



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 17

MEETING DATE: October 21, 2026

SUBJECT: Education: Retiree COLAs

SUBMITTED FOR: ☐ Action ☒ Information

RECOMMENDATION

Receive and file educational presentation on the Cost-of-Living Adjustment (COLA) framework under the County Employees Retirement Law of 1937 (CERL).

PURPOSE/STRATEGIC PRIORITY

This item supports the Strategic Management Plan objective to sustain Board governance effectiveness.

BACKGROUND

During a recent Board discussion regarding the impact of inflation on retirees, a Board member asked whether the Board of Retirement has the authority to increase COLAs in response to periods of elevated inflation.

The purpose of this memorandum is to provide an overview of the statutory framework governing retiree COLAs under the CERL, explain the respective authorities of the Legislature, the Board of Retirement, and the Sacramento County Board of Supervisors, and summarize SCERS' historical COLA program. This memorandum is intended solely as an educational resource and does not recommend any changes to SCERS' current COLA practices.

DISCUSSION

A cost-of-living adjustment (COLA) is intended to help retirees maintain purchasing power by offsetting the effects of inflation. Without periodic adjustments, inflation gradually reduces the real value of a fixed pension benefit over time.

Public pension COLAs under the CERL are generally prefunded as part of the retirement system's actuarial funding structure. Consequently, any increase in promised COLA benefits generally increases the actuarial liability of the retirement system and, unless otherwise funded, may increase future employer contribution requirements.

The CERL provides several statutory mechanisms for providing COLAs. Some provisions are mandatory once adopted by a county, while others are optional and may be exercised only under specified statutory conditions. Responsibility for administering COLAs is shared among the California Legislature, the Sacramento County Board of Supervisors, and the SCERS Board of Retirement:

- The Legislature establishes the statutory framework through the CERL.
- The Board of Supervisors determines whether to adopt certain optional COLA provisions authorized by statute and is responsible for funding those provisions when County contributions are required.
- The Board of Retirement administers the retirement system, calculates annual COLAs, applies statutory provisions adopted by the County, and exercises discretion only where expressly authorized by the CERL. The Board may not independently establish new benefit structures or modify statutory COLA limits absent legislative authority.

These provisions also differ with respect to eligibility, funding sources, and whether an adjustment becomes part of the retiree's permanent base allowance. SCERS' COLA program is governed by the CERL and reflects statutory provisions adopted by Sacramento County over many decades.

SCERS COLA Program

SCERS has provided annual COLAs to retirees and beneficiaries since 1965 and has administered these benefits in accordance with the provisions of the CERL and actions previously adopted by the Sacramento County Board of Supervisors. *See attached summary of CERL COLA provisions and timeline of significant COLA-related actions at SCERS.*

SCERS administers annual COLAs for eligible retirees based upon changes in the Consumer Price Index (CPI) and the statutory maximum applicable to each retirement tier. Recommended COLAs are presented to the Board of Retirement each year for approval following staff's or the consulting actuary's calculation of the applicable CPI increase.

SCERS provides the following COLAs:

- Miscellaneous Tier 1 and Safety Tier 1 members: up to 4 percent.
- Most other benefit tiers: up to 2 percent.
- Miscellaneous Tier 2 members are not eligible for annual COLAs.

Annual COLAs become part of the retiree's base allowance and therefore compound over time.

Annual COLA Process

The annual COLA process generally consists of the following steps:

1. The Consumer Price Index is published. SCERS historically has used the CPI for the San Francisco-Oakland-Hayward area. SCERS' actuary, Segal, calculates the

applicable annual adjustment for each eligible benefit tier and determines the COLA Bank.¹

2. Staff verifies compliance with applicable CERL provisions.
3. The proposed COLAs are presented to the Board of Retirement, usually in February.
4. Following Board approval, benefit payments are adjusted effective for the April pay cycle.

Although Board approval is required, the annual calculation is largely administrative because it is governed by statutory formulas established under the CERL.

