impairment would likely be found unconstitutional.



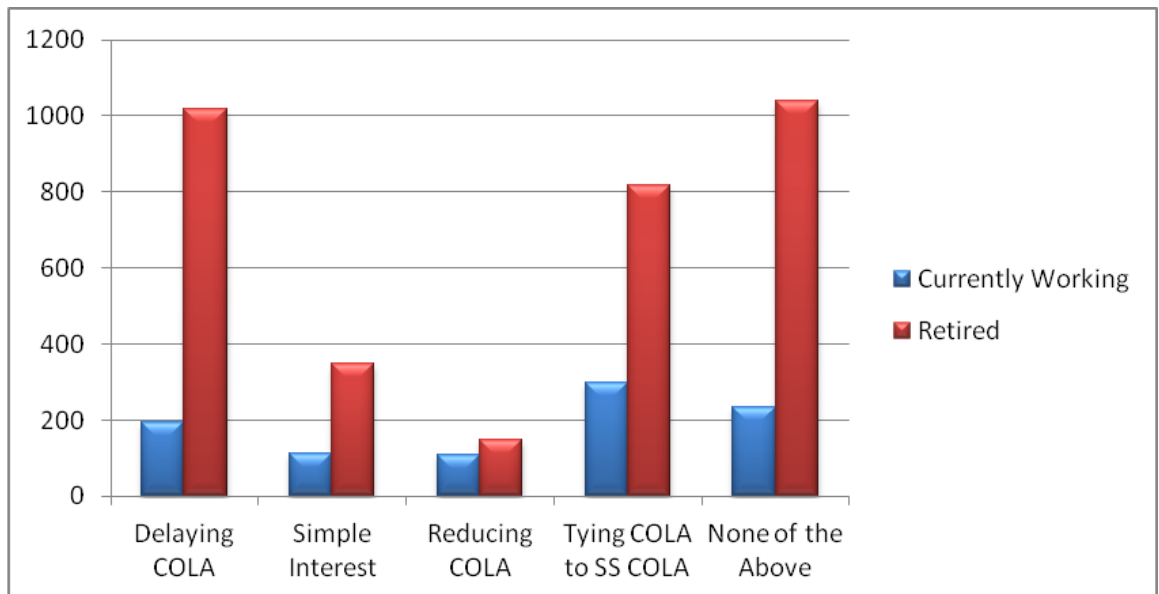


5. Changing the Cost of Living Adjustment (COLA) formula by: (check one or more)

Question 5 addressed possible changes to the COLA with respondents roughly evenly divided among three options. *In order of preference, these are oppose any of the options, accept delaying the COLA and tying the COLA to the COLA provisions for social security recipients.* “None of the Above” is self-explanatory. Delaying the COLA is also addressed in question 7 that provides a breakout of how long individuals could accept a COLA freeze, so we will discuss this option further under that question.



The pattern is slightly different for those that are currently working as the preference order favors tying the COLA to that used in the social security program over the other two favored choices.



Tying the COLA to social security is not part of any current legislation but has been discussed informally among some SUAA members. The committee had access to data on the Social Security COLA for the past ten years. Using this method of

computing the COLA would have resulted in lower benefits than using the current SURS COLA. These results are provided in the table below. Over a ten year period, individuals with a \$25,000 pension would lose \$1,100 relative to a flat 3% COLA or \$110 per year on average. With a pension of \$34,000, approximately the current SURS average, the pension would be almost \$1,500 lower when compared to the 3% SURS COLA over the ten year period. Illustrations of other example pensions are provided in the table. It is important to note that while over the last ten years, retirees would have lost ground modestly relatively to the 3% SURS COLA, the Social Security COLA is not capped at 3%. In 4 of the last 10 years, the social security COLA exceeded 3%. While we did not have access to data on the social security COLA over a longer period of time, it is clear that COLAs in excess of 3% were common in prior years. While the 3% has exceeded the rate of inflation in the last few years, the social security COLA provides better protection against the risk of inflation over the long run. Thus perhaps it is not surprising that there was significant support for this option.

