

The Pension Trust

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Retirement Plan – Cost of Living Adjustments (COLAs)

Inflation can be a big deal in retirement. Consider this: a person who retires at age 60 now and enjoys a \$12 Tri Tip sandwich to celebrate – when they are 85, that same sandwich may cost \$20 at just a 2% inflation rate. At a 3% inflation rate over those 25 years, the Tri Tip sandwich would cost \$25. Inflation can vary widely as it did in the 1970s, but the U.S. Federal Reserve has a target of controlling inflation at around 2% in the long run as well as full employment. The current long-term inflation assumption used by our actuary is 2.50%.

The Retirement Plan has an important benefit to preserve the purchasing power of SLO County retirees: a Cost-of-Living Adjustment (COLA). The retiree COLA is not negotiated with the County or related to pay raises you may or may not receive as active employees. The retiree COLA is approved by the Board of Trustees each year, but it is set by the Plan's terms and is based on the Consumer Price Index (CPI) in Los Angeles and San Francisco – whatever they turn out to be – averaged over two years to smooth out variations.

The retiree COLA has maximums built into the Retirement Plan:

Tier 1 retiree COLA – maximum of 3.0%/year.

There is also a “COLA bank” feature so if inflation is over 3% in one year, some of the CPI inflation above the 3% maximum may apply to a future year where CPI inflation is less than 3%. If inflation were to stay below 3%, eventually there would be no COLA bank to add to the annual increase.

Tier 2 and Tier 3 retiree COLA – maximum of 2.0%/year.

No “COLA bank” feature.

The retiree COLA is applied each year to the April 1st pension payment for anyone who was retired on or before January 1st of that year. The Pension Trust sees a surge of retirements in November/December as new retirees want to get in on the April 1st retiree COLA.

COLA Example – the retiree COLA that took effect April 1, 2022 was based on the LA and SF two-year average of CPI inflation of 2.6% across 2020 and 2021. For Tier 1 retirees the COLA bank meant –

Tier 1 retirees who retired in 2019-2021	COLA = 2.6%.
Tier 1 retirees who retired in 1981-2018	COLA = 2.9%
Tier 1 retirees who retired before 1981	COLA = 3.0%.

There are very few Tier 2 or 3 retirees so far, but they received a 2.0% COLA.