Responding to Periods of Higher Inflation

Periods of elevated inflation naturally prompt questions regarding whether additional COLAs may be provided to retirees. The answer depends upon the specific statutory authority being considered, as detailed in the attached summary of COLA provisions.

The CERL also authorizes additional COLA mechanisms under specified circumstances. These include:

- Optional higher annual COLA programs adopted by the Board of Supervisors,
- Additional COLAs when inflation exceeds statutory thresholds, and
- Supplemental Purchasing Power Protection (PPP) provisions.

Each provision contains specific statutory requirements governing eligibility, funding, and the governmental entity authorized to approve the benefit. Accordingly, the Board cannot simply approve an increase to annual COLAs outside the authority provided under the CERL.

Using “Excess Earnings”

The CERL allows retirement boards to utilize “excess earnings” for additional benefits, including supplemental COLAs, when investment returns exceed expectations. SCERS has established strict parameters for using “excess earnings” under the Board’s Interest Crediting and Unallocated Earnings Policy (Policy), recognizing that “excess earnings” in a given year should first be utilized to pay down unfunded liabilities and support core pension obligations.

Under the Policy, the pension plan must first reach a 100% funded status, and the Contingency Reserve balance must reach 3% of the plan’s market value of assets. When both goals are

¹ If a change in CPI indicates that inflation is greater than the maximum allowable COLA (for example, 2%), then the excess amount will be placed into the COLA Bank. If the COLA adjustment for a given year is going to be less than the maximum amount and the payee has a positive COLA Bank, SCERS will advance any available percentage to grant the payee the maximum COLA adjustment possible, up to the maximum amount (for example, up to 2%).

reached, the Board, in its discretion and consistent with its fiduciary duties, may consider establishing higher reserve thresholds, or may distribute some or all of the unallocated funds toward other purposes as permitted by the CERL.

Purchasing Power Protection

The CERL also authorizes retirement boards to provide an additional COLA benefit to retirees if their purchasing power falls below 80% of their original benefit after adjusting for annual COLAs. Funding can be provided through excess earnings or additional contributions on a prefunded or pay-as-you go basis.

Fiscal Considerations

The financial impact of any proposed COLA enhancement depends upon several factors, including:

- the magnitude of the increase;
- whether the increase is permanent or temporary;
- whether it becomes part of the retiree's base allowance;
- the number of affected retirees;
- available excess earnings, if applicable; and
- applicable actuarial assumptions.

Cost-of-living adjustments increase future retirement benefit payments and therefore generally increase the actuarial accrued liability of the retirement system. Under the current COLA structure at SCERS, the aggregate employer contribution rate includes a COLA component of 3.8 percentage points of payroll (or \$55 million), and an aggregate employee contribution rate of 2.1 percentage points of payroll (\$29 million).

Staff requested additional information from Segal regarding the estimated cost of various COLA enhancement scenarios.

Scenario 1: Increase 2% COLA to 3%

Under the CERL, the County Board of Supervisors can increase the annual COLA up to 6%. Segal examined the cost of moving the 2% annual COLA to 3% to understand the relative impact of a 1-percentage-point increase.

Assuming the COLA would be applied to pension benefits for all service (past and future) and for all members (active, deferred, retirees, and beneficiaries) currently subject to the 2% maximum COLA, the unfunded liability would increase by \$1.4 billion. The employer contribution rate would increase by 10 percentage points of payroll, reflecting an annual cost of \$143 million. Under cost-sharing requirements, member contribution rates would increase by 1.5 percentage points of pay.

Additionally, the increased COLA may trigger IRC Section 415(b) limits for additional retirees and beneficiaries. SCERS is unable to make payments to a retiree or beneficiary above the 415

threshold (\$290,000 in 2026); the portion of the pension allowance above the 415 limit is paid directly by the employer under a “Replacement Benefits Plan.”