Starting Pension	SURS 3% AAI after 10 Years	Social Security COLA after 10 years	Difference
\$25,000	\$32,500	\$31,400	\$1,100
\$34,000	\$44,200	\$42,704	\$1,496
\$50,000	\$65,000	\$62,800	\$2,200
\$75,000	\$97,500	\$94,200	\$3,300
\$100,000	\$130,000	\$125,600	\$4,400

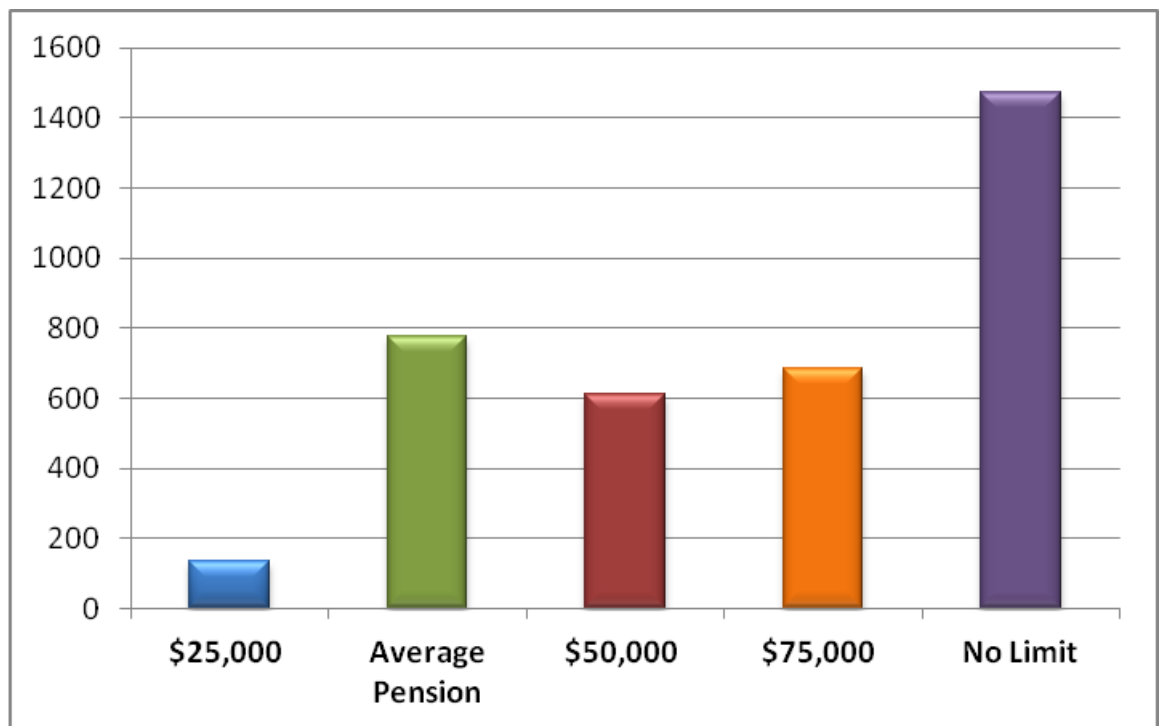
Some comments suggested that there would be an advantage of using a average of the COLA over a period of time. The impact of this on recipients depends on the details of how such an average would be implemented. The state might see an advantage in terms of budget planning by using an average of a block of years, much as SURS is required to conduct a study on effective rates of return and longevity data every five years. Using this method would cost participants due to decreased compounding. The other alternative is using a moving average which has the advantage of smoothing out variations from year to year, but would pose the same difficulty for the state in terms of planning budgets as would using the year by year data as does the Social Security Administration.

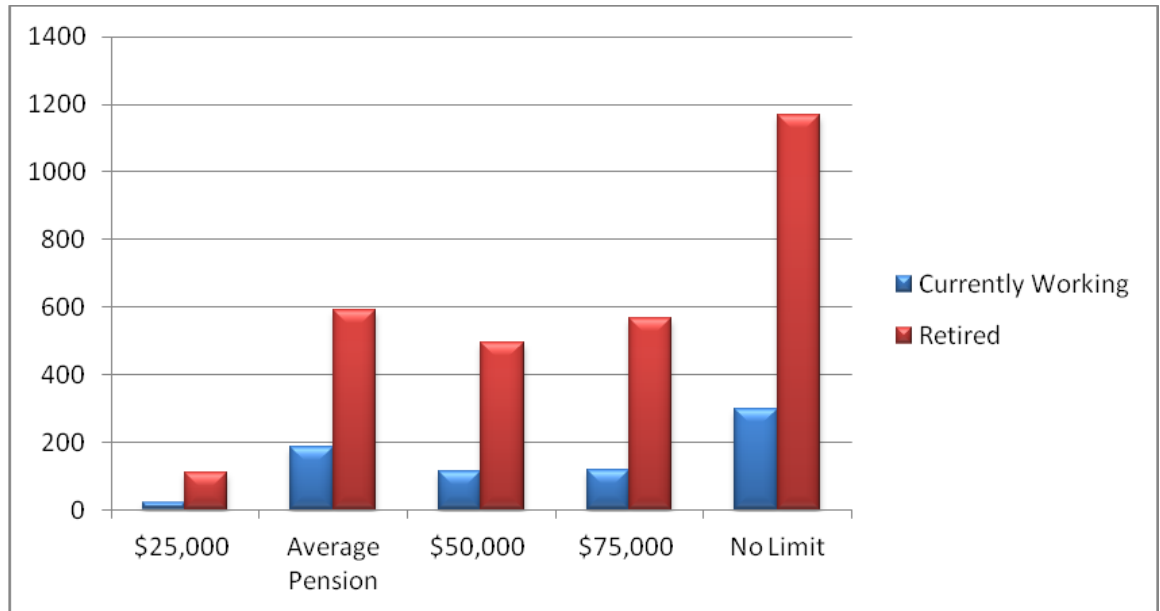
6. Limiting the COLA to: (check one)

