Consumer Price Index and Post Retirement Increases
White Paper

Recently, the capping of PERS' post retirement increase (PRI) formula by the lifetime accumulated consumer price index (CPI) has become an issue for retirees of the plan, due to the low inflationary environment. This paper sets forth the history of the PRI formula and the application of the CPI as a cap on PRIs.

The PRI formula is set forth in NRS 286.5756 which states in pertinent part:

> *2. Except as otherwise provided in subsection 3, allowances or benefits increase once each year on the first day of the month immediately following the anniversary of the date the person began receiving the allowance or benefit, by the lesser of*
>
> *(a) Two percent following the 3rd anniversary of the commencement of benefits, 3 percent following the 6th anniversary of the commencement of benefits, 3.5 percent following the 9th anniversary of the commencement of benefits, 4 percent following the 12th anniversary of the commencement of benefits and 5 percent following the 14th anniversary of the commencement of benefits; or*
>
> *(b) The average percentage of increase in the Consumer Price Index (All Items) for the 3 preceding years, unless a different index is substituted by the board.*
>
> *3. In any event, the allowance or benefit of a member must be increased by the percentages set forth in paragraph (a) of subsection 2 if the allowance or benefit of a member has not increased at a rate greater than or equal to the average of the Consumer Price Index (All Items), unless a different index is substituted by the board, for the period between the date of his retirement and the date specified in subsection 2.*

In researching the CPI cap, staff at PERS reviewed the history of the PRI formula back to its inception at the 1983 legislative session. Before that legislative session, PRIs were granted on an "ad hoc" basis, at the will of the legislature. They were not part of the benefit structure of PERS and could be taken away at anytime, if the legislature determined they could not be funded.

In 1983, the first statutory formula was applied to PRIs. The new provision granted a PRI of 2% beginning in the fourth year of retirement, or a three-year rolling average CPI cap, whichever was less. In 1989, the PRI formula was enhanced to allow for a 2% of gross benefit after the third anniversary of retirement, and 3% of gross benefit after the 6th anniversary of retirement. All PRIs were still limited by the rolling three-year average CPI. In 1991, the PRI formula was again enhanced by the increasing of the PRI after the 9th anniversary of retirement to 3.5%, still capped however by the CPI.

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In 1995, the Retirement Board's bill, Assembly Bill 500, was enacted by the Nevada Legislature. Section 7 of that bill amended our PRI formula to allow the CPI cap to be measured for the entire period of retirement of a member rather than imposing a three year average CPI against the yearly post retirement increase percentage. Studies highlighted the insidious affect of inflation on the purchasing power of a retiree's benefit over time. This lifetime CPI measure provides retirees with the opportunity to keep pace with inflation, but not to exceed inflation over their retirement period.

In 1997, PERS requested the PRI formula to be increased for retirees in their later years of retirement to 4% of gross benefit after the 12th anniversary and 5% of gross after the 14th anniversary. The lifetime CPI cap was left in place at that time in order to limit the cost associated with the benefit enhancement, which was funded through the active member contribution rate.

As required by NRS 286.5756 (b), the cap is based on the average rate of inflation as provided by the Consumer Price Index (All Items) for 3 preceding years. Using the published percentages, we calculate the three year average by comparing percentages in effect for June of the first year and May of the following year. This calculation is completed for three consecutive years and the totals from each year are averaged together. The result is the new PRI cap which becomes effective for the next 12 months starting in July and ending in June of the following year. We have verified that the method used for the calculation of the PRI cap is consistent and accurate. Below is a spreadsheet that reflects the method used for the last 3 years of post retirement increase caps.

6/2013	233.504		
5/2014	237.900	1.018826	1.018133+1.015108+1.018826 = 3.052067/3 = 1.74%
6/2014	238.343		
5/2015	237.805	0.997743	1.015108+1.018826+0.997743 = 3.031677/3 = 1.06%
6/2015	238.638		
5/2016	240.236	1.006696	1.018826+0.997743+1.006696= 3.023265/3= 0.78%
6/2015	238.638		
5/2016	240.229	1.006667	1.018826+0.997743+1.006667= 3.023236/3= 0.77% **(R)**

R: Revised The Department of Labor Statistics has revised the CPI for May 2016. Due to this update it has also changed our PRI cap from .78 to .77 for fiscal year 2017. Effective with November 2016 the PRI cap will be .77% prospectively.

In addition below I have set forth the CPI for each of the years beginning in 1983 and extending through 2016.

1983 – 6.40%	1984 – 4.62%
1985 – 3.52%	1986 – 3.25%
1987 – 3.06%	1988 – 3.13%
1989 – 4.26%	1990 – 4.60%
1991 – 4.85%	1992 – 4.15%
1993 – 3.59%	1994 – 2.86%
1995 – 2.84%	1996 – 2.76%
1997 – 2.70%	1998 – 2.25%
1999 – 1.98%	2000 – 2.44%
2001 – 2.98%	2002 – 2.68%
2003 – 2.16%	2004 – 2.15%
2005 – 2.64%	2006 – 3.30%
2007 – 3.18%	2008 – 3.66%
2009 – 1.88%	2010 – 1.30%
2011 – .85%	2012 – 2.21%
2013 – 2.33%	2014 – 1.74%
2015 – 1.06%	2016 – .78%
2016 – .77% (**R**)	

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Due to the low inflationary environment, the CPI lifetime cap is starting to affect the granting of our statutory PRIs for retirees. The application of the lifetime CPI cap to a benefit indicates that, over the retirement period, the benefit has kept pace with inflation, on a cumulative basis.