



City of Rockville

MEMORANDUM

November 26, 2007

TO: Retirement Board

FROM: Gavin Cohen, Executive Secretary

A handwritten signature in black ink, appearing to read "Gavin Cohen", is written over the printed name.

SUBJECT: Cost of Living Adjustment (COLA) for retirees

Every year the Retirement Board recommends whether the City's active retirees should receive a Cost of Living Adjustment (COLA). The decision on what the COLA should be in any given year is not based on any one particular item, but rather on several criteria such as:

- Can the plan afford the Increase?
- CPI national and regional data
- Can the City's operating budget afford the increase?
- The plans funding trends
- What has been offered in the past/past practice and trends

The last retiree Cost of Living Adjustment (COLA) for 1.5% went into effect on January 1, 2007. See Attachment 1 for history of COLA increases. National and regional CPI data can be reviewed on Attachment 2.

For the period from January through October 2007 (the last month for which data is available) the all City average CPI-U increased by 3.22%; the twelve month October to October increase was 3.54%. The CPI-U for the Washington-Baltimore area for the period from January through September 2007 increased by 3.63% and the September to September increase was 3.44%. The social security administration is adjusting its benefits by 2.8% (Attachment 3).

Staff recommends a COLA adjustment not be provided to retirees for calendar 2008. The Board had indicated that with the Plans unfunded liability, and with having provided COLA increases the past four years in a row, that it would not be prudent to provide a COLA for 2008. As indicated in Section XI of the 4/1/2007 actuarial valuation, the cost to the plan of each 1% COLA to current retirees is approximately \$229,912.

Attachments: History of COLA increases
US Dept of Labor CPI Indices
Section XI- Estimated Cost of 1% COL Increase for current Retirees
News Release Social Security
PERS Schedule of Funding Progress

HISTORY OF RETIREE COLA INCREASES

EFFECTIVE DATE	AMOUNT COLA	Change to CPI (1)	COLA as % CPI
1/1/1988	2.00%	1.00%	200%
7/1/1989	4.00%	3.00%	133%
7/1/1990	4.00%	3.00%	133%
7/1/1991	4.00%	4.40%	91%
7/1/1992	0.00%	3.20%	0%
7/1/1993	2.00%	2.80%	71%
7/1/1994	2.00%	2.80%	71%
7/1/1995	0.00%	2.80%	0%
1/1/1997	1.50%	3.00%	50%
1/1/1998	1.50%	1.60%	94%
1/1/1999	0.00%	1.70%	0%
1/1/2000	2.00%	2.70%	74%
1/1/2001	2.00%	3.70%	54%
1/1/2002	1.50%	2.20%	68%
1/1/2003	0.00%	1.80%	0%
1/1/2004	1.50%	2.50%	60%
1/1/2005	1.50%	4.07%	37%
1/1/2006	1.50%	1.77%	85%
1/1/2007	1.50%	3.22%	47%
1/1/2008	0.00%		

Source: This information is from prior prepared reports.



U.S. Department of Labor
Bureau of Labor Statistics
 Bureau of Labor Statistics Data



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Data extracted on: November 26, 2007 (11:17:42 AM)

Consumer Price Index - All Urban Consumers

Series Id: CUUR0000SA0
 Not Seasonally Adjusted
 Area: U.S. city average
 Item: All items
 Base Period: 1982-84=100

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5
1998	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4	163.6	164.0	164.0
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.5
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.9	190.9	191.0
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	197.6
2006	198.3	198.7	199.8	201.5	202.5	202.9	203.5	203.9	202.9	201.8	201.5
2007	202.416	203.499	205.352	206.686	207.949	208.352	208.299	207.917	208.490	208.936	

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Phone: (202) 691-5200
 have a **Data question?**
hical (web) question?
 ave **Other comments?**



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Change Output Options:

From: 1997 To: 2007 GD

include graphs **NEW!**

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Data extracted on: November 26, 2007 (11:16:41 AM)

Consumer Price Index - All Urban Consumers

Series Id: CUURA311SA0
 Not Seasonally Adjusted
 Area: Washington-Baltimore, DC-MD-VA-WV
 Item: All items
 Base Period: NOVEMBER 1996=100

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	HALF1
1997	100.4		100.8		100.5		101.1		101.4		100.5		100.8	100.6
1998	101.0		101.6		101.5		102.8		102.9		102.4		102.1	101.5
1999	102.8		103.2		103.6		104.6		105.4		105.0		104.2	103.4
2000	105.4		107.1		106.7		108.4		108.7		108.5		107.6	106.6
2001	108.9		109.7		110.1		110.8		111.7		110.9		110.4	109.7
2002	110.9		111.9		112.8		113.4		114.0		114.0		113.0	112.1
2003	114.6		115.9		115.7		116.8		117.2		116.7		116.2	115.6
2004	117.1		118.1		118.9		120.2		120.8		120.9		119.5	118.3
2005	121.3		122.7		123.6		125.0		126.7		125.4		124.3	122.8
2006	126.3		126.8		128.8		130.7		130.2		129.3		128.8	127.7
2007	129.956		131.945		132.982		134.442		134.678					132.000