Question 6 asked whether our members could support a limit on how much of pension income is subject to inclusion in computing the COLA. *The modal response favored no limit*, representing approximately 40% of those answering this question. A second mode occurred at using the average pension as the COLA limit. The committee felt that this may have drawn some support because it is a less arbitrary figure than picking any other number out of a hat. It would also appear to be a figure that would move over time, perhaps better adjusting to actual costs of inflation than a figure that remains fixed. However, it should be recognized that this later point

may be illusory because the elimination of COLAs for those salaries above the average would reduce the average pension over time, gradually impacting more and more of our members. Responses from those that are currently working and those that are retired showed a similar pattern.

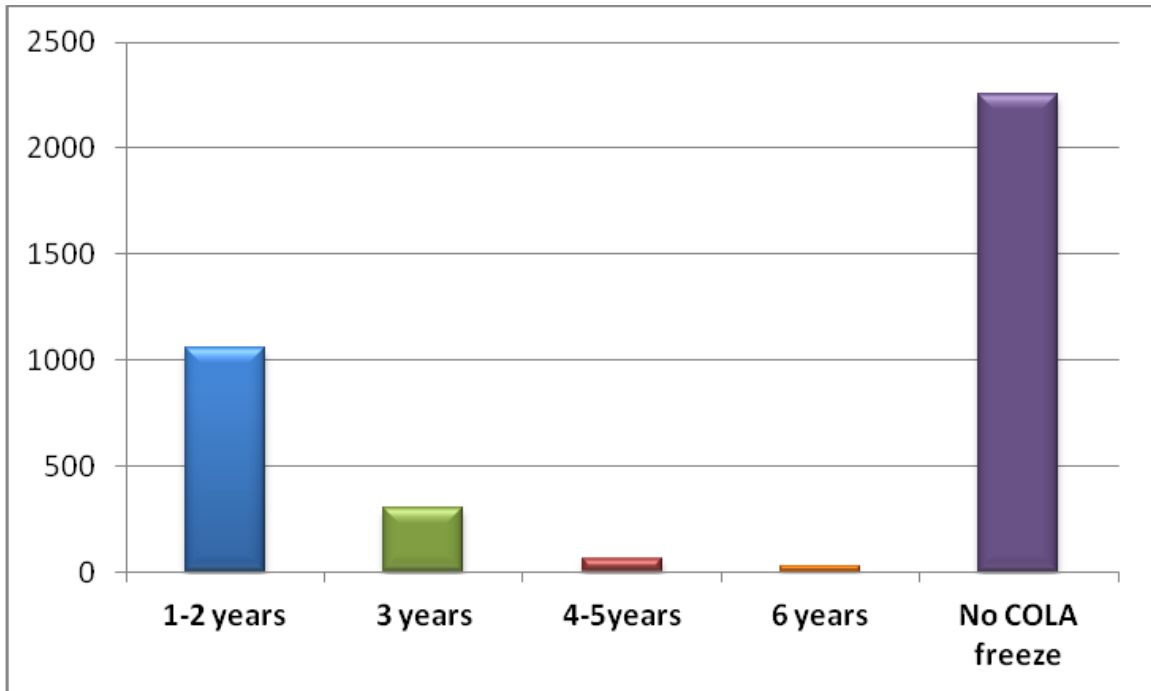
However, it may have been useful to have information on the current salary for those that are actively employed and the pension for those that are retired. It is certainly possible that individuals may have selected a pension cap that was above their current pension, or for those actively working, above the likely pension once they retire. Thus, it is possible that these responses reflected self-interest and a willingness to sacrifice the benefits of those with higher pensions. These results need to be interpreted with care.



