



Pension & Health Benefits Committee

Agenda Item 8a

March 16, 2021

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 1.23% through the 12 months ending December 2020. The applicable inflation rate is greater than 1% and an adjustment will be paid to all eligible retirees. The impact of the 1.23% 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) 2017-2022 Strategic Plan, 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. 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% in a given year, no COLA increase is applied for that year. Currently 95% of CalPERS retirees are subject to a 2% COLA provision. Less than 5% of all CalPERS retirees are currently subject to a 3, 4 or 5% COLA provision.

Analysis

The United States (US) inflation rate as measured by the percentage change in the CPI-U (Consumer Price Index, Urban) for the 12 months ending in December 2020 was 1.23%. This measure will be used in calculating the 2021 regular COLAs for CalPERS retirees. Over the last 20 years (2000-2020), the inflation rate has averaged 2.13% and the long term (1965-2020) inflation rate has averaged 3.94%.

The impacts of the 1.23% inflation on COLA is reflected in the chart below for retirees by COLA provision and year of retirement.

COLA Increases in May 2021 for Retirees by Year of Retirement

COLA Provision	Year of Retirement	% COLA Increase Effective May 1, 2021
2% COLA Provision	2003 & Earlier	2%
	2004	1.81%
	2005-2015	1.23%
	2016	1.62%
	2017	1.49%
	2018-2019	1.23%
	2020	Not Eligible
3% COLA Provision	1979 & Earlier	3%
	1980-2019	1.23%
	2020	Not Eligible
4% COLA Provision	2019 & Earlier	1.23%
	2020	Not Eligible
5% COLA Provision	2019 & Earlier	1.23%
	2020	Not Eligible

Budget and Fiscal Impacts

COLA is a contracted benefit by each employer and is funded through their contribution rate as determined by the actuaries. The annual increase in COLA benefits are projected to be \$242 million over the next year, less than 1% of the \$27.6 billion in expected annual benefit payments.

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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