



Consent

Agenda Item 5c

February 18, 2015

ITEM NAME: Update on Retiree Cost-of-Living Adjustments

PROGRAM: Benefit Program Services

ITEM TYPE: Information Consent

EXECUTIVE SUMMARY

The annual rate of inflation as measured by the percentage change in the Consumer Price Index (CPI-U) was 1.62 percent through the 12 months ending December 2014. The impact of the 1.62 percent inflation for the Cost-of-Living-Adjustments (COLA) is reflected in the chart below for retirees by COLA provision and year of retirement.

STRATEGIC PLAN

This item is not a specific product of the Strategic Plan but is part of the regular and ongoing workload of the Benefit Services Division.

BACKGROUND

The basic structure of the retirement COLA increases at the California Public Employees' Retirement System (CalPERS) includes: annually scheduled cost-of-living increases, ad hoc increases, and Purchasing Power Protection Allowance (PPPA) benefit increases.

The Retirement Law provides for the payment of an annual COLA to be paid each May. However, the COLA adjustment is limited to the lesser of two compounded numbers – the rate of inflation or the COLA contracted by the employer. Currently 95 percent of CalPERS retirees are subject to a 2 percent COLA provision. Less than 5 percent of all CalPERS retirees are currently subject to a 3, 4 or 5 percent COLA.

In addition to the automatic COLAs, the Legislature has periodically authorized permanent ad hoc COLAs. The last time an ad hoc COLA was approved by the legislature was in 1999.

The PPPA is an automatic equity adjustment added to a monthly benefit as a protection against inflation and works together with the COLA. PPPA was designed to be a supplementary benefit distributed to retirees (and their survivors or beneficiaries) when the original purchasing power of their monthly benefit falls below a certain level. The levels are established by statute and are as follows:

- 75 percent of original purchasing power for State and Schools
- 80 percent of original purchasing power for Public Agencies

ANALYSIS

The United States (US) inflation rate as measured by the percentage change in the CPI-U for the 12 months ending in December 2014 was 1.62 percent. This measure will be used in calculating the 2015 regular COLAs for CalPERS retirees. The US inflation rate one year ago was 1.46 percent. Over the last 20 years (1994-2014), the inflation rate has averaged 2.4 percent and the long term (1965-2014) inflation rate has averaged 4.2 percent.

The impacts of the 1.62 percent inflation for the COLA adjustments are reflected in the chart below for retirees by COLA provision and year of retirement.

COLA Increases in May 2015 for Retirees by Year of Retirement

COLA Provision	Year of Retirement	% COLA Increase Effective May 1, 2015
2% COLA	2006 & Earlier	2.00
	2007-2008	1.62
	2009	1.94
	2010	2.00
	2011-2013	1.62
	2014	Not eligible
3% COLA	1980 & Earlier	3.00
	1981-2013	1.62
	2014	Not eligible
4% COLA	1974 & Earlier	4.00
	1975-2013	1.62
	2014	Not eligible
5% COLA	2013 & Earlier	1.62
	2014	Not eligible

BUDGET AND FISCAL IMPACTS

Not Applicable.

BENEFITS/RISKS

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

ATTACHMENTS

Not Applicable.

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