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 Phone: (202) 691-5200
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 a **Technical (web) question?**
 Do you have **Other comments?**

Section XI-Estimated Cost of 1% COL Increase for Current Retirees

Estimated cost of 1% Cost of Living increase to current retirees

Non-Police Group

	<u>4-1-07 Valuation</u>	<u>4-1-07 with 1% Cost-of-Living</u>
Accrued Liability		
Active members	\$31,138,267	\$31,138,267
Terminated vested members	1,834,073	1,834,073
Retirees and beneficiaries	20,458,060	20,662,641
Total	53,430,400	53,634,981
Actuarial Value of Assets	51,280,537	51,280,537
Unfunded Accrued Liability	2,149,863	2,354,444

Each 1% cost of living increase results in an additional \$204,581 of Accrued Liability for the Non-Police Group. (A)

Police Group

	<u>4-1-07 Valuation</u>	<u>4-1-07 with 1% Cost-of-Living</u>
Accrued Liability		
Active members	\$8,632,370	\$8,632,370
Terminated vested members	183,030	183,030
Retirees and beneficiaries	1,533,111	1,548,442
Total	10,348,511	10,363,842
Actuarial Value of Assets	9,570,825	9,570,825
Unfunded Accrued Liability	777,686	793,017

Each 1% cost of living increase results in an additional \$15,331 of Accrued Liability for the Police Group. (A)

The above does not include the amount necessary to purchase a 1% cost of living increase for retirees at Hartford.

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(A)

Σ (A) TOTAL APPROXIMATE COST TO PLAN FOR EACH 1% COLA ADJ
= \$ 229,912

Wednesday, October 17, 2007
For Immediate Release



Mark Lassiter, Press Officer
410-965-8904
press.office@ssa.gov

News Release

SOCIAL SECURITY

Social Security Announces 2.3 Percent Benefit Increase for 2008

Monthly Social Security and Supplemental Security Income benefits for more than 54 million Americans will increase 2.3 percent in 2008, the Social Security Administration announced today.

Social Security and Supplemental Security Income benefits increase automatically each year based on the rise in the Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and Clerical Workers* (CPI-W), from the third quarter of the prior year to the corresponding period of the current year. This year's increase in the CPI-W was 2.3 percent.

The 2.3 percent Cost-of-Living Adjustment (COLA) will begin with benefits that nearly 50 million Social Security beneficiaries receive in January 2008. Increased payments to more than 7 million Supplemental Security Income beneficiaries will begin on December 31.

Some other changes that take effect in January of each year are based on the increase in average wages. Based on that increase, the maximum amount of earnings subject to the Social Security tax (taxable maximum) will increase to \$102,000 from \$97,500. Of the estimated 164 million workers who will pay Social Security taxes in 2008, nearly 12 million will pay higher taxes as a result of the increase in the taxable maximum.

Information about Medicare changes for 2008 can be found at www.cms.hhs.gov.

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NOTE TO CORRESPONDENTS: A fact sheet showing the effect of the various automatic adjustments is attached.

City of Rockville, Maryland

Public Employee Retirement System

June 30, 2007

(Unaudited - See Accompanying Independent Auditor's Report)

Schedule of Funding Progress

Historical trend information about pension plans is presented herewith as required supplementary information. This information is intended to help users assess pension plan funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems. The amount shown in the historical trend information as the "actuarial accrued liability" is a measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. Annual pension costs equal the employer's annual required contributions for all disclosed fiscal years.

Actuarial Valuation Date <u>April 1</u>	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability (AAL) Entry Age	(A - B) Funded (Unfunded) AAL (FAAL) / UAAL	(A / B) Funded Ratio	(C) Covered Payroll	((A - B) / C) FAAL / UAAL as a percentage of Covered Payroll
2002	45,290,157	42,191,423	3,098,734	107.3%	22,224,041	13.9%
2003	45,435,953	46,294,593	(858,640)	98.1%	23,900,022	-3.6%
2004	47,866,312	51,064,065	(3,197,753)	93.7%	25,211,836	-12.7%
2005	50,585,815	54,966,616	(4,380,801)	92.0%	25,290,170	-17.3%
2006	54,487,954	58,873,284	(4,385,330)	92.6%	26,243,676	-16.7%
2007	60,851,362	63,778,911	(2,927,549)	95.4%	25,923,304	-11.3%

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and funded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one an indication of the City's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the PERS. Trends in the funded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the funded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the City's progress made in accumulating sufficient assets to pay benefits when due. Generally, the greater this percentage, the stronger the PERS.