

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 1138
Appropriations

(Delegate Forbes)

Budget and Taxation

State Retirement and Pension System – Cost-of-Living Adjustments –
Clarification

This emergency bill establishes that, for the annual calculation of the cost-of-living-adjustment (COLA) for State retirees, the October 2025 consumer price index (CPI) value is the average of the CPI values for September 2025 and November 2025.

Fiscal Summary

State Effect: Any change in COLAs resulting from the bill likely has no discernible effect on State pension liabilities and contribution rates, as discussed below. No effect on revenues.

Local Effect: The bill likely has no discernible effect on pension liabilities or contribution rates for participating governmental units. No effect on revenues.

Small Business Effect: None.

Analysis

Current Law: State pension law defines “consumer price index” as the annual *average* CPI (all urban consumers, United States city average, all items, not seasonally adjusted, 1982-1984 = 100) for the calendar year ending December 31 as published by the United States Department of Labor, Bureau of Labor Statistics (BLS) (emphasis added). BLS has traditionally released 12 monthly CPI reports per year. In accordance with statutory requirements, the State calculates the CPI value for each calendar year as the average of all 12 reports from the previous calendar year. However, due to the federal government shutdown in October and early November 2025, BLS did not publish a CPI report for October 2025.

The State uses the consumer price index from the previous two calendar years to calculate the COLA rate. The rate is calculated using the following formula, where CPI_{new} represents the consumer price index from the preceding calendar year and CPI_{old} represents the consumer price index for the second preceding calendar year:

$$COLA Rate = \frac{CPI_{new} - CPI_{old}}{CPI_{old}}$$

The COLA rate, which is used to calculate increases in benefits for retirees for the upcoming fiscal year, is capped for each plan under State law as shown in **Exhibit 1**. Except for members in the Employees' Retirement System (ERS) and the Teachers' Retirement System (TRS), all service credit earned after July 1, 2011, is capped at 2.5% if the total investment performance of the systems equals or exceeds the assumed rate of investment return established by the Board of Trustees, and 1% if investment performance falls short of the assumed rate.

Exhibit 1
Post Retirement Cost-of-living Adjustments

	<u>ERS/TRS</u>	<u>EPS/TPS</u>	<u>SPRS</u>	<u>CORS</u>	<u>LEOPS</u>
Service Credit Earned on or Before 06/30/2011	Unlimited (Selection A); 5%, compounded annually (Selection B)	3%, compounded annually	Unlimited	Unlimited	3%, compounded annually
Service Credit Earned on or After 07/01/2011	Unlimited (Selection A); 5%, compounded annually (Selection B)	2.5% (in any year the system earns assumed rate of return); 1% (rate of return not met)	2.5% (in any year the system earns assumed rate of return); 1% (rate of return not met)	2.5% (in any year the system earns assumed rate of return); 1% (rate of return not met)	2.5% (in any year the system earns assumed rate of return); 1% (rate of return not met)

CORS: Correctional Officers' Retirement System
 EPS/TPS: Employees'/Teachers' Pension System
 ERS/TRS: Employees'/Teachers' Retirement System
 LEOPS: Law Enforcement Officers' Pension Systems
 SPRS: State Police Retirement System

Note: Members of the Judges' Retirement System and Legislative Pension Plan do not receive COLAs; their benefits are tied to the salaries of active members in those plans.

Sources: Maryland Annotated Code; State Personnel and Pensions Article; Department of Legislative Services

State Expenditures:

Applying the Bill's Methodology to Prior Years

The State Retirement Agency (SRA) determined that creating an October data point by averaging the CPI values for September and November would be an appropriate strategy to calculate the State CPI value for 2025 without October data. Applying this method to data from previous years resulted in COLA rates that were similar to the rate actually used for that year, before any caps are applied, as shown in **Exhibit 2**. SRA further reports that when this methodology was applied to the monthly benefits of each retiree from the several systems, the average monthly benefit that retirees would receive (without considering any caps that may be applied) was, in most cases, lower by an amount less than \$1.00. In only two cases were the benefits lower by an amount greater than \$1.00. In those cases, the benefits would have been \$1.06 and \$1.31 lower than their actual monthly benefit received.

