



Pension & Health Benefits Committee

Agenda Item 7c

March 18, 2025

Item Name: Retiree Cost-of-Living Adjustment 2025

Program: Retirement Benefit Services Division

Item Type: Information

Executive Summary

Annually, CalPERS reviews the Consumer Price Index-All Urban Areas (CPI-U) to determine Cost-of-Living Adjustments (COLA) for retirees. In calendar year 2024, the annual rate of inflation as measured by the percentage change in the CPI-U was 2.95%. The charts below reflect the 2.95% inflation impact on COLA provision and year of retirement.

Strategic Plan

This item supports the CalPERS 2022-2027 Strategic Plan (Pension Sustainability), which is to strengthen the long-term stability of the pension fund.

Background

The Retirement Law provides for the payment of an annual COLA to be paid each May. The COLA is limited to the lesser of two numbers, the rate of inflation or the compounded COLA provision contracted by the employer. In addition, if a member's COLA increase is less than 1% in a given year, no COLA increase is applied for that year. Those with a 2% COLA provision cannot receive an adjustment of more than 6% of their base allowance. Currently 95.8% of CalPERS retirees have a 2% COLA provision. The remaining CalPERS retirees have a 3%, 4% or 5% COLA as negotiated by their specific employer.

In addition to the COLA, some retirees will receive a Purchasing Power Protection Allowance (PPPA) adjustment. PPPA is a supplemental benefit designed to maintain the original purchasing power of CalPERS retirees to a predetermined limit when accumulated Cost-of-Living Adjustment (COLA) has not maintained pace with inflation.

Analysis

Over the last 40 years (1984-2024), the inflation rate has averaged 2.80% and the long term (1965-2024) inflation rate has averaged 3.97%. The 2.95% inflation rate this year will be used in calculating the 2024 COLAs for CalPERS retirees and will be reflected on the May 1, 2025, retirement checks.

COLA and PPPA Increases in May 2025 for Retirees by Year of Retirement

2% COLA State & Schools	
Year of Retirement	Allowance Increase (COLA and PPPA) effective May 1, 2025
1965-1986*	2.95%
1987-2023	2.00%
2024	Not Eligible

*These retirement years include PPPA adjustments

2% COLA Contracting Agencies	
Year of Retirement	Allowance Increase (COLA and PPPA) effective May 1, 2025
1965-1989*	2.95%
1990-2023	2.00%
2024	Not eligible

*These retirement years include PPPA adjustments

3% COLA Contracting Agencies	
Year of Retirement	Allowance Increase (COLA and PPPA) effective May 1, 2025
1965-1977*	2.95%
1978-1980	3.00%
1981-2014	2.95%
2015-2022	3.00%
2023	2.95%
2024	Not Eligible

*These retirement years include PPPA adjustments

4% COLA Contracting Agencies	
Year of Retirement	Allowance Increase (COLA and PPPA) effective May 1, 2025
1965	2.95%
1966	3.37%
1967-1968	4.00%
1969-2018	2.95%
2019-2021	4.00%
2022	3.06%
2023	2.95%
2024	Not eligible

5% COLA Contracting Agencies	
Year of Retirement	Allowance Increase (COLA and PPPA) effective May 1, 2025
1965-2019	2.95%
2020	4.70%
2021	5.00%
2022-2023	2.95%
2024	Not eligible

Budget and Fiscal Impacts

COLA is a contracted benefit **by each employer and the employers fund this benefit through their contribution rate as determined by the actuaries**. The annual increase in COLA benefits are projected to be \$503 million over the next year, and approximately 1.5 percent of the \$32.9 billion expected annual benefit payments.

Benefits and Risks

The annual COLA is a statutory requirement. There are no identified risks associated to this informational item.

Attachment

Attachment 1 – Cost-of-Living Adjustment (COLA) PowerPoint

Kimberlee Pulido, Chief
Retirement Benefit Services Division

Kimberly A. Malm
Deputy Executive Officer
Customer Services & Support