How are the inflation adjustment amounts calculated?

More information related to *Prime Time* Winter 2022

Summary

There are two approaches in the BC public sector pension plans for calculating the underlying inflation adjustment needed to keep pace with inflation. They differ in the year-end chosen, September vs October. October is closer to the end of the full year being adjusted in the early part of next year. They also differ in how many Canadian Price Index (CPI) monthly amounts they use. The larger number of CPI amounts gives a less volatile (smoothed) amount.

Both methods provide the same inflation adjustment over time.

Greater Detail

In 2011 two of the four plans, College Pension Plan and Public Service Pension Plan chose to calculate the inflation adjustment in the same manner as the Canada Pension Plan. This was done for two major reasons:

- Stop trying to explain why the amount calculated was different than the amount calculated by the Canada Pension Plan.
- Recognition that the Canada Pension Plan calculation, although more complex provided an amount based on averages and thus had some built in smoothing between one year and the next. The method used 24 Canadian Price Index (CPI) amounts. This method used a year ending in October, which included ten (10) months of the year being measured and two (2) months from the previous year.

The remaining two plans Municipal Pension Plan and Teachers' Pension Plan stayed with their simpler method of comparing the change in the CPI in the same month one year later. This method used two CPI amounts. This method is subject to greater volatility. This method used a year ending in September, which is nine (9) months of the year being measured and three (3) months from the previous year.

Table of 2022 COLA (Cost of Living Adjustments) and Methods of Calculating

Name of Plan ***(alphabetically***	**Rate**	**Method of Calculating Inflation %**	**# of CPI index points used**
Canada Pension Plan (CPP)	2.7%	CPP payments will **be increased by 2.7 percent in January 2022**, based on the average CPI from November 2020 to October 2021, divided by the average CPI from November 2019 to October 2020.	24
College Pension Plan (College PP)	2.7%	College PP uses a October year-end, the same method as CPP. The use of averages has a smoothing effect.	24
Municipal Pension Plan (MPP)	2.1%	Same method as the Teachers Pension Plan, but subject to a capped limit of 2.1%.	2
Public Service Pension Plan (PSPP)	2.7%	PSPP uses the same method as College PP and CPP. The use of averages has a smoothing effect.	24
Teachers' Pension Plan (TPP)	4.4%	TPP uses a September year-end. TPP uses September CPI index in September 2020 with the CPI index in September of 2021. The use of only two (2) CPI index values increases the volatility of the annual inflation adjustment. Some years it is higher than CPP and some years it is lower than CPP.	2

History of COLA Impacts of Teachers' and College Pension Plans

The following table shows the annual and cumulative impact of Teachers' PP and College PP approaches since the College PP changed in 2011. You can see that in 2021 they were essentially the same cumulatively. We will look again in 2023 and see how the cumulative difference changes. We expect it to go down significantly.

Year	Canada Pension Plan **% Increase**	College Pension Plan **% Increase**	Teachers' Pension Plan **% Increase**	Annual **% Teachers' > College**	Cumulative **% Teachers' > College**
2022	2.70	2.70	4.40	1.70	1.54%
2021	1.00	1.00	0.50	(0.50)	(0.12%)
2020	1.90	1.90	1.90	0.00	0.38%
2019*	2.30	2.07	2.20	0.13	0.38%
2018	1.50	1.50	1.60	0.10	0.25%
2017	1.40	1.40	1.30	(0.10)	0.15%
2016	1.20	1.20	1.00	(0.20)	0.25%
2015	1.80	1.80	2.00	0.20	0.45%
2014	0.90	0.90	1.10	0.20	0.25%
2013	1.80	1.80	1.20	(0.60)	0.05%
2012*	2.80	1.83	3.20	1.37	0.65%
2011	1.70	1.70	1.00	(0.70)	(0.69%)

* These years were subject to COLA cap limits, so the adjustment is less than Canada Pension Plan adjustment. Without these cap limits the Cumulative difference between Teachers' and College would have been 0.35% rather than 1.54%.