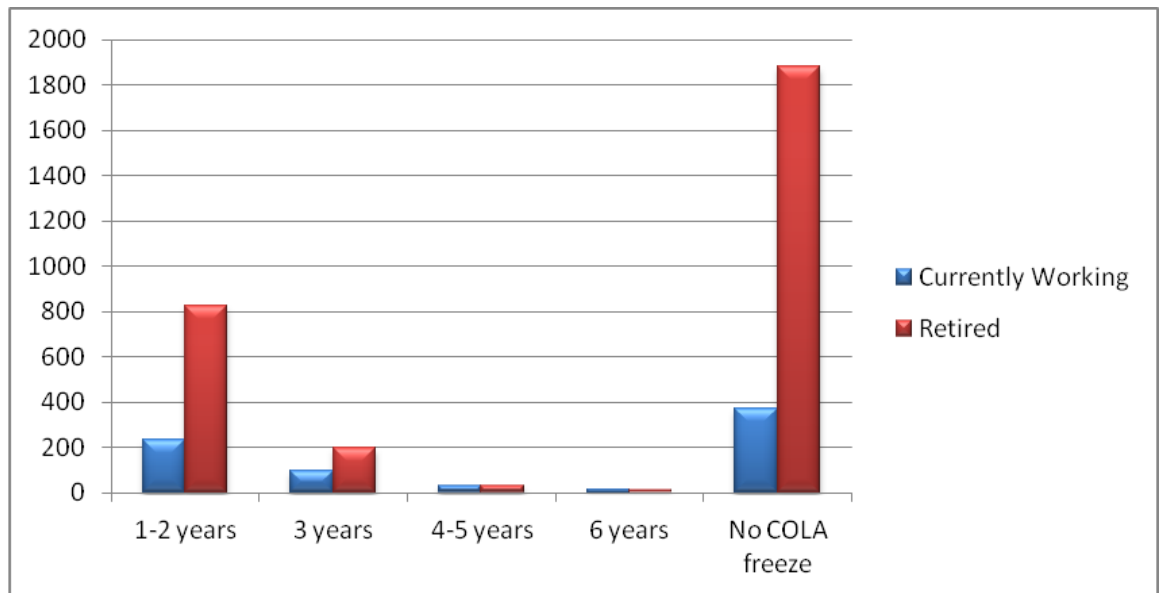


7. Implementing a temporary COLA freeze for: (check one)

Question 7 asked whether individuals would accept a temporary freeze on the COLA during retirement. These results are provided in the two figures below. There was *strong opposition* to this option and whatever support there was for a temporary freeze rapidly evaporated as the duration of the freeze lengthened. While there was some support for a short freeze of one to two years, almost none could support a freeze as long as six years as contained in the Nekritz-Biss bill considered during the lame-duck session. The final graph shows little difference on this issue between individuals who are currently working or who are retired. Both groups were strongly opposed to such legislation. These responses suggest that while they might be willing to accept a “modest” sacrifice, the draconian measures contained in some legislation should be a focus of strong opposition in our lobbying efforts.



It should be noted that in question five, 1267 respondents selected “None of the Above”, indicating that they oppose any of the other options presented. In question seven, 2,257 respondents selected “None of the Above”, showing that when the only option was freezing the COLA, individuals who selected other options in question 5 coalesced around opposing any delay in the COLA. That makes it clear how strongly they oppose this option.



Comments

There are now roughly 50 written comments from members, cut and pasted into a 26 page Word document. (Attached)

The general breakdown of comments by category is the following:

Approximately 11 comments on the survey instrument itself - why Survey Monkey wasn't used; lack of options; different format should have been used; biased; too limited in scope; results can be misinterpreted, we shouldn't take responses as a mandate etc.

About 10 on the "absolutely no compromise" track, unconstitutional, illegal; there should be no separate SUAA position; no even mention of "shared sacrifice", etc. These particular responses are exceptional LONG!.

About 15 indicated that they we were "on the right track", a good survey, thanks for all hard work; thanks for asking input; understand necessity to take some measures, etc

A few (3) mentioned we shouldn't refer to it as a COLA since it is a fixed 3% increase regardless of actual changes in the cost of living.

6 indicated a willingness to pay tax on pensions

2 indicated social security model was acceptable

3 indicated that responsibility should be "shared" with legislators that caused the problem

6 or so questioned why we hadn't included questions on health insurance choice, cost shift to local districts.

