University of California Retirement Plan Cost of Living Adjustment

The University of California Retirement Plan (UCRP or Plan) provides an annual Cost of Living Adjustment (COLA) to Members based on a formula tied to increases in the Consumer Price Index (CPI). The CPI used is the arithmetic mean of the CPI for All Urban Consumers for the major metropolitan area of Northern California including San Francisco and the CPI for All Urban Consumers for the major metropolitan area of Southern California including Los Angeles, both for the preceding February, as prepared by the Bureau of Labor Statistics of the United States Department of Labor. These particular metropolitan areas are used because most of the annuitants and beneficiaries of the Plan live in these regions.

<u>July 1, 2000 COLA</u>

For the July 1, 2000 COLA, the percentage change in the average CPI from February of 1999 to February of 2000 is calculated. In February of 1999, the CPI index for Northern California was 169.40 and the CPI index for Southern California was 164.60. The average of these two indices was 167.00. In February of 2000, the CPI index for Northern California increased to 176.50 while the CPI index for Southern California had increased to 169.20. The average became 172.85. The percentage increase in the average from 167.00 to 172.85 is 3.50%, so the July 1, 2001 COLA is based on 3.50%.

<u>1999 CPI Index for Northern and Southern California</u>

No. Ca. 169.40 + So. Ca. 164.60 = 334.00 ÷2 = 167.00 (Average)

<u>2000 CPI Index for Northern and Southern California</u>

No. Ca. 176.50 + So. Ca. 169.20 = 345.70÷2 = 172.85 (Average)

CPI Percentage increase from 1999 through 2000 = 172.85÷ 167.00 = 1.0350 or 3.50%

Since UCRP provides a COLA equal to 100% of the first 2% of CPI change plus 75% of the CPI increase above 4%, up to a maximum COLA of 6%, a CPI increase of 3.50% would lead to a UCRP COLA of 2% for July 1, 2000.

<u>Measurement of Retained Purchasing Power</u>

Historically, The Regents have striven to protect annuitants' benefits from being significantly eroded by inflation even though this is not a guaranteed contractual benefit.

The first step in determining whether purchasing power has eroded is to measure the current level of retained purchasing power. This calculation compares the ratio of the current monthly benefit (with COLAs) to the original monthly benefit against the ratio of the current CPI to the CPI when benefits began. The CPI used is the average of the major metropolitan area of northern California including San Francisco CPI and the major metropolitan area of Southern California including Los Angeles CPI.

If the retained purchasing power has eroded below 75%, the adjustment necessary to increase the purchasing power to 75% is determined by comparing the target 75% purchasing power to the retained purchasing power.