

# Annual COLA Option (ACO)

## What is the Annual COLA Option (ACO)?

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

## Who is eligible?

Members applying for regular service retirement, the Deferred Retirement Option Plan (DROP), or the Initial Lump-Sum Benefit (ILSB) option are eligible to elect the 2.5-percent ACO. Disability retirees 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. The 2.5-percent ACO is applied to this reduced monthly benefit on the retiree's anniversary date after his or her 55th birthday.

A retiree's anniversary date is either their retirement date or the date they began DROP participation. In the case of disability retirees, the anniversary date is the date when they met eligibility requirements for regular service retirement.

A retiree must be at least 55 years of age on his or her anniversary date to start receiving the 2.5-percent ACO, or for a spouse to receive it in the event of the retiree's death. For example, members who retire at age 51 will not receive an ACO increase until the first anniversary date following their 55th birthday.

## For ILSB retirees

The monthly retirement benefit of ILSB retirees who choose the ACO will be adjusted to reflect two reductions. Their benefits will reflect an actuarial reduction for ILSB participation first, and a second actuarial reduction for their ACO election.

## For DROP participants and retirees

The DROP accounts of DROP participants who choose the ACO will be credited for the 2.5-percent ACO on their anniversary date during their DROP participation period, if age criteria are met. If the DROP participant continues working after completing DROP, the ACO will be applied to any supplemental benefit earned after DROP participation ends.

## For lifetime spousal beneficiaries

Spousal beneficiaries receiving a lifetime benefit are eligible to receive the 2.5-percent

ACO, if the option had been chosen by the retiree. The spousal beneficiary will start receiving the ACO on the retiree's anniversary date following what would have been the retiree's 55th birthday.

## For lifetime non-spousal beneficiaries

Non-spousal beneficiaries receiving a lifetime benefit are not eligible to receive the 2.5-percent ACO, if the option was chosen by the retiree. The non-spousal beneficiary

will receive an amount based upon the option chosen by the retiree and the amount received by the retiree on his or her date of death. No further ACO COLAs will be given to the non-spousal beneficiary.

## Eligibility for other benefit increases

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

## Comparing benefits: What you should know

The table below compares the ACO retirement benefit with a regular retirement benefit based on the following criteria:

A 55-year-old member with a final average compensation of \$2,500 per month and 25 years of service credit selects Option 2A and designates a spousal beneficiary who is age 55.

### ACO retirement benefit example:

Annual COLA (ACO) • Initial monthly reduced benefit: \$1,117 • 2.5% ACO added each anniversary date	Monthly benefit amount*				
	1st year	5th year	10th year	15th year	20th year
	\$1,145	\$1,264	\$1,430	\$1,618	\$1,830

### Regular retirement benefit example:

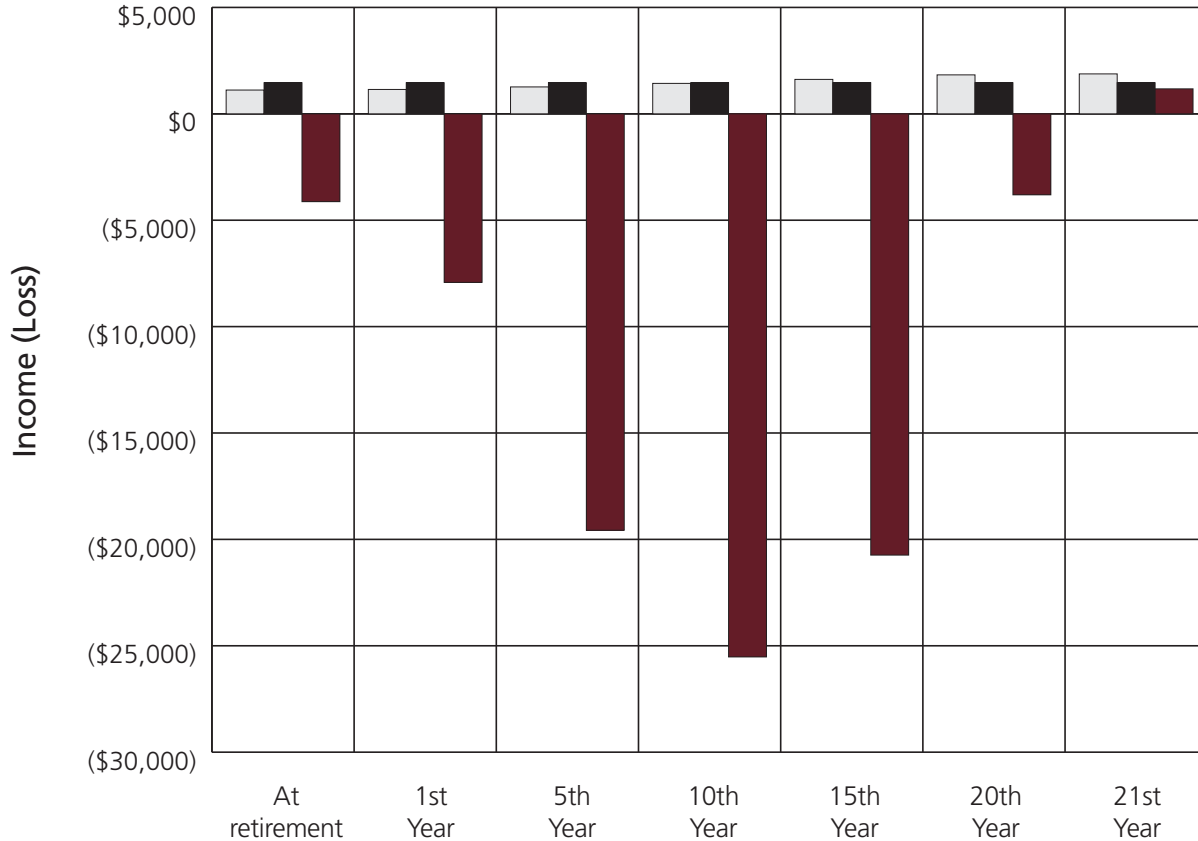
Regular retirement • Monthly benefit: \$1,461 • No guaranteed COLA • No actuarial reduction	Monthly benefit amount*				
	1st year	5th year	10th year	15th year	20th year
	\$1,461	\$1,461	\$1,461	\$1,461	\$1,461

\*Does not include COLAs granted by the Legislature.

## Difference in benefits over time

The ACO benefit will not exceed the regular benefit until around the 15th anniversary.

The Cumulative Difference reflects how long it would take for a member to break even on the ACO plan.



	At retirement	1st Year	5th Year	10th Year	15th Year	20th Year	21st Year
ACO Benefit	\$1,117	\$1,145	\$1,264	\$1,430	\$1,618	\$1,830	\$1,876
Regular Benefit	\$1,461	\$1,461	\$1,461	\$1,461	\$1,461	\$1,461	\$1,461
Cumulative Difference	(\$4,128)	(\$7,921)	(\$19,571)	(\$25,524)	(\$20,739)	(\$3,807)	\$1,174

Numbers in parentheses reflect negative values.

### POINTS TO REMEMBER:

- Participation is voluntary, but the ACO election is permanent and irrevocable.
- Choosing the ACO will reduce the monthly retirement benefit.
- A 2.5-percent COLA will be applied each year on the retiree's anniversary date following his or her 55th birthday.
- The ACO is calculated excluding COLAs granted from other sources.

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~ Annual COLA Option ~



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