Scenario 2: Implement Purchasing Power Benefit

Under Government Code section 31874.3, the CERL authorizes retirement boards to provide an additional COLA benefit to retirees if their purchasing power falls below 80% of their original benefit after adjusting for annual COLAs. Funding for an ongoing purchasing power benefit can be provided through excess earnings, on a pre-funded basis through contribution rates, or paid by the employer on a pay-as-you-go basis.

Segal identified 832 eligible SCERS retirees in this category who generally retired before 2001. A one-time purchasing power adjustment, not included in the base allowance going forward, would cost an additional one-time amount of \$2.1 million in benefit payments to achieve an 80% purchasing power threshold as of April 1, 2026. Please note this population includes 353 Miscellaneous Tier 2 retirees, who receive no COLA under their plan provisions and did not make COLA contributions during their working years.

ATTACHMENTS

- Summary of CERL COLA provisions
- Timeline of significant COLA-related actions at SCERS
- Board Order
- Presentation
- Segal actuarial analysis of 1% COLA increase

Prepared by:

/S/

Eric Stern
Chief Executive Officer

**Summary of CERL COLA provisions and timeline of
significant COLA-related actions at SCERS**

Statute	Benefit Amount	Authority	Funding	Included in base allowance?
31870	COLA up to 2%	Board of Supervisors	Contributions	Y
31870.1	COLA up to 3%	Board of Supervisors	Contributions	Y
31874.1	Additional COLA if CPI exceeds 3% for under 31870 or 31870.1	Board of Supervisors	Contributions	Y
31874.2	COLA up to 4%, 5% or 6% COLA	Board of Supervisors	Contributions	Y
31874.3(a)	Additional one-time COLA in an amount determined by the Board of Retirement if CPI exceeds the increase given under 31870 or 31870.1	Board of Retirement	Excess Earnings	N
31874.3(b)	Additional one-time adjustment above that given in 31870 or 31870.1 for those who lost 20% or more purchasing power	Board of Retirement	Not defined; other systems have charged additional employer contributions	N
31874.3(c)	Additional, ongoing adjustment above that given in 31870 or 31870.1 for those who lost 20% or more purchasing power	Board of Retirement	Contributions, Excess Earnings	Y

SCERS COLA History

1963 – Legislature authorizes county retirement systems to provide annual COLAs up to 2%, subject to approval by the Board of Supervisors (BOS). (Chapter 624, Statutes of 1963)

1964 – BOS provides temporary increase in retirement allowances, up to \$40 month.

1965 – BOS adopts COLA provisions of CERL, providing annual COLAs up to 2%

1969 – BOS increases COLA rate up to 3%

1976 – BOS increase COLA rate up to 4%

1981 – BOS adopts new Miscellaneous Tier 2 with no COLA

1993 – BOS adopts Miscellaneous Tier 3 with 2% max COLA

1995 – BOS adopts Safety Tier 2 with 2% max COLA

2003 – BOS adopts a special, one-time COLA of 1-6% for members who died or retired before January 1, 2001, per Government Code 31681.55.

2006-2007 – BOS provides option for Miscellaneous Tier 2 members to join Tier 3 prospectively (same formula with COLA) and upgrade prior Tier 2 service to Tier 3.

2011 – BOS adopts lower tiers for new hires (Miscellaneous Tier IV/Safety Tier 3) with a 2% COLA

2012 – BOS adopts new PEPRA formulas Miscellaneous Tier 5/Safety Tier 4 with a 2% COLA.



Retirement Board Order

Sacramento County Employees' Retirement System

**Before the Board of Retirement
October 21, 2026**

AGENDA ITEM:

Education: Retiree Cost-of-Living Adjustments

THE BOARD OF RETIREMENT hereby approves the Staff recommendation to receive and file educational presentation on the Cost-of-Living Adjustment (COLA) framework under the County Employees Retirement Law of 1937 (CERL).

