



Pension and Health Benefits Committee

Agenda Item 7b

March 17, 2020

Item Name: Retired Members Cost of Living Report

Program: Retirement Benefits 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 1.81 percent through the 12 months ending December 2019. The applicable inflation rate is greater than 1 percent and an adjustment will be paid to all eligible retirees. The impact of the 1.81 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 goal of long-term sustainability of the pension plan from the CalPERS 2017-2022 Strategic Plan by ensuring COLA is applied in accordance with statute and employer contract provisions.

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 1 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 (US) inflation rate as measured by the percentage change in the CPI-U for the 12 months ending in December 2019 was 1.81 percent. This measure will be used in calculating the 2020 COLAs for CalPERS retirees. Over the last 20 years (1999-2019), the inflation rate has averaged 2.17 percent and the long term (1965-2019) inflation rate has averaged 3.99 percent.

The impacts of the 1.81 percent inflation on COLA is reflected in the chart below for retirees by COLA provision and year of retirement.

COLA Increases in May 2020 for Retirees by Year of Retirement

COLA Provision	Year of Retirement	% COLA Increase Effective May 1, 2020
2% COLA Provision	2004 & Earlier	2%
	2005-2015	1.81%
	2016-2017	2%
	2018	1.81%
	2019	Not Eligible
3% COLA Provision	1979 & Earlier	3%
	1980-2018	1.81%
	2019	Not Eligible
4% COLA Provision	1965	1.81%
	1966	2.50%
	1967	3.62%
	1968	3.42%
	1969	2.07%
	1970-2018	1.81%
	2019	Not Eligible
5% COLA Provision	2018 & Earlier	1.81%
	2019	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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