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San Luis Obispo County Pension Trust
SLOCPT

Date: February 28, 2022

To: Board of Trustees

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

Agenda Item 7: 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) in accordance with the Retirement Plan and calculated by SLOCPT's Actuary (Cheiron).

1. **Tier 1 benefit recipients, 2022 COLA of 2.6%** (cumulative carryover of past inflation – the "COLA Bank" will apply in some cases).

2. **Tier 2 and Tier 3 recipients, 2022 COLA of 2.00% (the maximum allowed)**.

Discussion:

COLA Adjustments - 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.

CPI-U Benchmarks - The COLA percentage, as specified by the Plan, is determined by the annual average of the All Urban Consumers Consumer Price Index – all items (CPI-U) for the Los Angeles and the San Francisco metropolitan areas.

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.

Financial:

This year's recommended COLA is expected to cumulatively increase the current monthly retiree payroll distribution by approximately $290k.

The 2021 Actuarial Valuation used a long-term COLA assumption of 2.50% for Tier 1 COLA adjustments. Most Tier 1 recipients currently have a COLA bank of at least 0.3% that will be added to the base COLA rate (up to a maximum of 3.0%) this year. As a result, the above assumed COLA for 2022 will contribute to an actuarial loss in the 2023 actuarial valuation.

Implementation:

COLA Recommendation - The recommended COLA based on average of the years 2021 and 2020 has been calculated as 2.6%. 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 less than 3%, recipients who have a Cumulative Carryover COLA balance from prior years (where the calculated COLA was greater than the 3.0% maximum) will have this balance applied to their COLA % up to the maximum 3.0%. Tier 2 and Tier 3 retirees are not eligible for the Cumulative Carryover as stipulated by the Plan.

Upon Board approval, all eligible retirees (those retired on or before January 1, 2022) will receive a COLA increase starting April 1, 2022, 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 SLOCPT's Actuary.

Tier:	Retirement Date:	COLA:
1	On or Before January 1, 1981	3.0%
1	January 2, 1981 through January 1, 2019	2.9%
1	January 2, 2019 through January 1, 2022	2.6%
2 & 3	On or Before January 1, 2022	2.0%

Respectfully Submitted

Via Electronic Mail

February 1, 2022

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

Re: Cost-of-Living Adjustment (COLA) as of April 1, 2022

Dear Carl:

Per your request, we are providing you with the April 1, 2022 Cost-of-Living Adjustment computations for San Luis Obispo County Pension Trust (SLOCPT) members, prepared in accordance with Sections 19.01 and 19.02 of the SLOCPT Retirement Plan.

Background

The Cost-of-Living Adjustment (COLA) is determined annually based on the percentage increase or decrease in the cost of living, using the annual average of the Los Angeles-Long Beach-Anaheim and San Francisco-Oakland-Hayward Consumer Price Indices (CPI) for All Urban Consumers, for all items, using a base period of 1982-1984.

At the direction of SLOCPT and the terms of Section 19.01 of the Retirement Plan, we are using a two-year average of the percentage changes in the annual averages of the indices described above to determine the COLAs as of April 1, 2022. We understand this is permissible based on legal counsel's interpretation of "found by the Board of Trustees to approximate" in Section 19.01 of the Retirement Plan.

COLA Calculations

The Consumer Price Indices and calculations described above are as follows:

		Annual Average CPI-U	Average Annual Increase
Los Angeles metropolitan area:	2019:	274.114	
	2020:	278.567	1.625%
	2021:	289.244	3.833%
San Francisco metropolitan area:	2019:	295.004	
	2020:	300.084	1.722%
	2021:	309.721	3.211%

Based on the averaging method, this represents an increase of 2.598%, which when rounded to the nearest one-tenth percent results in a two-year annual average CPI increase of 2.6%.

Section 19.01 and 19.02
Tier 1 members are subject to the COLA provisions of Sections 19.01 and 19.02, which limits the COLA increases to 3.0% annually. Any excess of the COLA increase calculated without regard to the maximum above 3.0% is to be accumulated and carried over each year, rounded to the nearest one-tenth percent.

Members who retired on or before January 1, 1981 will receive a COLA increase of 3.0% to their monthly benefit, and members who retired after January 1, 1981 and on or before January 1, 2019 will receive a benefit increase of 2.9%; based on their accumulated carry-over balances ("COLA bank") as of April 1, 2021. Finally, members who retired after January 1, 2019 will receive a 2.6% increase in their benefits. There is no COLA bank remaining for members who retired after January 1, 1981.

The attached exhibit summarizes the COLAs and carry-over balances for Tier 1 members subject to Sections 19.01 and 19.02. The accumulated carry-over balances are consistent with last year; however, we have not reviewed the historical carry-over balances.

Sections 27.25, 28.25, 29.25, 30.25, 31.25
Tier 2 and Tier 3 (AB 340) members are subject to the COLA provisions of Sections 27.25, 28.25, 29.25, 30.25, and 31.25, and are also governed by Sections 19.01 and 19.02. The annual COLA for members in these Tiers is limited to 2.0% and they do not carry forward any accumulation of COLAs above the annual 2.0% maximum. Thus, Tier 2 and Tier 3 members will receive a COLA of 2.0%.

This letter was prepared exclusively for SLOCPT for the purpose described herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

Please contact us if you have any questions regarding these calculations.

Sincerely,
Cheiron

Anne D. Harper, FSA, MAAA, EA
Principal Consulting Actuary

Attachment

cc: Amy Burke
Alice Alsberghe, ASA, MAAA, EA
Tim Hall, ASA, CERA

San Luis Obispo County Pension Trust
Cost of Living Adjustments (COLA) - Section 19.01 and 19.02
Tier 1 Members

Maximum Annual COLA: 3.0%

	April 1, 2021			April 1, 2022		
Initial Retirement Date	CPI Change[1] (A)	COLA Granted (B)	Accumulated Carry-Over (C)	CPI Change[1] (D)	COLA Granted (E)	Accumulated Carry-Over (F)
On or Before 1/1/1979	2.4%	3.0%	16.8%	2.6%	3.0%	16.4%
1/2/1979 to 1/1/1980	2.4%	3.0%	12.5%	2.6%	3.0%	12.1%
1/2/1980 to 1/1/1981	2.4%	3.0%	5.8%	2.6%	3.0%	5.4%
1/2/1981 to 1/1/2019	2.4%	3.0%	0.3%	2.6%	2.9%	0.0%
1/2/2019 to 1/1/2020	2.4%	2.9%	0.0%	2.6%	2.6%	0.0%
1/2/2020 to 1/1/2021	2.4%	2.4%	0.0%	2.6%	2.6%	0.0%
1/2/2021 to 1/1/2022	-	-	-	2.6%	2.6%	0.0%

[1] *Two-year average of annual average increases of the Los Angeles-Long Beach-Anaheim and San Francisco-Hayward-Oakland All Urban Consumer Price Indices, for all items, 1982-1984 base (Section 19.01 and 19.02).*