



## Pension & Health Benefits Committee

# Agenda Item 8a

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**March 15, 2022**

**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 4.70 percent through the 12 months ending December 2021. The applicable inflation rate is greater than 1 percent and an adjustment will be paid to all eligible retirees. The impact of the 4.70 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 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 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 (US) inflation rate as measured by the percentage change in the CPI-U (Consumer Price Index, Urban) for the 12 months ending in December 2021 was 4.70 percent. This measure will be used in calculating the 2022 regular COLAs for CalPERS retirees. Over the last 20 years (2001-2021), the inflation rate has averaged 2.19 percent and the long term (1965-2021) inflation rate has averaged 3.95 percent.

The impacts of the 4.70 percent inflation on COLA is reflected in the chart below for retirees by COLA provision and year of retirement.

**COLA Increases in May 2022 for Retirees by Year of Retirement**

<b>COLA Provision</b>	<b>Year of Retirement</b>	<b>% COLA Increase Effective May 1, 2022</b>
2% COLA Provision	2003 & Earlier	2%
	2004	2.19%
	2005	3.59%
	2006-2014	4.70%
	2015	3.13%
	2016	2.39%
	2017	2.52%
	2018	2.96%
	2019	2.77%
	2020	2.00%
	2021	Not Eligible
3% COLA Provision	1979 & Earlier	3%
	1980-2019	4.70%
	2020	3%
	2021	Not Eligible
4% COLA Provision	2019 & Earlier	4.70%
	2020	4.00%
	2021	Not Eligible
5% COLA Provision	2020 & Earlier	4.70%
	2021	Not Eligible

## **Budget and Fiscal Impacts**

COLA is a contracted benefit by each employer and the employers fund through their contribution rate as determined by the actuaries. The annual increase in COLA benefits are projected to be \$765 million over the next year, approximately 2.59% of the estimated \$29.5 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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Kimberlee Pulido, Chief  
Retirement Benefit Services Division

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Anthony Suine  
Deputy Executive Officer  
Customer Services & Support