UCRS Advisory Board

Meeting of June 13, 2025

AGENDA ITEM B

UCRS - Cost-of-Living Adjustment for 2025 and Measurement of Annuitant Purchasing Power

July 1, 2025 COLA

The July 1, 2025 annuitant Cost-of-Living Adjustment (COLA) for the University of California Retirement Plan (UCRP) and the University of California-Public Employees' Retirement System Voluntary Early Retirement Incentive Program ("UC-VERIP" or "PERS Plus 5 Plan") is based on the February 2024 to February 2025 increase in the Consumer Price Index for All Urban Consumers (CPI) averaged over the metropolitan areas of San Francisco and Los Angeles.

The CPI increase was 2.89%, resulting in July 1, 2025 COLAs as follows:

Retirement Date	UCRP	PERS Plus 5 Plan
On or before July 1, 2024	2.00%	2.00%

Eligible UCRP members, particularly those with 1976 Tier service credit, qualify for an increase in their Highest Average Plan Compensation (HAPC) by 2.00%, if they separate from active service by June 27, 2025[1], and retire between July 1, 2025 and June 30, 2026. For members retiring during that period but who separated earlier, the total increase in HAPC will be greater. This increase in HAPC is known as the "inactive COLA".

COLA Methodology

UCRP provides an annual COLA that matches the increase in the CPI up to 2%, plus 75% of the CPI increase in excess of 4%, to a maximum COLA of 6%. For the PERS Plus 5 Plan, this methodology for determining COLAs has been in effect since July 1, 2011, subject to the PERS Plus 5 Plan having sufficient funding to pay the increased benefits as of the prior July 1st. Given that the PERS Plus 5 Plan's funded percentage as of July 1, 2024 was well over 100%, the full annual COLA is payable on July 1, 2025.

The annual COLA percentage for each annuitant is determined based on not only the CPI increase for that year, but also the cumulative increase in the CPI since the member's retirement. For this purpose, two separate "banks" are maintained, an "inflation bank" and a "COLA bank", which are then used to determine the total COLA amount that an annuitant is eligible to receive in any given year.

[1]Based on standard Monday through Friday workweek. This date may be different for non-standard workweeks.

The inflation bank accumulates in years in which the CPI increase is greater than 2%. The inflation bank represents the portion of the cumulative increase in the CPI since the member's Retirement Date for which the annuitant has not received a COLA. For example, the annual CPI increase as measured in February 2020 was 3.12%, but based on the UCRP COLA formula, the July 2020 COLA was only 2%. The remaining 1.12% is adjusted for compounding, resulting in an inflation bank of 1.10% for UCRP annuitants who were first eligible in July 2020. The inflation bank can be used to increase the COLA that would be payable in years in which inflation is less than 2%. For example, the inflation bank was used to provide UCRP annuitants who retired on or before July 1, 2019, a 2% COLA on July 1, 2021, even though the increase in the CPI average was less than 2%. After awarding the July 1, 2025 COLA, all annuitants with retirement dates prior to July 2, 2024 have a remaining balance in the inflation bank.

The second bank is the COLA bank. In years in which inflation is less than 2%, the difference between 2% and the CPI increase is accumulated in the COLA bank. The COLA bank represents that portion of the potential COLA which has not been paid to the annuitant due to low inflation. For example, the annual CPI increase as measured in February 2021 was 1.28%. UCRP annuitants who received a 1.28% COLA on July 1, 2021, accumulated 0.72% in their COLA bank. The CPI increase measured in February 2022 was 6.25%. Those UCRP annuitants with nothing accumulated in their COLA bank were entitled to receive a 3.69% COLA on July 1, 2022, based on the formula. However, those annuitants who had a balance remaining in their COLA bank were entitled to receive a COLA of 4.41%. This is because the annuitants who received a 1.28% COLA on July 1, 2021 still had the 0.72% accumulated in their COLA bank and were entitled to receive a 4.41% (3.69% + 0.72%) COLA on July 1, 2022. As of July 1, 2025, no annuitants have a balance in the COLA Bank.

Both banks accumulate from the member's initial eligibility for a COLA. Therefore, when changes in inflation result in using either of the banks, it is possible to pay different annual COLA amounts in the same year to different annuitant groups depending on the year in which the members retired and the resulting amounts in the inflation bank and COLA bank. Attachment 1 shows the current level of the COLA and inflation banks as they apply to each group of UCRP annuitants, just after the July 1, 2025 COLA is credited. Attachment 2 shows the same information for PERS Plus 5 Plan annuitants.

Measurement of Annuitant Purchasing Power – UCRP Annuitants

After determining the annual COLA, the "purchasing power" of annuitants' benefits may then be measured. Since the 2025 COLA amount is less than the actual increase in the CPI, purchasing power has decreased from last year. Attachment 1 indicates that 13,743 UCRP annuitants have experienced a decrease in purchasing power below the 85% level, with a minimum purchasing power of approximately 82% for those annuitants that received the ad hoc COLA three years ago.

Historically, the Regents has striven to protect annuitants' benefits from being significantly eroded by inflation. However, this protection is not a guaranteed contractual benefit. UCRP does not contain a specific provision for maintaining a set percentage of purchasing power. Instead in February 1988, the UCRS Advisory Board passed a resolution expressing its intent to recommend periodic adjustments, subject to the availability of funds, to maintain UCRP annuitants' purchasing power at approximately a 75% minimum level. One-time "ad hoc" COLAs were granted in January 1986 and July 1988, to restore

annuitants' purchasing power to a floor of 75%. In January 1991, an ad hoc COLA was given to restore retirement benefits to a floor of 80% of purchasing power. In January 2001 and July 2022 ad hoc COLAs were given to restore retirement benefits to a floor of 85% of purchasing power. The 85% level aims to reduce the frequency of providing ad hoc COLAs in order to maintain annuitants at the 75% purchasing power level.

Measurement of Annuitant Purchasing Power – PERS Plus 5 Plan Annuitants

Unlike UCRP, the original provisions of the PERS Plus 5 Plan that were approved by the Regents excluded an annual COLA provision, despite these annuitants receiving periodic COLAs on their primary retirement benefit from CalPERS. Prior to July 1, 2011, ad hoc COLAs of 25% on July 1, 2002 and 15.19% on April 1, 2011 were provided to restore the purchasing power of these annuitants' benefits at the time to 96% and 91%, respectively. The April 1, 2011 ad hoc COLA restored the purchasing power of PERS Plus 5 Plan benefits to a level equivalent to that of the UCRP members who retired at the same time. An annual COLA similar to the UCRP COLA was implemented effective July 1, 2011. Attachment 2 illustrates that the retained purchasing power of PERS Plus 5 Plan benefits is approximately 82% as of July 1, 2025.

Attachments