County of Sonoma/
Sonoma County Employees' Retirement Association (SCERA)

Budget Workshops
Pension Cost-of-Living-Adjustment (COLA) Discussion

Agenda

I. Today's Discussion Objectives

II. Pension System Governance

III. Sonoma County's COLA Program

IV. Impact on Current Retirees

V. Potential COLA Scenarios and Fiscal Impacts

VI. Board Discussion/Determine Next Steps

Today’s Discussion Objectives

- Educate the Board and public about the retirement system’s current Ad hoc COLA program and the ongoing impacts of inflation on the purchasing power of current retirees’ pension benefits.
- Focus today’s COLA discussion on current retirees.
- No recommended actions are being presented to the Board for consideration today.
- Receive Board of Supervisors direction regarding next steps.

Pension System Governance

- SCERA established in 1946, pursuant to the County Employees Retirement Law of 1937 (CERL), to administer the County's defined benefit pension plan. Not part of CalPERS.
- SCERA governed by a 9-member Board of Retirement and operates independently from the County.
- County members comprise ~90% of plan membership.

SCERA Board of Retirement	County Board of Supervisors
• Responsible for plan administration • Makes benefits determinations • Manages investment of assets • Recommends Ad hoc COLAs to the BOS for consideration	• Approves pension benefit formulas through collective bargaining • Approves COLA benefits for its employees and retirees (CERL Articles 16.5 and 16.6)

Sonoma’s Pension COLA Program

- SCERA operates under an Ad hoc COLA design with no automatic, ongoing COLA benefit pre-funded by employer and employee contributions.
- From 1946 through 2008, Ad hoc COLAs were approved ~75% of the time, funded by excess earnings, amortized unfunded liability, realized investment gains, and/or increased employer contributions.
- Prior to 2003, SCERA and the County would collaborate annually to determine whether and how a COLA could be recommended to the BOS and funded.
- From 2003 through 2024, the Ad hoc COLA program was focused on a purchasing power COLA funded through excess earnings.
- Great Recession investment losses negatively impacted SCERA’s excess earnings, which prevented further COLA recommendations after 2008.

Impact on Current Retirees

Year	CPI Change*
2009	2.6%
2010	1.5%
2011	2.9%
2012	2.2%
2013	2.6%
2014	2.7%
2015	3.2%
2016	3.5%
2017	2.9%
2018	4.5%
2019	2.5%
2020	2.0%
2021	4.2%
2022	4.9%
2023	2.6%
2024	2.4%
Cumulative Total	**47.2%**

**Not compounded*

Year Retired	Avg. COLA % Needed to Reach 80% Purchasing Power**	Count of Prospective Recipients
Prior to 4/2002	47.3% - 58.1%	1,181
4/2002 to 4/2006	38.8% - 43.4%	667
4/2006 to 4/2010	26.4% - 36.1%	757
4/2010 to 4/2013	18.0% - 23.4%	890
4/2013 to 4/2016	10.1% - 15.7%	603
4/2016 to 4/2019	0.3% - 6.9%	688
Total		**4,786**

***Represents the cumulative compound percentage based on CPI through Dec 2024.*

Avg. Annual Retirement Benefit	General	Safety
Pre-Plan A	$18,553	$37,688
Legacy Plan A	$41,864	$61,345
PEPRA Plan B	$17,074	$42,899

Retirees/Beneficiaries without Benefit Formula Enhancement = 1,348 (1,074 General and 274 Safety)

County/SCERA Collaboration Timeline

- August 2022: SCERA Board established a working committee to study the COLA issue and recommend changes to SCERA's policies.
- March 2024: SCERA Interest Crediting and Reserve Policy amended to set the reserve to 1% (from 3%) and simplify the reserve crediting process.
- August 2024: SCERA COLA policy amended to outline a process for County and SCERA staff to evaluate COLA feasibility and funding options annually.
- November 2024: SCERA and County staff met and requested cost studies for multiple retiree COLA scenarios to understand fiscal impacts
- February 2025: SCERA secured an additional COLA cost study.

Ad-Hoc COLA Statutes – What Options are Available?

CERL Ad-Hoc COLA statutes can be grouped into two main categories:

1) **Purchasing Power COLAs** increase benefits to restore purchasing power lost over time due to inflation; earlier retirees receive greater percent increases to reach the target level.

2) **Flat percentage COLAs** provide the same across-the-board percent increase to all retirees.

COLA Statute	What is Allowed?
§31870	Up to 2% across-the-board COLA with an ability to stagger start dates and compound the COLA for each year of retirement.
§31870.1	Up to 3% across-the-board COLA.
§31874.1	If CPI is over 3%, over 3% can be given as a COLA. The Board of Supervisors determines the amount. Does not get compounded.
§31874.2	4%, 5% or 6% across-the-board COLA determined by the Board of Supervisors
§31874.2	Supplemental COLA based on accumulations of CPI in excess of the COLA given under sections 31870 or 31870.1. Or allows a 20% loss of purchasing power COLA funded by excess earnings above 1% of plan assets. Does not get compounded.
§31874.6	20% loss of purchasing power COLA funded by excess earnings above 1% of plan assets. No across-the-board COLA requirement.

COLA Implementation Caveats

- Legal analysis and/or legislative changes may be needed to implement some COLA scenarios being explored by the County and SCERA.
  - Providing COLAs to a subset of retirees instead of across-the-board
  - Funding COLAs with increased employer contributions over a 20-year amortization period as opposed to funding up front with excess earnings.
  - Public Employees' Pension Reform Act (2013) limitations pertaining to enhancing retirement benefits.

SCERA's 2023 Valuation Metrics ($ in Thousands)

SCERA Assets/Liabilities	Amount
Valuation Value of Assets	$3,500,687
Actuarial Accrued Liability	$3,730,227
Unfunded Actuarial Accrued Liability	$229,540
County's Proportionate Share of UAAL	**$208,370**
Funded % – Valuation Value of Assets	93.85%

Retirement Tier	Employer Contribution Rate	Employer Contribution
General Legacy Plan A	18.04%	$13,010
Gen. Plan A w/ UAAL Sunset	21.06%	$15,331
General PEPRA Plan B	15.68%	$33,262
Safety Legacy Plan A	32.92%	$13,641
Safety PEPRA Plan B	27.01%	$9,531
Total		**$84,775**

Retiree COLA Implementation Scenarios ($ in Thousands)

COLA Scenario Description	Increased Cost/ Unfunded Liability	Increased Annual Cost (20-Year Amortization)	Total Estimated County Unfunded Liability*	Total Estimated Annual County Contribution Cost*
1) Purchasing Power COLA. Restores all retirees and beneficiaries who have lost more than 20% purchasing power back to 80% of their purchasing power.	$365,662	$26,040	$574,091	$110,815
2) Purchasing Power COLA for retirees limited to 2% Increase. COLA given only to those retirees and beneficiaries who have lost more than 20% of their purchasing power, capped at 2% increase.	$30,297	$2,169	$238,667	$86,944
3) Purchasing Power COLA for retirees w/out benefit formula enhancement. COLA targeting retirees without a benefit formula enhancement (3% at 60 for General and 3% at 50/55 for Safety) up to 80% purchasing power.	$111,776	$7,977	$320,146	$92,752
4) Flat 2% Across-the-Board COLA for All Retirees. COLA granted to all retirees and beneficiaries in pay status.	$45,349	$3,236	$253,719	$88,011

**Total cost and unfunded pension liability excludes Pension Obligation Bond principal balance and debt service expenses.*