Exhibit 2 Actual COLA Rates vs. Rates Under the Bill

<u>CY</u>	<u>Actual Computation</u>		<u>Using Avg. of September and November</u>	
	<u>CPI Value</u>	<u>COLA</u>	<u>CPI Value</u>	<u>COLA</u>
2021	270.970	4.698%	270.931	4.683%
2022	292.655	8.003%	292.592	7.979%
2023	304.702	4.116%	304.681	4.109%
2024	313.689	2.949%	313.667	2.942%

Avg.: Average

COLA: cost-of-living-adjustment

CPI: Consumer Price Index

CY: Calendar Year

Source: Bureau of Labor Statistics; Maryland State Retirement Agency

Fiscal Effect Relative to Current Law

In the absence of a CPI for October 2025, a reasonable interpretation of current law, which requires the State CPI to be the annual average of BLS' periodic (monthly) CPI reports, is that the average should be taken from all data points that were published through the previous calendar year. In this instance, that would mean taking the average of all eleven CPI values reported by BLS in 2025. Doing so yields an average CPI value of 321.943 in 2025. Other reasonable interpretations of current law for addressing the missing

October 2025 data may be available and could yield different CPI values than those shown here. For purposes of comparison and for informational purposes only, this analysis applies the interpretation of current law described above.

As previously discussed, the bill adds a data point for October 2025 by using the average CPI value of September and November 2025, to represent a reasonable estimate of what the CPI value for the month of October 2025 might have been had it been published. This methodology provides the State with 12 data points to compute the average, as is the standard in any other previous year, and yields an average CPI value of 322.153 in calendar 2025, which is greater than the 321.943 value generated under current law.

Using the 2024 average CPI value of 313.689, the COLA rate formula can be used to calculate the rate before applying any caps. Under the assumptions used for current law CPI, this yields a COLA rate of 2.631%; using the methodology prescribed under the bill, the rate is 2.698%. Accordingly, the bill's methodology produces a COLA rate that is 0.067 percentage points higher than under current law.

Although this increase is small, it could result in costs to the State through higher COLA payments. Because the State met its assumed investment rate in FY 2025, the COLA applicable to most service accrued after July 1, 2011, is capped at 2.5%. Since the calculated COLA rates under both current law and the bill exceed 2.5%, the cap applies in either case and there is no difference between the two methodologies for post-2011 service. However, for service accrued before July 1, 2011, and for retirees of ERS/TRS, none of the other caps as shown in Exhibit 1 apply. As a result, COLAs under the bill increase for some service credit by 0.067 percentage points relative to current law. An exact estimate of the resulting cost increase is not available without additional analysis of benefit payments and member service histories, which could not be performed in time for this analysis. Also, as noted above, alternative methodologies for calculating CPI for calendar 2025 may yield different results. Moreover, a nominally higher COLA rate for fiscal 2027 mitigates any potential COLA increase for fiscal 2028 and beyond, potentially offsetting any increase in fiscal 2027. Lastly, any change in liabilities attributable to the bill would be amortized over 10 to 15 years under State law. After factoring in the minimal increase in the COLA rate, the COLA caps, the possibility of alternative interpretations, the amortization of any minimal increase in liabilities, and the mitigation of future COLA increases, the bill's effect on State pension liabilities and contribution rates is likely negligible.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 724 (Senator Lewis Young) - Budget and Taxation.

Information Source(s): State Retirement Agency; Bureau of Labor Statistics; Department of Legislative Services

Fiscal Note History: First Reader - February 16, 2026
sj/mcr Third Reader - March 12, 2026

Analysis by: Andrew Stover

Direct Inquiries to:
(410) 946-5510
(301) 970-5510