



# Cost of Living Adjustment (COLA) Calculation

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*Presented by*

Rusty Mau, Budget Analyst

**October 2021**



# Overview

- Current COLA calculation
- Proposed COLA calculation
- Additional considerations



# Buncombe County Personnel Ordinance

Each year, **effective during the month of April**, employees occupying a regular position shall receive an **annual salary percent increase** equal to the **percentage increase** in the **annual consumer price index** for the prior calendar year. The pay plan shall be revised upward for all grades and ranges to reflect an increase in the consumer price index.

The index to be used is the [CPI-W], published by the [U.S. Bureau of Labor Statistics (BLS)] and in effect as of December 31<sup>st</sup> next preceding the date of the salary adjustment. Seasonally adjusted data will not be used.



# COLA Calculation

## Equation

$$\frac{\text{CPI-W}_{\text{Dec. 2020}} - \text{CPI-W}_{\text{Dec. 2019}}}{\text{CPI-W}_{\text{Dec. 2019}}} = \text{COLA}$$

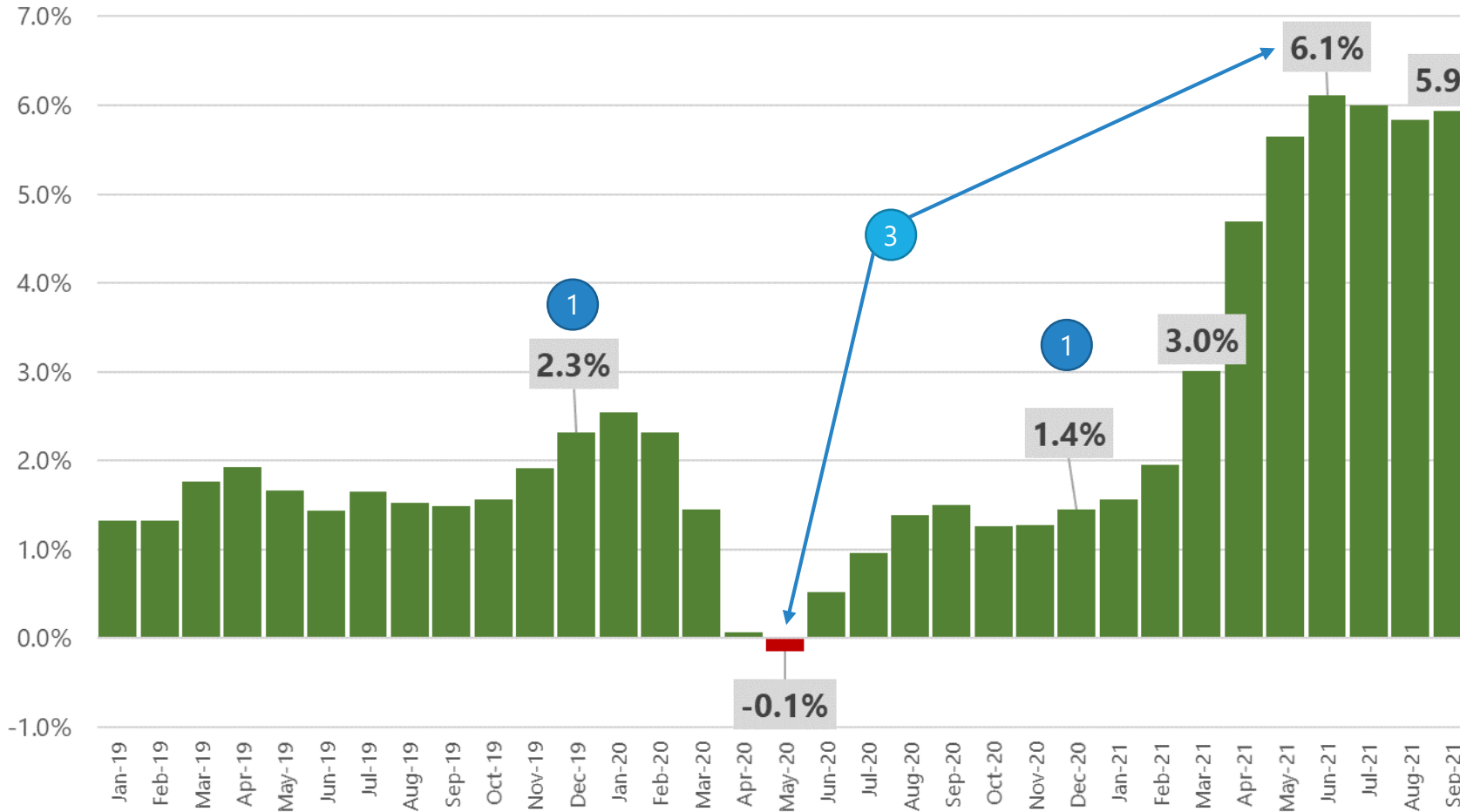
## FY2021 Calculation

$$\frac{254.081 - 250.452}{250.452} = 1.45\%$$



# Historical CPI-W

Annual Change, Monthly CPI-W (%)



