



Consent

Agenda Item 5c

February 19, 2014

ITEM NAME: Retiree Cost-of-Living Adjustment Update

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 1.5 percent through the 12 months ending December 2013. Even though inflation was less than 2 percent last year, most California Public Employees' Retirement System (CalPERS) retirees will receive a 2 percent Cost-of-Living Adjustment (COLA) in May 2014. Please refer to the analysis section for more details on the breakdown of COLA that CalPERS retirees will receive based on their year of retirement.

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

Based on recent historical rates of inflation, it could take approximately 25 to 30 years for a retiree, beneficiary or survivor to receive a PPPA adjustment. Prior to 2013, 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 is now paid annually in the May 1st warrant to coincide with the annual COLA adjustment.

ANALYSIS

The U.S. inflation rate as measured by the percentage change in the CPI-U for the 12 months ending in December 2013, was 1.5 percent. This measure will be used in calculating the 2014 regular COLAs for CalPERS retirees. The U.S. inflation rate one year ago was 2.1 percent. Over the last 20 years (1993-2013), the inflation rate has averaged 2.4 percent and the long term (1960-2013) inflation rate has averaged 4.0 percent.

The impacts of the 1.5 percent inflation for the COLA adjustments are reflected in the chart below for retirees by COLA provision and year of retirement. Most retirees will receive a 2 percent COLA increase this year.

COLA Increases in May 2014 for Retirees by Year of Retirement

COLA Provision	Year of Retirement	% COLA Increase Effective May 1, 2014
2% COLA	2006 & Earlier	2.0
	2007	1.8
	2008	1.5
	2009-2010	2.0
	2011-2012	1.5
	2013	Not eligible
3% COLA	1980 & Earlier	3.0
	1981	2.5
	1982-2012	1.5
	2013	Not eligible
4% COLA	1974 & Earlier	4.0
	1975-2012	1.5
	2013	Not eligible
5% COLA	2012 & Earlier	1.5
	2013	Not eligible

BUDGET AND FISCAL IMPACTS

Not Applicable.

ATTACHMENTS

Not Applicable.

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