



Memorandum

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

FROM: Barbara Hayman

**SUBJECT: Resolution 9091 Setting COLA Rate
for 415(b) Qualified Participants**

DATE: March 18, 2021

Approved
Roberto L. Pena

Date
March 11, 2021

RECOMMENDATION

Approval of Resolution #9091 setting the Cost of Living Adjustment rate for 415(b) impacted beneficiaries who will have limits set by "grandfathered" rules of two point zero percent (2.0%) Municipal Code section 3.44.040.

BACKGROUND

Internal Revenue Code ("IRC") Section 415(b) limit caps the retirement allowance amount the Retirement System may pay to a retiree or any 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 Consumer Price Index ("CPI") and formally declared by the Board. On October 14, 1987, Section 3.44.030 of Chapter 3.44 provides that the annual Cost of Living Adjustment to the beneficiary's allowance shall be the percentage increase or decrease in the CPI, subject to a maximum of three percent (3%). Since the 2020 December over December CPI rate was 2%, attached is a Resolution declaring the COLA of 2.0%. The cost of living increase to be accumulated in the allowance pursuant to Section 3.44.040 of Chapter 3.44 is zero.

Barbara Hayman
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Deputy Director