I HEREBY CERTIFY that the above order was passed and adopted on October 21, 2026 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES (Present but not voting):

Chris Giboney
Board President

Eric Stern
Chief Executive Officer and
Board Secretary



Retiree Cost of Living Adjustments

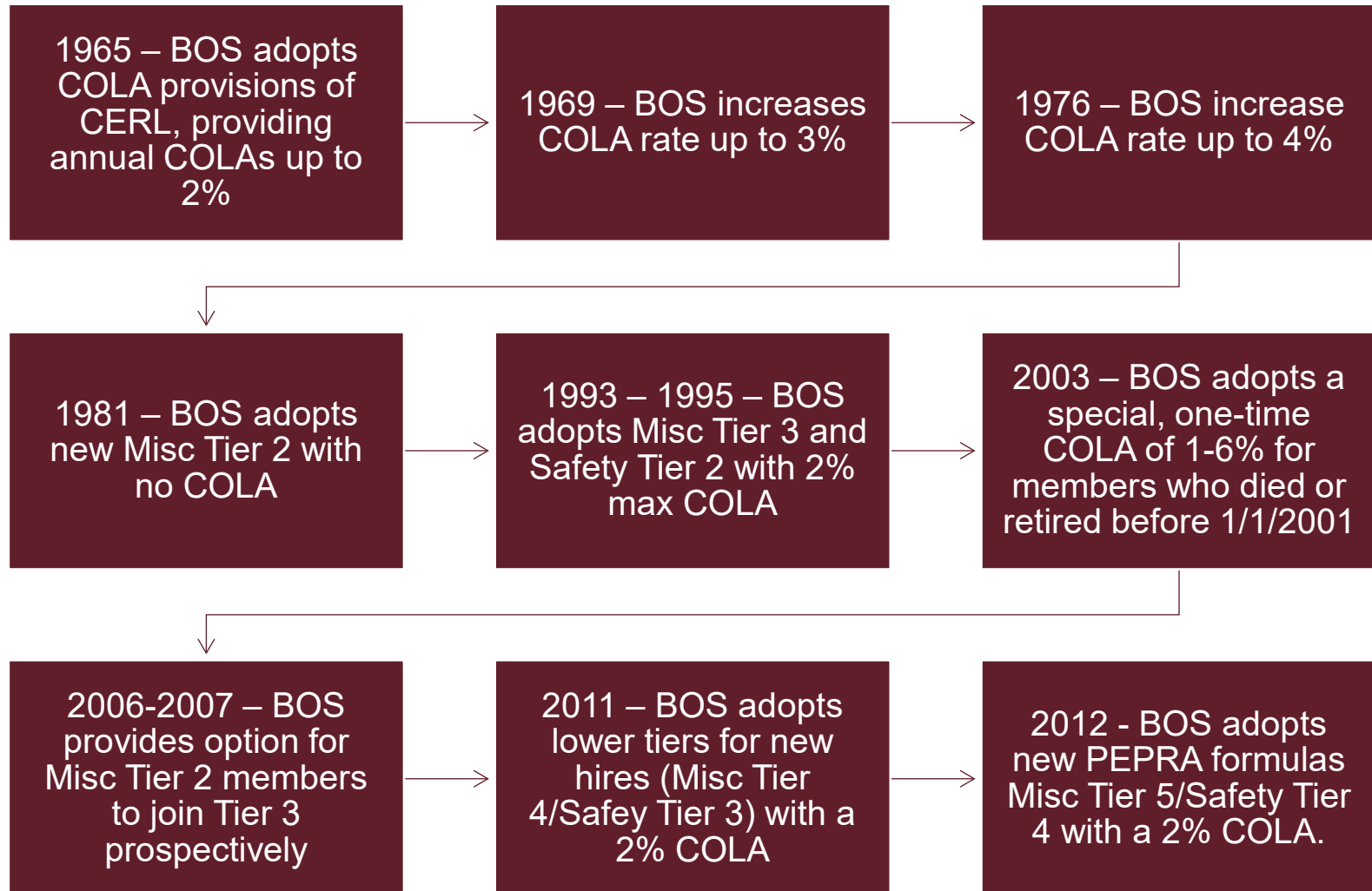
CERL COLA Framework

October 21, 2026

