UCRS Advisory Board

Meeting of June 23, 2023

AGENDA ITEM A

UCRS - Cost-of-Living Adjustment for 2023 and Measurement of Annuitant Purchasing Power

July 1, 2023 COLA

The July 1, 2023 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 2022 to February 2023 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 5.20%, resulting in July 1, 2023 COLAs as follows:

Retirement Date	UCRP	PERS Plus 5 Plan
On or before July 1, 2022	2.90%	2.90%

Eligible UCRP members (mainly with 1976 Tier service credit) who separate from active service no later than June 29, 2023 and retire during the period from July 1, 2023 through June 30, 2024 will have their Highest Average Plan Compensation (HAPC) increased by 2.00%. For those retiring during that period 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 generally 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%. Effective July 1, 2011, this methodology began to be applied to determine the COLA for the PERS Plus 5 Plan, payable to the extent that the PERS Plus 5 Plan has sufficient funding to pay the increased benefits as of the previous July 1st. Since the PERS Plus 5 Plan funded percentage for this purpose as of July 1, 2022 was over 100%, the full annual COLA is payable on July 1, 2023.

Each annuitant's COLA percentage for a specific year depends not only on the CPI increase that year, but also on the cumulative increase in the CPI since the member retired. For this purpose, two "banks" are maintained, an "inflation bank" and a "COLA bank", which are then used to determine the total COLA amount that an annuitant is entitled to in a given year.

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, 2023 COLA, all annuitants with retirement dates prior to July 2, 2022 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. After awarding the July 1, 2023, COLA, 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, 2023 COLA is credited. Attachment 2 shows the same information for PERS Plus 5 Plan annuitants.

Measurement of Annuitant Purchasing Power – UCRP Annuitants

Once the annual COLA is determined, the "purchasing power" of annuitants' benefits may then be measured. Since the 2023 COLA amount is less than the actual increase in the CPI, purchasing power has decreased from last year. Attachment 1 shows that approximately 14,400 UCRP annuitants have purchasing power that has fallen below 85%, with a minimum purchasing power of approximately 83% for those annuitants that received the ad hoc COLA last year.

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

annuitants' purchasing power to a 75% level. 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 was recommended so that it would not be necessary to provide additional ad hoc COLAs as frequently to maintain annuitants at the 75% purchasing power level.

Measurement of Annuitant Purchasing Power – PERS Plus 5 Plan Annuitants

Unlike UCRP, the Regents originally approved the provisions of the PERS Plus 5 Plan to specifically exclude an annual COLA provision, even though these annuitants have received 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 given 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 benefits for UCRP members who retired at the same time. An annual COLA similar to the UCRP COLA was implemented effective July 1, 2011. Attachment 2 shows the retained purchasing power of PERS Plus 5 Plan benefits is approximately 83% as of July 1, 2023.

Attachments