



Memorandum

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

**FROM: Kathryn Schaefer
Benefits Division Manager**

**SUBJECT: Resolution 9092 Setting COLA Rate
for 415(b) Qualified Participants**

DATE: February 13, 2020

Approved

Date

2/14/20

RECOMMENDATION

Approval of Resolution #9092 setting the Cost of Living Adjustment rate for 415(b) impacted beneficiaries who will have limits set by "grandfathered" rules of two point five percent (2.5%) and from zero (0) to zero point five percent (0.5%) from prior year's excess accumulations for the period April 1, 2020 to March 31, 2021, subject to the limitations set forth in Chapter 3.44 of the San Jose Municipal Code.

BACKGROUND

Internal Revenue Code ("IRC") Section 415(b) limit caps the retirement for year 2020 allowance, amount the Retirement System may pay to a retiree or other beneficiary at \$230,000. However, for those that retire under age 62, the limit of \$230,000 is adjusted downward for every year under age 62. There is also a further reduction for members with less than 10 years of service in the System.

If a member joined the system prior to January 1, 1990, they would be considered a "qualified participant" under IRC 415(b) and their retirement allowance cannot be lower than what they would have received under the System rules as of October 14, 1987.

ANALYSIS

The current 3% annual Cost of Living Adjustment ("COLA") applied in April of every year was not how COLA was applied as of October 14, 1987. For beneficiaries whose benefit would be higher under the "grandfathered" rules as of October 14, 1987, rather than their benefit calculated under the current benefit formula and subsequently reduced by IRC 415(b) limits, COLA rules as of October 14, 1987, must be applied. At that time, COLA was based on the Consumer Price Index for all Urban Consumers, San Francisco-Oakland-San Jose, December over December rate ("CPI") and formally declared by the Board. Since the 2019 December over December CPI rate was 2.5%, attached is a Resolution declaring the COLA of 2.5% and 0.5% from prior year's excess accumulations for the "Grandfathered" benefit calculation.

Kathryn Schaefer
Benefits Division Manager