



May 15, 2024

Los Angeles City Council
c/o City Clerk
200 N. Spring Street
Room 395, City Hall
Mail Stop #160

DISCRETIONARY COST-OF-LIVING ADJUSTMENT FOR RETIRED LACERS MEMBERS AND THEIR BENEFICIARIES

Honorable City Council Members:

The LACERS Board of Administration (Board) adopted the attached report recommending that the City Council (Council) grant a discretionary cost-of-living-adjustment (COLA) increase to eligible retired LACERS' Members. On April 14, 2023, the Board sent forth a similar request to Council¹ based on the prior year's COLA calculation; however, the request was not approved and now updated figures are being presented for 2024.

Although it is the City Administrative Officer's duty to prepare appropriate reports and recommendations for Council to make findings as to the adequacy of annual COLAs,² the Board respectfully requests that Council grant a discretionary COLA to address the 3.8%, 7.4%, and 3.5% increases in the Annual Consumer Price Index (CPI) for 2021, 2022, and 2023 which exceed the Tier 1 COLA limit of 3% and Tier 3 COLA limit of 2%.³ This increase could affect more than 22,500 LACERS Members that have retirement dates on or before June 30, 2023.⁴

Council has granted discretionary COLAs to LACERS Members in the past.⁵ In 2002, Council granted a discretionary COLA for Members with a retirement date before June 30, 1984.⁶ The purpose of this one-time COLA was to reduce all excess COLA banks to no more than 25.3%.⁷ Any banked amount that exceeded 25.3% was paid to Members. Since then, Council has not granted any discretionary COLAs.

LA CITY EMPLOYEES' RETIREMENT SYSTEM

P.O. Box 512218
Los Angeles, CA
90051-0218

(800) 779-8328
RTT: (888) 349-3996

www.LACERS.org
lacers.services@lacers.org

KAREN BASS

Mayor of the City of Los Angeles

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¹ Council File # 23-0418

² LAAC § 4.1023(e) and LAAC § 4.1080.17(c)(3)(vii)

³ LAAC § 4.1022(c)(2) for Tier 1 and LAAC § 4.1080.17(b)(2)

⁴ Based on LACERS' latest actuarial valuation

⁵ 7% in 1982, 1.25% in 1986, and 1.6% in 1989 (Council File # 99-1158)

⁶ Council File # 01-2343

⁷ Ordinance # 174419

To help LACERS Members cope with recent significant inflation, the Board recommends that Council grant a 2.85% discretionary COLA which is half of the difference between the CPI and awarded COLAs for the last three fiscal years.

Sincerely,

Neil M. Guglielmo

NEIL M. GUGLIELMO, General Manager
Los Angeles City Employees' Retirement System

NMG/TB/EA

Attachment: Discretionary Cost-of-Living Adjustment for July 2024 and Possible Board Action

c: Carolyn Webb de Macias, Chief of Staff, Mayor's Office
Jenny Punsalan Delwood, Deputy Chief of Staff, Mayor's Office
Matthew Hale, Deputy Mayor of Finance, Mayor's Office
Matthew Szabo, City Administrative Officer
Janelle Irving, Finance Specialist IV, City Administrative Officer
Sharon Tso, Chief Legislative Analyst
Karen Kalfayan, Executive Officer, Chief Legislative Analyst



LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

ATTACHMENT



REPORT TO BOARD OF ADMINISTRATION
From: Neil M. Guglielmo, General Manager

MEETING: MAY 14, 2024
ITEM: VI - C

SUBJECT: DISCRETIONARY COST OF LIVING ADJUSTMENT FOR RETIREES AND BENEFICIARIES AND POSSIBLE BOARD ACTION

ACTION: CLOSED: CONSENT: RECEIVE & FILE:

Recommendation

That the Board authorize the Board President to sign and transmit a letter to the Los Angeles City Council ("Council") requesting review of the cost-of-living adjustment (COLA) for those who receive retirement benefits from LACERS and consider granting a 2.85% discretionary COLA increase to those Members.

