



Pension and Health Benefits Committee Agenda Item 7

March 20, 2018

Item Name: Retired Members Cost of Living Report

Program: Benefit Program Services

Item Type: Information

Executive Summary

The annual rate of inflation as measured by the percentage change in the Consumer Price Index (CPI-U) was 2.13 percent through the 12 months ending December 2017. The applicable inflation rate is greater than 1 percent and an adjustment will be paid to all eligible retirees. The impact of the 2.13 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 provision.

Analysis

The United States inflation rate as measured by the percentage change in the CPI-U for the 12 months ending in December 2017 was 2.13 percent. This measure will be used in calculating the 2018 regular COLAs for CalPERS retirees. Over the last 20 years (1997-2017), the inflation rate has averaged 2.15 percent and the long term (1965-2017) inflation rate has averaged 4.06 percent.

The impacts of the 2.13 percent inflation on COLA is reflected in the chart below for retirees by COLA provision and year of retirement.

COLA Increases in May 2018 for Retirees by Year of Retirement

COLA Provision	Year of Retirement	% COLA Increase Effective May 1, 2018
2% COLA Provision	2004 & earlier	2%
	2005-2015	2.13%
	2016	2%
	2017	Not Eligible
3% COLA Provision	1979 & earlier	3%
	1980	2.65%
	1981-2016	2.13%
	2017	Not Eligible
4% COLA Provision	1969 & earlier	4%
	1970	3.93%
	1971	3.63%
	1972	4%
	1973	2.15%
	1974-2016	2.13%
	2017	Not Eligible
5% COLA Provision	2016 & earlier	2.13%
	2017	Not Eligible

Budget and Fiscal Impacts

The increase in COLA on the monthly retirement roll beginning in May 2018 is estimated to be \$440 million. This COLA amount is factored into employers' annual valuations and is accounted for in current employer rates.

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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