



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
<ul style="list-style-type: none">• Responsible for plan administration• Makes benefits determinations• Manages investment of assets• Recommends Ad hoc COLAs to the BOS for consideration	<ul style="list-style-type: none">• 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.