Consent

Agenda Item 5c

February 20, 2013

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

PROGRAM: Actuarial Office

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 2.07 percent in 2012. As a result, most CalPERS retirees will receive a two percent Cost-of-Living Adjustment (COLA) in May 2013. This means that the vast majority of retirees suffered a loss of 0.07 percent of their purchasing power.

STRATEGIC PLAN

This item is not a specific product of the Strategic Plan but is part of the regular and ongoing workload of the Actuarial Office.

BACKGROUND

The basic structure of the retirement COLA increases at 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

For the past two decades, increases or decreases in the amount of a recipient's PPPA benefit occurred in the January 1st warrant. Senate Bill 1139, passed in 2010, changed the payment date. The PPPA benefit will now be paid annually in the May 1st warrant, to coincide with the annual COLA adjustment. This year only, CalPERS retirees subject to PPPA will receive a retroactive adjustment to cover the four months of January through April of 2013.

ANALYSIS

The US inflation rate as measured by the percentage change in the CPI-U for the 12 months ended in December 2012, was 2.07 percent. This measure will be used in calculating the 2013 regular COLAs for CalPERS retirees. The US inflation rate one year ago was 3.2 percent. Over the last 20 years, the inflation rate has averaged 2.5 percent and the long term (1960 to 2012) inflation rate has averaged 4.0 percent.

In May 2013, most of the CalPERS retirees will receive a two percent COLA. Some retirees will see their monthly warrant increase more than two percent because they are subject to a higher COLA or have been retired for a long time and already receive PPPA benefits.

For the 2013 COLA adjustments, the impact of inflation will result in the following increases:

COLA Increases in May 2013 for Retirees by Year of Retirement

COLA Provision	Year of Retirement	% COLA Increase Effective May 1, 2013
2% COLA	2007 & Earlier	2.00%
	2008	2.07%
	2009 to 2011	2.00%
	2012	Not Eligible
3% COLA	1981 & Earlier	3.00%
	1982 to 2009	2.07%
	2010	2.22%
	2011	2.07%
	2012	Not Eligible
4% COLA	1974 & Earlier	4.00%
	1975	3.96%
	1976	2.22%
	1977 to 2011	2.07%
	2012	Not Eligible
5% COLA	2011 & Earlier	2.07%
	2012	Not Eligible

Retirees currently subject to a three, four or five percent COLA represent less than five percent of all CalPERS retirees.

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