- 1 Annual change in CPI-W as of December each year
- 2 Relies on a single point in time
- 3 Consider May 2020 vs. May/June/July 2021... significant difference



## Recommendation

Amend COLA calculation method. Use 2-year average annual change in CPI-W



# COLA Calculation

## Equation

$$\left( \frac{\text{CPI-W}_{\text{Dec. 2020}} - \text{CPI-W}_{\text{Dec. 2018}}}{\text{CPI-W}_{\text{Dec. 2018}}} \right) = \text{COLA}$$

2

## FY2021 Calculation

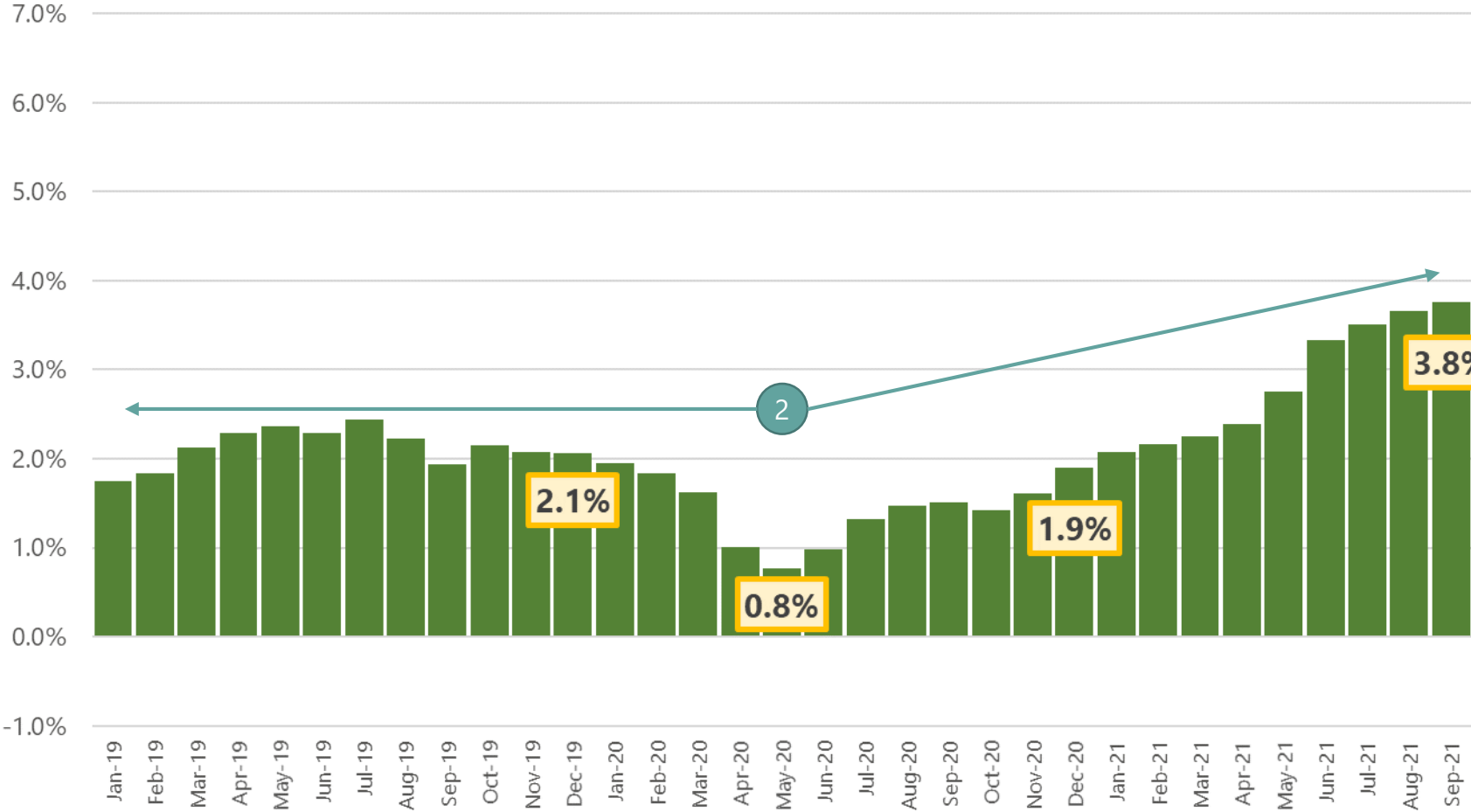
$$\left( \frac{254.081 - 244.786}{244.786} \right) = 1.90\%$$