Executive Summary

Effective July 1st of each year, the Board may authorize that eligible Members receive a COLA to their benefits in accordance with the Los Angeles Administrative Code ("LAAC"). The COLA is based on the average annual percentage change in the Consumer Price Index ("CPI") for the Los Angeles area for the previous calendar year and is subject to the limitations in LAAC § 4.1022 for Tier 1 and § 4.1080.17 for Tier 3. According to the Federal Bureau of Labor Statistics, the annual average CPI for the Los Angeles area increased by 3.5% in 2023. However, due to LAAC limitations, Tier 1 and Tier 1 Enhanced eligible participants will receive a maximum COLA of 3.0% while Tier 3 eligible participants will receive a maximum COLA of 2.0%, effective July 1, 2023.

Since the average CPI increase for last year exceeds the COLA caps, the policy provided by LAAC § 4.1023 and § 4.1080.17(c), gives Council discretionary authority to grant additional COLA. The Council may determine the adequacy of the COLA being granted to Members. If Council finds that the COLA is inadequate "in light of the movement of the [CPI], [Council] may grant [an] additional, but discretionary cost of living adjustment."

Discussion

In any given year, the Board shall review the CPI to determine if Tier 1 and Tier 1 Enhanced Members are eligible for a maximum increase of 3.0% COLA (LAAC § 4.1022 for Tier 1). Tier 1 Enhanced Members are Tier 1 Airport Peace Officers (including certain fire fighters) appointed to their positions before January 7, 2018 that elected to remain in Tier 1 with LACERS after January 6, 2018. Tier 1 and

Tier 1 Enhanced benefits include a COLA bank, whereby participants are entitled to receive and accumulate the excess amount (known as “Excess COLA”) whenever the CPI change is greater than the maximum limit of 3.0% in any year. The discretionary COLA is limited to one-half of the difference between the percentage of the annual increases in the cost of living for each of the preceding three years (LAAC § 4.1023(c)(2)). Council may choose to award a discretionary COLA of up to 2.85% for Tier 1 and Tier 1 Enhanced Members. The table below depicts the calculations for determining the maximum amount of the discretionary COLA.

Year	Annual CPI	COLA Award	CPI in Excess of COLA	Calculation for Discretionary COLA
2021	3.8%	3.0%	0.8%	0.40%
2022	7.4%	3.0%	4.4%	2.20%
2023	3.5%	3.0%	0.5%	0.25%
Total	14.7%	9.0%	5.7%	2.85%

In contrast, benefits under Tier 3 cap the COLA at 2.0% and there is no banked benefit (LAAC § 4.1080.17), therefore Tier 3 Participants will receive 2.0% COLA effective July 1, 2023. Based on LACERS’ latest actuarial valuation, this significant increase in CPI could affect more than 22,500 LACERS Members that have retirement dates on or before June 30, 2023.

Council has the authority to determine the adequacy of COLAs and may grant an additional but discretionary COLA for Tier 1 and Tier 3 in accordance with LAAC § 4.1023 and LAAC § 4.1080.17(c), respectively. The Board respectfully requests that the Mayor, CAO, and Council consider authorization of a discretionary COLA for this situation where the CPI exceeds the authorized COLA for one or more years. Members, especially those who have been retired for longer periods of time, can experience significantly diminished buying power in high inflation environments. Council has previously provided three discretionary adjustments: 7.00% in 1982, 1.25% in 1986, and 1.60% in 1989 (Council File # 99-1158). In 2002, Council granted a discretionary COLA for Members with a retirement date before June 30, 1984 (Council File # 01-2343). The purpose of this one-time COLA was to reduce all excess COLA banks to no more than 25.3% (Ordinance # 174419). Any banked amount that exceeded 25.3% was paid to Members. Although this method of applying the discretionary COLA is not as currently prescribed by City Code, Council has discretion in determining how a discretionary COLA is awarded as it is enacted through adoption of an ordinance. Since 2002, Council has not granted any discretionary COLAs based on staff research.

Strategic Plan Impact Statement

The Board’s action on this item aligns with the Benefit Delivery Goal by ensuring accurate payment of benefits in accordance with plan documents codified in the Los Angeles Administrative Code.

Prepared By: Edwin Avanesian, Chief Management Analyst

NG:TB:EA