

Board of Trustees

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Date: February 27, 2017

To: Board of Trustees

From: Carl Nelson – Executive Secretary
Amy Burke – Deputy Executive Secretary

Agenda Item 10: Annual Cost-Of-Living Adjustments provided by the San Luis Obispo County Employees Retirement Plan

Recommendation:

It is recommended that the Board approve Cost-Of-Living Adjustments (COLAs) as recommended by the SLOCPT's Actuary (Gabriel Roeder, Smith and Company), and in accordance with the Retirement Plan. For most benefit recipients, this COLA totals **2.10%**.

Discussion:

The Retirement Plan provides for annual cost-of-living adjustments for retirees in: Section 19.01 and Section 19.02 of Article 19: Cost-Of-Living; Section 27.25 of Article 27: Tier Two – Miscellaneous; Section 28.25 of Article 28: Tier Two – Safety; Section 29.25 of Article 29: Tier Three – AB 340: Miscellaneous; Section 30.25 of Article 30: Tier Three – AB 340: Safety; and Section 31.24 of Article 31: Tier Three – AB 340: Probation.

The COLA percentage, as specified by the Plan, is determined by the average of the All Urban Consumers Consumer Price Index – all items (CPI-U) for the Los Angeles - Riverside - Orange County and the San Francisco - Oakland - San Jose areas. The Plan specifies the use of the annual average of these two metropolitan area's CPI-U data. The SLOCPT's actuary calculates the recommended COLA as a smoothed value using the two most recent annual averages published by the Bureau of Labor Statistics for each specified metropolitan area. While COLAs have historically been calculated as increases to benefits with positive inflation, the Plan also allows for decreases should there be deflation in the CPI-U data.

The recommended COLA based on average of the years 2016 and 2015 has been calculated as **2.1%**. As dictated by the Plan, COLAs may not exceed 3% for Tier 1 retirees or 2% for Tier 2 and Tier 3 retirees. Furthermore, for Tier 1 retirees, if the calculated average percentage increase is

greater than 3%, the amount in excess of 3% will be “banked” and used in subsequent years where the calculated percentage increase is less than 3% (aka: the “Cumulative Carryover”). Tier Two and Tier Three retirees are not eligible for the Cumulative Carryover as stipulated by the Plan.

Upon Board approval, all eligible retirees will receive a COLA on April 1, 2017 as shown in the following table. The Cumulative Carryover (COLA Bank) for each vintage year of retirees will change as shown on the attached letter from the SLOCPT’s Actuary.

Tier:	Retirement Date:	COLA:
1	On or Before January 1, 1981	3.00%
1	On or After January 2, 1981 but Before January 2, 2017	2.10%
2 & 3	On or Before January 1, 2017	2.00%

It is of interest to note that of the 2,631 retirees from Tier 1 receiving monthly payments as of 01/01/17, only 24 are affected by the Tier 1 Cumulative Carryover provision.

Tier 2 (2 at present) and Tier 3 (none at present) retirees will receive a 2.00% COLA.

This year’s recommended COLA is expected to cumulatively increase the current monthly retiree payroll distribution by approximately \$143,000.

Respectfully Submitted

January 26, 2017

Mr. Carl Nelson
Executive Secretary
San Luis Obispo County Pension Trust
1000 Mill Street
San Luis Obispo, CA 93408

Subject: COST-OF-LIVING ADJUSTMENT, APRIL 1, 2017

Dear Carl,

Sections 19.01 and 19.02 of the by-laws of the San Luis Obispo County Pension Trust provides for cost-of-living adjustments to certain Tier 1 members who retire or die as of, or prior to, the previous January 1st each year. The following is the determination of the cost-of-living adjustment payable as of April 1, 2017.

The percentage changes of the All Urban Consumers C.P.I. annual average for the Los Angeles - Riverside - Orange County and the San Francisco - Oakland - San Jose areas are as follows:

2016 San Francisco – Oakland – San Jose	3.1%
2016 Los Angeles – Riverside – Orange County	1.9%
2015 San Francisco – Oakland – San Jose	2.6%
2015 Los Angeles – Riverside – Orange County	0.9%

The average of the percentage changes for the years 2016 and 2015 is used to determine the County's cost-of-living adjustment (COLA) factor for April 2017 but the COLA may not exceed 3.0%. However, if the percentage increase is greater than three percent, then the excess may be carried forward and applied in a future year when the increase is less than three percent.

The average percentage increase for the last two years is **2.1%**. However, due to prior excess increases that have been carried forward for some retirees, the COLA increase this year is 2.1% to 3.0%, depending on the year of retirement. The attached schedule details the implementation of this factor to each Tier 1 retiree based on the date they entered the pension roll. Note that all Tier 1 retirees who retired on or before January 1, 1981 will receive a 3.0% increase and have their Cumulative Carryover account decreased by 0.9%. All other Tier 1 retirees have no Cumulative Carryover account and will receive an increase of 2.1%.

Mr. Carl Nelson
January 23, 2017
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While the Cumulative Carryover is consistent with last year, we are making no representation as to whether the historical Cumulative Carryover figures are accurate.

These calculations comply with Sections 19.01 and 19.02 of the by-laws of the San Luis Obispo County Pension Trust. Sections 27.25 and 28.25 specify cost-of-living adjustments for Tier 2 Miscellaneous and Safety retirees respectively. Sections 29.25, 30.25, and 31.25 specify cost-of-living adjustments for Tier 3 AB 340 Miscellaneous, Safety, and Probation retirees respectively.

The initial COLA for Tier 2 and Tier 3 members is also governed by sections 19.01 and 19.02 but the COLA may not exceed 2.0% for these groups and they do not carry forward any accumulation of COLAs beyond the annual 2% maximum. Since the initial COLA this year is 2.1%, any Tier 2 or Tier 3 retirees as of January 1, 2017 would be eligible for a 2.0% COLA.

The actuary submitting this statement is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

If you have any questions about the information requested above or need any additional information, please contact me at 720-274-7271 or leslie.thompson@gabrielroeder.com or Joe Herm at 720-274-7274 or joe.herm@gabrielroeder.com.

Sincerely,

Gabriel, Roeder, Smith & Company



Leslie L. Thompson, EA, FSA, FCA, MAAA
Senior Consultant

Enclosure

Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this communication (or any attachment) concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.

This communication shall not be construed to provide tax advice, legal advice or investment advice.

**San Luis Obispo County
Suggested Cost-of-Living Increase**

<u>Entered Pension Roll</u>	<u>As of April 1, 2016</u>			<u>As of April 1, 2017</u>		
	<u>CPI Change</u>	<u>Used</u>	<u>Cumulative Carryover</u>	<u>CPI Change</u>	<u>Used</u>	<u>Cumulative Carryover</u>
On or Before 1/1/1979	1.9%	3.0%	17.6%	2.1%	3.0%	16.7%
1/2/1979 to 1/1/1980	1.9%	3.0%	13.3%	2.1%	3.0%	12.4%
1/2/1980 to 1/1/1981	1.9%	3.0%	6.6%	2.1%	3.0%	5.7%
1/2/1981 to 1/1/2016	1.9%	1.9%	0.0%	2.1%	2.1%	0.0%
1/2/2016 to 1/1/2017	-	-	0.0%	2.1%	2.1%	0.0%

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