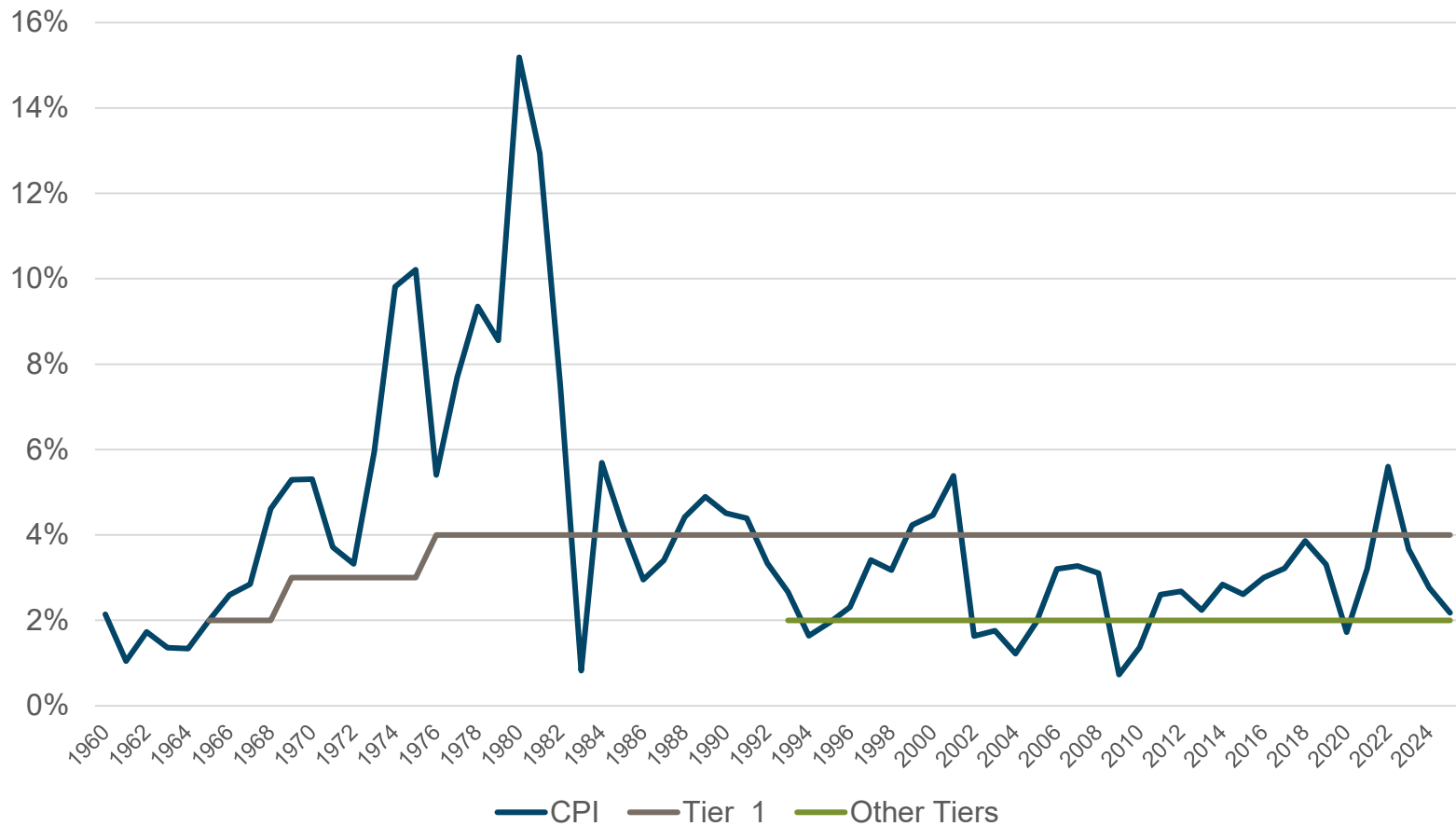
Roles and Responsibilities

Action	Legislature	Board of Supervisors	Board of Retirement
Establish COLA statutes	X		
Adopt COLA levels and provisions authorized by CERL		X	
Calculate annual CPI			X
Adopt annual COLA amount			X
Determine use of excess earnings where authorized			X
Grant Purchasing Power Protection COLAs where statutory conditions are met			X

