



Annual COLA Option (ACO)

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What is the Annual COLA Option (ACO)?

The ACO is a retirement option that enables a retiring member to receive a self-funded, guaranteed annual 2.5% cost-of-living adjustment (COLA) by accepting an actuarially reduced retirement benefit.

Note: The term COLA is widely used among the general public and is also known as a permanent benefit increase or PBI.

Who is eligible?

Members eligible to choose the 2.5% ACO are those applying for the following:

- regular service retirement,
- Deferred Retirement Option Plan (DROP), or
- Initial Lump-Sum Benefit (ILSB) option.

Retirees receiving TRSL disability benefits who meet eligibility requirements for regular service retirement on or after July 1, 2009, can also choose the ACO.

How does it work?

Upon retiring, a member receives an actuarially reduced retirement benefit each month. Retirees must be age 55 and retired for one year before the 2.5% ACO is applied.

What does actuarially reduced mean? The retirement benefit will be reduced based upon the cost the retirement system will incur to provide a 2.5% ACO to the retiree each year.

What is an anniversary date? A retiree's anniversary date is either their retirement date or the date they began DROP participation. For retirees who receive a TRSL disability benefit, the anniversary date is the date when they met eligibility requirements for regular service retirement.

ACO participation is voluntary, but its election is permanent and irrevocable.

For DROP participants/retirees:

DROP accounts will be credited with the 2.5% ACO on the individual's anniversary date during the DROP participation period, if age criteria are met. If the individual continues working after completing DROP, the ACO will be applied to any supplemental benefit earned after DROP participation ends.

For ILSB retirees:

The monthly retirement benefit will reflect two actuarial reductions: (1) for ILSB participation, and (2) for the ACO election.

For lifetime spousal beneficiaries:

These individuals are eligible to receive the 2.5% ACO, if the option had been chosen by the retiree. The spousal beneficiary will start receiving the ACO on the anniversary date following what would have been the retiree's 55th birthday.

For lifetime non-spousal beneficiaries:

These individuals are not eligible to receive the 2.5% ACO, even if the option was chosen by the retiree. However, non-spousal beneficiaries will receive an amount based upon the option chosen by the retiree and the amount received by the retiree on the date of death (which may have included an ACO). No further ACO will be given to the non-spousal beneficiary.

Will I get other benefit increases?

Retirees and beneficiaries, both spousal and non-spousal, will continue to be eligible for any COLAs granted by the Legislature for which the retiree would have been eligible to receive.

Comparing benefits

The table (right) compares the ACO retirement benefit with a regular retirement benefit based on the following:

- A 55-year-old member retires with 25 years of service and a final average compensation (FAC) of \$2,500. Their regular, lifetime TRSL benefit is \$1,440.00 based on the decision to select their 55-year-old spouse as a beneficiary under Option 2A.

As shown at right, ACO benefit will not exceed the regular benefit until around the member's 15th anniversary date.

The difference in benefits over time

It is important to consider the cumulative difference in benefits when deciding to select the ACO. The chart at right and table below provide a long-range comparison of the ACO versus a regular cumulative annual retirement benefit. The cumulative difference captures the loss or gain in income when comparing the two options over an extended period of time.

For example, at the five-year mark, a member would have waived \$20,723.01 in retirement income by choosing the ACO.

ACO retirement benefit example:

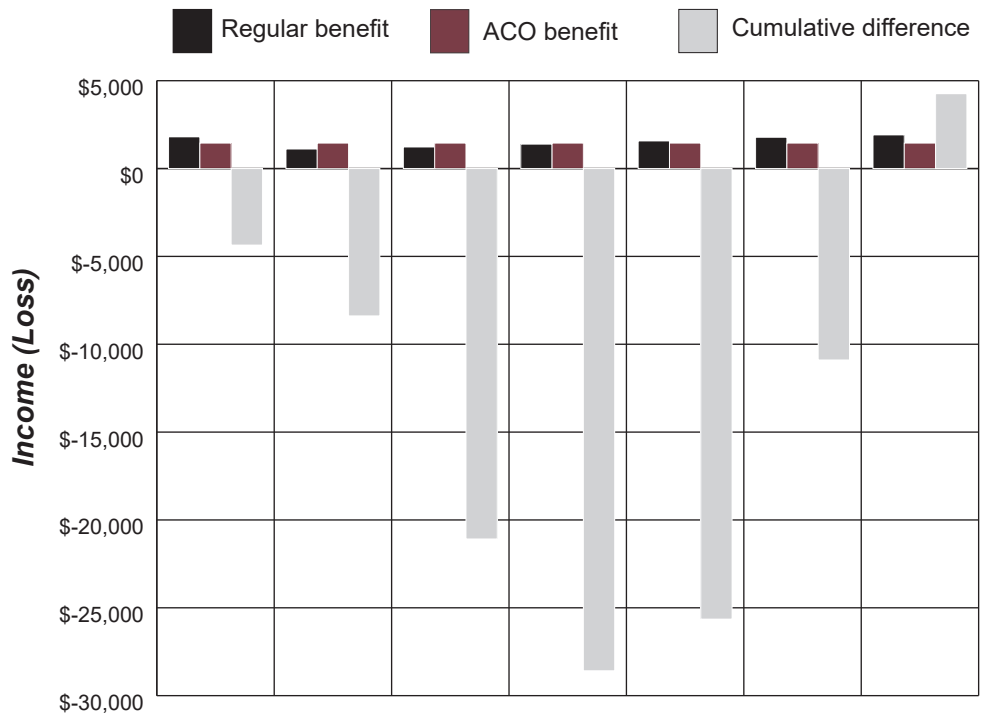
Annual COLA (ACO)	Monthly benefit amount*				
	1 st year	5 th year	10 th year	15 th year	20 th year
<ul style="list-style-type: none"> Initial monthly reduced benefit: \$1,086.00 2.5% ACO added each anniversary date 	\$1,113.15	\$1,228.71	\$1,390.17	\$1,572.85	\$1,779.54

Regular retirement benefit example:

Regular retirement	Monthly benefit amount*				
	1 st year	5 th year	10 th year	15 th year	20 th year
<ul style="list-style-type: none"> Monthly benefit: \$1,444.00 No guaranteed COLA No actuarial reduction 	\$1,444.00	\$1,444.00	\$1,444.00	\$1,444.00	\$1,444.00

*Does not include COLAs granted by the Legislature.

NOTE: The regular retirement benefit is based upon calculations for a 55-year-old member with a final average compensation of \$2,500 per month and 25 years of service, who selects retirement option 2A for a 55-year old spousal beneficiary.



	At retirement	1 st year	5 th year	10 th year	15 th year	20 th year	23 rd year
ACO benefit	\$13,032.00	\$26,389.80	\$83,244.99	\$162,684.52	\$252,563.06	\$354,252.40	\$421,572.64
Regular benefit	\$17,328.00	\$34,656.00	\$103,968.00	\$190,608.00	\$277,248.00	\$363,888.00	\$415,872.00
Cumulative difference	(\$4,296.00)	(\$8,266.20)	(\$20,723.01)	(\$27,923.48)	(\$24,684.94)	(\$9,635.60)	\$5,700.64

Numbers in parentheses reflect negative values.

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