



Pension and Health Benefits Committee Agenda Item 5e

February 14, 2017

Item Name: Retired Members Cost of Living Report

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 1.26 percent through the 12 months ending December 2016. The applicable inflation rate is greater than 1 percent and an adjustment will be paid to all eligible retirees. The impact of the 1.26 percent inflation for the Cost-of-Living-Adjustment (COLA) is reflected in the chart on page 2 for retirees by COLA provision and year of retirement.

Strategic Plan

This item supports the California Public Employees' Retirement System (CalPERS) Strategic Plan Goal B: "Cultivate a high-performing, risk-intelligent, and innovative organization," as well as, our objective to "deliver superior, end-to-end customer service that is adaptive to customer needs."

Background

The Retirement Law provides for the payment of an annual COLA to be paid each May. However, 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 one percent in a given year, no COLA increase is applied for that year. 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.

Analysis

The United States (US) inflation rate as measured by the percentage change in the CPI-U for the 12 months ending in December 2016 was 1.26 percent. This measure will be used in calculating the 2017 regular COLAs for CalPERS retirees. The US inflation rate one year ago was .120 percent, which resulted in no COLA adjustment for approximately 45 percent of CalPERS retirees. However, the 2017 COLA does factor the 0.120 percent adjustment for all retirees. Over the last 20 years (1996-2016), the inflation rate has averaged 2.3 percent and the long term (1965-2016) inflation rate has averaged 4.1 percent.

The impacts of the 1.26 percent inflation for the COLA are reflected in the chart below for retirees by COLA provision and year of retirement.

COLA Increases in May 2017 for Retirees by Year of Retirement

COLA Provision	Year of Retirement	% COLA Increase Effective May 1, 2017
2% COLA	2004 & Earlier	2%
	2005	1.26%
	2006	1.61%
	2007-2009	1.38%
	2010	1.68%
	2011-2014	1.38%
	2015	1.26%
	2016	Not Eligible
3% COLA	1980 & Earlier	3%
	1981-2014	1.38%
	2015	1.26%
	2016	Not Eligible
4% COLA	1973 & Earlier	4%
	1974-2014	1.38%
	2015	1.26%
	2016	Not Eligible
5% COLA	2014 & Earlier	1.38%
	2015	1.26%
	2016	Not Eligible

Budget and Fiscal Impacts

No budget impacts. See analysis section for financial impacts.

Benefits and 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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