COLA History



SCERS COLA History vs CPI (SF Bay Area)



Cost Structure

Current

- 4% maximum COLA for Tier 1
- 2% maximum COLA for other tiers
- No COLA for Misc Tier 2
- Annual costs:
 - 3.8% ER Contribution (\$55 million)
 - 2% EE Contribution (\$29 million)

Cost Scenarios

Increase annual COLA rate

- BOS can set COLA up to 6%
- Increase 2% maximum COLA to 3%
 - \$1.4 billion unfunded liability
 - 10% ER Contribution increase
 - 1.5% EE Contribution increase

Cost Scenario

- Provide additional one-time COLA to provide 80% purchasing power protection.
 - Not part of base allowance
 - Funding Sources:
 - Excess Earnings – Not available per SCERS policy until fund reaches 103%
 - Charged to employers on a pay-go basis
 - Prefunded through contributions (can become part of base allowance)
- Potential pool: 832 retirees (including 353 Miscellaneous Tier 2), generally retired before 2001
- \$2.1 million in one-time additional benefits

Considerations

- Important but expensive component of benefit structure and retirement security
- Limits on Board of Retirement authority
- Funding source
- Actuarial Impact
- Fiduciary Duty

September 29, 2026

Mr. Eric Stern
Chief Executive Officer
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814-2738

**Re: Sacramento County Employees' Retirement System (SCERS)
Cost analysis of a 3% Cost of Living Adjustment for Miscellaneous Tiers 3, 4 and 5
and Safety Tiers 2, 3 and 4, effective April 1, 2027**

Dear Eric:

As requested, we have prepared a cost analysis of providing a 3% statutory Cost of Living Adjustment (COLA)¹ for Miscellaneous Tiers 3, 4 and 5 and Safety Tiers 2, 3 and 4 beginning April 1, 2027 on benefits for past and future service.

Background

Members in Miscellaneous Tiers 3, 4 and 5 and Safety Tiers 2, 3 and 4 are currently eligible to receive a COLA of up to 2% based on the actual change in the Consumer Price Index (CPI) for the San Francisco-Oakland-Hayward area. We have been asked by SCERS to quantify the estimated cost of increasing the maximum statutory COLA for all members in Miscellaneous Tiers 3, 4 and 5 and Safety Tiers 2, 3 and 4 from 2% to 3%. For purposes of this analysis, we have illustrated the cost associated with the maximum potential exposure for this change by valuing the impact of a 3% COLA in all future years.¹

Methods and assumptions

In developing our cost analysis, we have relied on several assumptions provided by SCERS and as outlined below:

- The 3% COLA will be effective on April 1, 2027 and applied to pension benefits for all service (past and future) and for all members (actives, deferred vested, and retirees and beneficiaries).²

¹ In practice, 3% would be the maximum COLA as the actual COLA paid would be the lesser of 3% or the actual change in the Consumer Price Index (CPI), which for the purpose of valuing COLA increases in the Actuarial Valuation and Review as of June 30, 2025 is assumed to be 2.75% per year (2.50% inflation plus 0.25% risk margin).

² We understand that SCERS would consider the relevant statute to ensure continued compliance with Section 7522.44 that appears to prohibit prior service enhancement.

- Based on SCERS' actuarial funding policy, we have amortized the impact on the Unfunded Actuarial Accrued Liability (UAAL) over a period of 15 years.
- Following 1937 Act and CalPEPRA Regulations, we have allocated 50% of the increase in normal cost due to the proposed COLA to the employer and 50% to the member.

