<u>The COLA Computation</u>

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Every year, when the Retirement Board establishes the amount of COLA (cost of living adjustment) to be made to the retirees' benefit levels, there are questions asked about how the COLA is determined. So, this year we requested that a discussion regarding different possible methods for that determination be a discussion item on the agenda of the Retirement Board. That discussion occurred at the June 15th meeting.

The questions fall into two categories.

1) Why are the recent retirees COLAs lower than the COLAs or Consumer Price Index (CPI) changes seen in other areas?

2) What, if anything, can be done to make the determination of the COLA easier to understand?

In answer to first question, The Retirement system is required to use a specific CPI increase as required by the 1937 Retirement Act. That measurement may be different than those used for other purposes. Historically, SCERS has used the U.S. Department of Labor, Bureau of Labor Statistics' CPI for all Urban Consumers for the San Francisco-Oakland-San Jose area in making the calculations. This is based on the language in Section 31870 of the 1937 Retirement Act which requires that the relevant CPI shall be the Bureau of Labor Statistics CPI for All Urban Customers "....for the area in which the county seat is situated…." So, the question was posed, "why would we use that CPI when Sacramento County seat is not located in that area?" The answer is that it is closer to our County than using the broader West Region CPI would be, and it is more advantageous to our retirees. In order to validate that assumption, the Retirement Board reviewed a comparison of the two CPIs for the last 20 years. There were some years when one area was higher or lower than the other, but there was a 1.9 percent cumulative advantage for retirees by using the San Francisco area CPI for that 20 year period.

The second question is difficult to answer in that legal requirements many times are complex to fulfill. In this case, the actuary has explained the methodology used for the computation. The COLA is not based on simple subtraction of the average annual CPI for one year from the other. Instead, it is based on the "ratio of the two average annual CPIs". These CPI averages, which are compared for the two years are obtained from the Bureau of Labor Statistics. They are not calculations made by our actuary or Retirement staff. The complexity arises because it is "a ratio of average annual change", not a simple subtraction of change from December of one year to December of the next year. The law also requires that the amount of change be rounded to the nearest one-half percent. Therefore the increase of 1.96% for this past year was rounded to 2%.

The other factor that is disturbing to those of us on "fixed incomes" is that not all items are considered for inclusion by the Federal government in the computation of the CPI increase. Therefore, since energy prices are not included, for example, we do not see a CPI increase that reflects the increase in gasoline prices. However, this frustration is beyond that with which the Retirement System can deal. Our job has been, and will continue to be, to make sure that our COLAs are correctly computed according to the applicable laws. The June 15th discussion helped us, and the entire Retirement Board, to feel more confident that they have been and will continue to be.