



Pension & Health Benefits Committee

Agenda Item 7a

March 14, 2023

Item Name: Update on Retiree Cost-of-Living Adjustment

Program: Retirement Benefit Services Division

Item Type: Information

Executive Summary

The annual rate of inflation as measured by the percentage change in the Consumer Price Index (CPI-U) was 8% through the 12 months ending December 2022. The impact of the 8% inflation for the Cost-of-Living-Adjustment (COLA) is reflected in the charts below by COLA provision and year of retirement.

Strategic Plan

This item supports the CalPERS 2022-2027 Strategic Plan (Pension Sustainability), which is to strengthen the long-term stability of the pension fund.

Background

The Retirement Law provides for the payment of an annual COLA to be paid each May. The COLA is limited to the lesser of two numbers, the rate of inflation or the compounded COLA provision contracted by the employer. In addition, if a member's COLA increase is less than 1% in a given year, no COLA increase is applied for that year. Those with a 2% COLA provision cannot receive an adjustment of more than 6% of their base allowance. Currently 95% of CalPERS retirees have a 2% COLA provision. The remaining CalPERS retirees have a 3%, 4%, or 5% COLA provision.

In addition to the COLA, some retirees will receive a Purchasing Power Protection Allowance (PPPA) adjustment. PPPA is a supplemental benefit designed to maintain the original purchasing power of CalPERS retirees to a predetermined limit when accumulated Cost-of-Living Adjustment (COLA) has not maintained pace with inflation.

Analysis

Over the last 40 years (1983-2022), the inflation rate has averaged 2.82% and the long term (1965-2022) inflation rate has averaged 4.02%. The 8% inflation rate this year will be used in calculating the 2023 COLAs for CalPERS retirees and will be reflected on the May 1, 2023 retirement checks.

COLA and PPPA Increases in May 2023 for Retirees by Year of Retirement

State and Schools	
Year of Retirement	Allowance Increase (COLA and PPPA) effective May 1, 2023
1965-1981*	8.00%
1982*	5.06%
1983*	3.82%
1984-2005	2.00%
2006	2.13%
2007	2.98%
2008	4.77%
2009	2.42%
2010	2.06%
2011	3.22%
2012	3.29%
2013	2.74%
2014	2.36%
2015-2021	2.00%
2022	Not Eligible

* These retirement years include PPPA adjustments

Contracting Agencies 2% Provision	
Year of Retirement	Allowance Increase (COLA and PPPA) effective May 1, 2023
1965-1984*	8.00%
1985*	6.71%
1986*	6.79%
1987*	5.08%
1988*	2.98%
1989-2005	2.00%
2006	2.13%
2007	2.98%
2008	4.77%
2009	2.42%
2010	2.06%
2011	3.22%
2012	3.29%
2013	2.74%
2014	2.36%
2015-2021	2.00%
2022	Not Eligible

* These retirement years include PPPA adjustments

Contracting Agencies 3% Provision	
Year of Retirement	Allowance Increase (COLA and PPPA) effective May 1, 2023
1965-1976	8.00%
1977	5.25%
1978-1979	3.00%
1980	5.22%
1981-2014	8.00%
2015	7.58%
2016	5.76%
2017	4.87%
2018	4.30%
2019	3.10%
2020-2021	3.00%
2022	Not Eligible

Contracting Agencies 4% Provision	
Year of Retirement	Allowance Increase (COLA and PPPA) effective May 1, 2023
1965	8.00%
1966	7.68%
1967	6.52%
1968	6.73%
1969-2018	8.00%
2019	6.13%
2020-2021	4.00%
2022	Not Eligible

Contracting Agencies 5% Provision	
Year of Retirement	Allowance Increase (COLA and PPPA) effective May 1, 2023
1965-2019	8.00%
2020	5.30%
2021	5.00%
2022	Not Eligible

Budget and Fiscal Impacts

COLA is a contracted benefit by each employer and the employers fund this benefit through their contribution rate as determined by the actuaries. The annual increase in COLA benefits are projected to be \$567 million over the next year, and approximately 1.9% of the \$30.1 billion expected annual benefit payments.

Benefits and Risks

The annual COLA is a statutory requirement. There are no identified risks associated to this informational item.

Attachment

Attachment 1 – Retiree Cost-of-Living Adjustment PowerPoint

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