

Memorandum

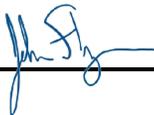
**TO: Board of Administration, Federated City
Employees' Retirement System**

FROM: Sandra Castellano

**SUBJECT: Resolution 9129 Setting COLA Rate
for 415(b) Qualified Participants**

DATE: February 19, 2026

Approved



Date

January 21, 2026

RECOMMENDATION

Approval of Resolution #9129 setting the Cost of Living Adjustment rate for 415(b) impacted beneficiaries who will have limits set by “grandfathered” rules at three percent (3.0%) and with no added amount from prior years' excess accumulations pursuant to San José Municipal Code (“SJMC”) § 3.44.040.

BACKGROUND

For 2026, Internal Revenue Code (“IRC”) Section 415(b) limits the retirement allowance that the Retirement System may pay to any retiree or beneficiary to \$290,000. This limit is reduced for members who retire before age 62 and further reduced for members with fewer than 10 years of service.

Members who joined the System before January 1, 1990 may qualify as “qualified participants” under Internal Revenue Code section 415(b). For qualified participants, federal law requires that the individual’s benefit not be reduced below the amount that would have been payable under the System’s benefit provisions in effect on October 14, 1987 (the “grandfathered” rules). While service prior to January 1, 1990 may establish qualified participant status, the grandfathered protection applies only to the benefit formula and options that were available under the Plan as of October 14, 1987. Any benefit option elected that was not available under the Plan on October 14, 1987 is not part of the grandfathered benefit.

SJMC § 3.44.040 requires that the Board determine the percentage of increase or decrease in cost of living under the October 14, 1987 grandfathered rules.

ANALYSIS

When comparing the retirement benefit payable under the October 14, 1987 grandfathered rules with the benefit payable under the current benefit formula as limited by IRC section 415(b), the COLA applicable to the grandfathered benefit must be determined using the COLA provisions in effect as of October 14, 1987, and not the System’s current COLA methodology.

Under the rules in effect on October 14, 1987, COLA was based on the December-to-December Consumer Price Index for All Urban Consumers (CPI-U), San Francisco-Oakland-San José area,

and formally declared by the Board. SJMC § 3.44.030 provides that the annual COLA equals the percentage change in CPI-U, up to a maximum of 3.0%. If CPI-U exceeds 3.0%, the excess is placed into a COLA Bank to be used in future years when CPI-U is below 3.0%, allowing the COLA to be supplemented up to the 3.0% cap.

Since the 2025 December over 2024 December CPI rate was 3.0%, attached is a Resolution declaring the COLA of 3.0% with no added amount from prior years' excess accumulations for the "grandfathered" benefit calculation. The cost of living increase to be credited in the COLA Bank pursuant to Section 3.44.040 of Chapter 3.44 is zero (0.0%).

Sandra Castellano

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Benefits Division Manager