2



# CPI-W Average Annual Change over Two Years (proposed)

Average Annual Change, Monthly CPI-W over Two Years (%)



- 1 Two-year average annual change in CPI-W
- 2 Smooth trends over time to balance reality and stability
- 3 Data release is lagged. Will maintain measurement as of calendar year end (December)





# Additional Considerations

- ✓ Maintains salary increases similar to prior calculation method (see appendix)
- ✓ Lessens the impact of one-time shocks by using 2-year trend
- ✓ Predictable and stable for employees & county budget planning
- ✓ Ensures staff salaries keep pace with inflation



# Requested Action

1. Amend COLA calculation to use 2-year average annual change in CPI-W
2. Amend COLA effective date to July 1 of each year



# Appendix



# Lookback: Current vs. Proposed Process

Fiscal Year	Current Policy COLA		Proposed Process COLA	
	COLA	\$50k salary FY18	COLA	\$50k salary FY17
<b>2019</b>	2.20%	\$51,100	2.11%	<b>\$51,055</b>
<b>2020</b>	1.77%	\$52,004	2.00%	<b>\$52,073</b>
<b>2021</b>	2.31%	\$53,206	2.06%	<b>\$53,148</b>
<b>2022</b>	1.45%	\$53,977	<b>1.90%</b>	<b>\$54,157</b>

## Proposed calculation:

- Provides stability in annual COLA and maintains employee increases over time
- Reduces COLA variation year over year, yet provides similar employee benefit and county cost

**Note:** For comparison purposes, the current policy COLA considers the FY2019 to be the COLA applied in April of FY2018 (2.2%) with a full year effect in FY2019



## Lookback: Current vs. Proposed Process

Fiscal Year	Current Policy COLA		Proposed Process COLA	
	COLA	\$80 MM salary FY18	COLA	\$80 MM salary FY18
<b>2019</b>	2.20%	81.8	2.11%	81.7
<b>2020</b>	1.77%	83.2	2.00%	83.3
<b>2021</b>	2.31%	85.1	2.06%	85.0
<b>2022</b>	1.45%	86.4	<b>1.90%</b>	86.7

### Proposed calculation:

- Provides stability in annual COLA and maintains employee increases over time
- Reduces COLA variation year over year, yet provides similar employee benefit and county cost

**Note:** For comparison purposes, the current policy COLA considers the FY2019 to be the COLA applied in April of FY2018 (2.2%) with a full year effect in FY2019



# Industry Benchmarking

Jurisdiction / Agency	Most recent COLA	Policy or Recent Practice
<b>Buncombe County</b>	1.45%	Annual change in CPI-W, as of December
<b>Asheville</b>	2.50%	Adjustments recommended through comp. study. All others 2.5% to offset no COLA for FY2021
<b>Concord</b>	1.50%	Not a formal policy, recent practice of 1.5% COLA each year, in addition to merit increases 1% - 3%
<b>Federal Retirement System (FERS)</b>	1.30%	Annual change in 3rd Quarter average CPI-W
<b>Raleigh</b>	-	<b>No COLA.</b> Living wage policy sets minimum salary.
<b>Rocky Mount</b>	-	<b>No COLA.</b> Merit pay system based on performance, increases vary
<b>Social Security Administration (SSA)</b>	1.30%	Annual change in 3rd Quarter average CPI-W
<b>Wake</b>	-	<b>No COLA.</b> Merit pay system based on performance, increases vary. Living wage policy sets minimum salary.
<b>Winston-Salem</b>	-	<b>No COLA.</b> Merit pay system based on performance, increases 1.5% - 3%
<b>Woodfin</b>	3.00%	Annual change in CPI-W, as of December. One-time deviation due to recent consumer price volatility