For COLA contributions that would otherwise be allocated to Safety Tiers 2 and 3 members who have 30 or more years of service and are therefore exempt from paying member contributions, we have continued to follow the current practice used by SCERS to allocate the suspended COLA member contributions to the employer.

- We have assumed that all employers would agree to the increase in the maximum COLA from 2% to 3%.
- If any of the employers agree to increase the maximum COLA from 2% to 3%, the "multiple annuity starting date" provisions of Internal Revenue Code Section 415 may be triggered for those members. This could result in the need for additional 415 testing with new members potentially being limited. As the guidance in the regulations on the application of multiple annuity starting dates is incomplete, further discussions with SCERS' legal counsel would be necessary.
- The costs shown in this letter are for informational purposes only. If the employers agree to increase the maximum COLA to 3%, contribution rates would be determined based on the 2.75% COLA assumption (2.50% inflation plus 0.25% risk margin) used in the Actuarial Valuation and Review as of June 30, 2025. However, because the increase in the maximum COLA is exploratory at this time, we believe it is prudent to disclose the potential cost if actual changes in CPI were higher than the 2.75% COLA assumption. Since an actual increase of up to 3% could be granted based on actual changes in CPI, we have used a 3.00% COLA assumption to determine the potential cost of the proposed 3% maximum COLA. The 3.00% COLA assumption effectively assumes that CPI would be at least 3% per year for all future years.

Results

In the tables below, we have presented the additional employer cost of a 3% COLA calculated as of June 30, 2025 (for fiscal year 2026-2027), broken down by Miscellaneous and Safety, as well as by tier. These costs would be in addition to the rates presented in the Actuarial Valuation and Review as of June 30, 2025. We have also included the estimated total annual contribution increase using the payroll provided in the Actuarial Valuation and Review as of June 30, 2025.

We have excluded Miscellaneous Tier 1 as preliminary June 30, 2026 data shows no Miscellaneous Tier 1 actives.

Additional UAAL (\$ in 000s)

Category	Miscellaneous County, Court and District	Miscellaneous SacSewer	Safety	Total
Actives	\$411,673	\$38,570	\$215,094	\$665,337
Deferred Vested	46,010	2,657	9,701	58,368
Retirees and Beneficiaries	383,712	30,993	226,834	641,539
Total	\$841,395	\$72,220	\$451,629	\$1,365,244

Impact on Employer Contributions (\$ in 000s)

Category	Misc. County Tier 2	Misc. County Tier 3	Misc. County Tier 4	Misc. County Tier 5	Misc. County Total
Normal Cost	0.00%	1.35%	1.22%	1.08%	1.18%
UAAL ³	7.13%	7.13%	7.13%	7.13%	7.13%
Total Contribution Rate Increase	7.13%	8.48%	8.35%	8.21%	8.31%
Total Annual Contribution Increase	\$109	\$29,377	\$2,852	\$45,746	\$78,084
Total Annual Payroll	\$1,522	\$346,416	\$34,165	\$557,191	\$939,294

Category	Safety Tier 1	Safety Tier 2	Safety Tier 3	Safety Tier 4	Safety Total	County Total
Normal Cost	0.00%	3.29%	2.99%	2.15%	2.61%	1.53%
UAAL ⁴	13.44%	13.44%	13.44%	13.44%	13.44%	8.65%
Total Contribution Rate Increase	13.44%	16.73%	16.43%	15.59%	16.05%	10.18%
Total Annual Contribution Increase	\$215	\$17,936	\$3,230	\$26,302	\$47,683	\$125,767
Total Annual Payroll	\$1,601	\$107,207	\$19,660	\$168,708	\$297,176	\$1,236,470

³ This is equal to the additional UAAL for Miscellaneous County, Court and District active members in Tiers 3, 4 and 5 amortized over 15 years and spread over all Miscellaneous County, Court and District payroll. As UAAL is pooled for all tiers within a membership group, there would be an increase in the employer UAAL contribution rate for Miscellaneous Tier 2.