3 indicated there was not enough protection for upper salaried workers or that short term employees would get to keep their COLA but not long term employees

3 indicated that the survey encouraged people to pick options that don't hurt them personally rather than fair options - that the survey will turn people against each other...

1 each responded that

- we should publish analysis of various options

- consider the impact on surviving spouses

- the chained CPI was too low

- we should propose using long term averaging instead of CPI

- should focus on shoring up pensions instead

- we should have gradational reforms based on pension income

- enact special taxes dedicated to remedying state's financial woes

- extend the current income tax

- eliminate credit for public employment outside the state

- should apply limit to combined pension benefits for those with more than one

Conclusions

Responses to some questions suggest that there is a need for an effort by SUAA and the respective chapters to introduce an education campaign to help our

members better understand the issues that face them in current adverse legislation. Assuming that a better informed membership will be more effective in advocating on behalf of their own interests, and that of SUAA as a whole, SUAA should consider issuing mini-briefings that serve an educational role and are not simply an update about what the legislature might do. Likewise chapters could include such items in their chapter newsletters as the newsletters will reach individuals that will not receive SUAA mini-briefings because they have not provided e-mail addresses. An example of such an issue was present in question 5 where 462 individuals selected simple interest as an option for the COLA. It is important for our members to understand the power of compounding over time and the devastating impact that limiting the COLA to simple interest would have on pension income. To assist with this effort, an attachment is provided that compares using simple interest with compound interest over a 30 year retirement at a variety of interest rates.

Second, some comments clearly suggested that there was resentment among some members about the benefits that some of our members receive. For example, consider providing a full 3% COLA to individuals that received a pension of \$25,000 or less. A relatively low pension could result from several scenarios including individuals that worked many years at a low salary or only worked a few years but at a high salary. While one might be more sympathetic to a person in the former category than the latter, the committee discussed the complications that arise when one wants to draw conclusions based solely on pension data. We do not have access to the full lifetime income of our members, nor do we have access to the full listing of assets they may own. In addition, the pension each individual receives has been earned under the rules in effect at the time of their retirement and SUAA should not join in an effort to play part of our membership off against another part. Such efforts are divisive and are counter to efforts that we should work to protect the lawfully earned pensions and benefits of all of our members.

Question 3 perhaps illustrates both of these points. The committee was concerned that there may be resentment toward individuals who receive a pension after only working perhaps 5 years, the minimum number of years required for vesting for those that began employment prior to 2011. The committee was concerned that some of the comments we received may indicate that some of our members failed to recognize the significant cost to individuals who work in public higher education but who do not work long enough to qualify for a pension.

Consider the plight of someone covered under Tier II benefits where the vesting period is ten years. If this individual were to leave employment for any reason after nine years and nine months, they would not qualify for a pension and would not have earned any credits toward social security. If they had been employed elsewhere under social security, they would only have to find a job and work a short time to qualify for social security benefits. The committee also noted that a ten year vesting period is approximately half of the average period of employment for SURS participants. While a vesting period of reasonable length is acceptable, as that vesting period gets longer, it has other consequences.

Secondly, the committee noted that since the average number of years of service as a SURS participant is a little more than 20 years, having a 10 year vesting that would be almost half of the average years of service is not reasonable in the

committee's opinion. There may be a need to educate members about linking the lack of social security credits with a longer vesting period.

Finally, the survey did not break out any members that may be participating in Tier II. These individuals would represent a small percentage of respondents who are actively working. This was an oversight in this survey that should be corrected if a future survey were constructed.

The committee encourages SUAA to consider a follow-up survey. This should occur after CMS has announced the cost of health insurance so that retirees can make a more informed choice between health insurance and their COLA. This information has several potential uses. First, it would help prepare SUAA for an education campaign to help our members make an informed choice that best fits their circumstances should such a bill be approved by the legislature and signed by the governor. Second, if a large percentage of our members would choose to keep their COLA, this could help to convince members of the legislature that such legislation will not have as much impact on reducing pension cost as they might have thought.

Summary

Based on the survey results and written comments from the members, SUAA might consider supporting the following proposals:

- A 2% increase in current employee SURS contribution over a two year period

SUAA should strongly oppose

- any COLA freeze longer than one year

SUAA should not take a formal position on

- increasing the retirement age for current employees at this time

SUAA should develop informational mini-briefings on

- the financial effects of various different COLA options and limits (questions #5 and #6)
- When new insurance rates have been established for university and community college employees and retirees, another informational mini-briefing could be written to help participants make a more informed choice between health insurance and their COLA.

These two items could be then be re-surveyed with additional demographic data, as well as possible other items surveyed such as a tax on retirement income.