⁴ This is equal to the additional UAAL for Safety active members in Tiers 2, 3 and 4 amortized over 15 years and spread over all Safety payroll. As UAAL is pooled for all tiers within a membership group, there would be an increase in the employer UAAL contribution rate for Safety Tier 1.

Category	SacSewer Tier 2	SacSewer Tier 3	SacSewer Tier 4	SacSewer Tier 5	SacSewer Total
Normal Cost	0.00%	1.16%	1.20%	1.08%	1.12%
UAAL ⁵	7.99%	7.99%	7.99%	7.99%	7.99%
Total Contribution Rate Increase	7.99%	9.15%	9.19%	9.07%	9.11%
Total Annual Contribution Increase	\$10	\$3,436	\$242	\$3,639	\$7,327
Total Annual Payroll	\$125	\$37,545	\$2,650	\$40,127	\$80,447

Category	Court Tier 2	Court Tier 3	Court Tier 5	Court Total
Normal Cost	0.00%	1.35%	1.08%	1.19%
UAAL ⁶	7.14%	7.14%	7.14%	7.14%
Total Contribution Rate Increase	7.14%	8.49%	8.22%	8.33%
Total Annual Contribution Increase	\$38	\$2,647	\$2,939	\$5,624
Total Annual Payroll	\$545	\$31,174	\$35,750	\$67,469

Category	Districts Tier 3	Districts Tier 5	Districts Total	All Employers Total
Normal Cost	1.35%	1.08%	1.18%	1.48%
UAAL ⁶	7.14%	7.14%	7.14%	8.49%
Total Contribution Rate Increase	8.49%	8.22%	8.32%	9.97%
Total Annual Contribution Increase	\$1,444	\$2,406	\$3,850	\$142,568
Total Annual Payroll	\$16,997	\$29,271	\$46,268	\$1,430,654

In the table below, we have presented the additional member cost of a 3% COLA calculated as of June 30, 2025. These costs would be in addition to the rates presented in the Actuarial Valuation and Review as of June 30, 2025. We have also included the estimated total annual contribution increase using the payroll provided in the Actuarial Valuation and Review as of June 30, 2025.

⁵ This is equal to the additional UAAL for Miscellaneous SacSewer active members in Tiers 3, 4 and 5 amortized over 15 years and spread over all Miscellaneous SacSewer payroll. As UAAL is pooled for all tiers within a membership group, there would be an increase in the employer UAAL contribution rate for Miscellaneous Tier 2.

⁶ This is equal to the additional UAAL for Miscellaneous County, Court and District active members in Tiers 3, 4 and 5 amortized over 15 years and spread over all Miscellaneous County, Court and District payroll. As UAAL is pooled for all tiers within a membership group, there would be an increase in the employer UAAL contribution rate for Miscellaneous Tier 2.

Average Member Contribution Rate Increases (% of Payroll) (\$ in 000s)

Plan and Employer	Rate Increase
Miscellaneous 50:50 (County, Orangevale)	
Tier 3	1.35%
Tier 4	1.22%
Tier 5	1.08%
Miscellaneous Court and other Districts	
Tier 3	1.35%
Tier 5	1.08%
Miscellaneous SacSewer	
Tier 3	1.54%
Tier 4	1.19%
Tier 5	1.08%
Safety	
Tier 2	3.19%
Tier 3	2.99%
Tier 4	2.15%
All Members Combined⁷	1.48%
Total Annual Contribution Increase	\$21,179

Other considerations

Unless otherwise noted, all of the above calculations are based on the results of the Actuarial Valuation and Review as of June 30, 2025, including the participant data, actuarial assumptions, methods, and models on which that valuation was based. These calculations were completed under the supervision of Molly Calcagno, ASA, MAAA, Enrolled Actuary.

I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

⁷ Including payroll for members in Miscellaneous Tier 2 and Safety Tier 1.

Please let us know if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Molly Calcagno". The signature is written in a cursive, flowing style.

Molly Calcagno, ASA, MAAA, EA
Vice President and Consulting Actuary

ST/bbf

cc: Margo Allen

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