COST OF LIVING ADJUSTMENT (COLA) INFORMATION

TRAF

YEAR (COLUMN 1)	CPI FOR PRIOR YEAR (COLUMN 2)	COLA GRANTED (COLUMN 3)	APPROXIMATE PURCHASING POWER IN 2024 IF YOU HAD RETIRED ON JANUARY 1 OF THE CORRESPONDING YEAR (COLUMN 4)
1977	5.80%	5.69%	60.75%
1978	9.50%	7.03%	60.82%
1979	8.40%	6.03%	62.22%
1980	9.80%	5.40%	63.61%
1981	11.20%	5.51%	66.27%
1982	12.10%	5.52%	69.84%
1983	9.30%	7.10%	74.19%
1984	4.50%	4.50%	75.72%
1985	3.78%	3.78%	75.72%
1986	4.35%	4.35%	75.72%
1987	4.17%	4.17%	75.72%
1988	4.15%	4.15%	75.72%
1989	4.00%	4.00%	75.72%
1990	5.13%	5.13%	75.72%
1991	5.00%	5.00%	75.72%
1992	3.78%	3.66%	75.72%
1993	2.14%	2.14%	75.81%
1994	1.70%	1.68%	75.81%
1995	0.23%	0.23%	75.82%
1996	1.75%	1.75%	75.82%
1997	2.17%	2.17%	75.82%
1998	0.73%	0.73%	75.82%
1999	1.02%	0.78%	75.82%
2000	2.58%	2.00%	76.00%
2001	3.23%	1.77%	76.43%
2002	0.70%	0.70%	77.53%
2003	3.88%	1.68%	77.53%
2004	2.00%	0.54%	79.21%
2005	2.10%	0.40%	80.36%
2006	2.20%	0.64%	81.72%
2007	1.60%	0.63%	82.99%
2008	2.40%	1.44%	83.79%
2009	1.20%	0.37%	84.58%
2010	1.32%	0.80%	85.28%
2011	2.35%	0.98%	85.72%
2012	2.30%	0.97%	86.88%
2013	0.83%	0.55%	88.02%
2014	1.24%	0.83%	88.27%
2015	1.47%	0.98%	88.63%
2016	1.61%	1.07%	89.06%
2017	1.50%	1.00%	89.53%
2018	1.87%	1.35%	89.98%
2019	1.99%	1.23%	90.44%
2020	2.25%	1.35%	91.12%
2021	0.73%	0.73%	91.93%
2022	4.80%	2.10%	91.93%
2023	6.32%	1.50%	94.36%
2024	3.40%	2.20%	98.84%
AVERAGE	**3.55%**	**2.46%**	

NOTES

1. COLA from 1977 to 1991 inclusive was based on a percentage of CPI plus an amount per year of service. The COLA granted for those years is therefore an estimate only.
2. COLA is based on Plan A and therefore the actual COLA percentage granted to a member who selected an option other than Plan A may be higher or lower than the amount in the table above.
3. Approximate purchasing power does not account for partial or interim COLA calculations that apply within the first 18 months of pension commencement, nor the difference in timing between CPI measurement and the granting of COLA. Compares $1 accumulated with COLA to $1 accumulated with CPI.

COLA Information Explained

The annual cost of living adjustment (COLA) is a complex component of the TRAF pension plan. This glossary is designed to assist in interpreting the COLA Information table.

WHAT IS INFLATION AND CPI?

Inflation is the general increase in the price of goods and services in an economy, and CPI (Consumer Price Index) is one way that inflation can be measured.

The CPI represents changes in prices as experienced by Canadian consumers. Statistics Canada measures price changes by comparing, through time, the cost of a fixed basket of goods and services that most Canadians purchase, based on its biennial Survey of Household Spending.

The terms "inflation" and "CPI" are used interchangeably in this glossary.

HOW TO INTERPRET THE TABLE

The information found in each column of the COLA Information table is described below.

YEAR (COLUMN 1)

Each row represents one year of data from 1977 to the most recently available data.

WHY DOES IT START AT 1977?

COLA payments are funded by a separate account known as the Pension Adjustment Account (PAA), which was established in 1977.

CPI FOR PRIOR YEAR (COLUMN 2)

COLA is based on the amount that can be supported by the PAA and is not directly related to the level of inflation. However, CPI may limit the COLA granted based on the following formula:

The amount of COLA that can be paid each year is the lesser of:

a. The change in the CPI for Canada – December in the prior year over December in the next previous year, and
b. The amount the PAA can support.

Therefore, CPI does not determine COLA, but it sets a maximum that can be granted. Let's consider two examples.

EXAMPLE 1: CPI IS LOWER THAN THE AMOUNT THE PAA CAN SUPPORT

In 2021, CPI for the prior year was 0.73%. The PAA could have supported a greater increase that year, but CPI set a maximum allowable COLA of 0.73%. The surplus funds not used to grant COLA in 2021 were carried forward to support COLA in the following year.

EXAMPLE 2: CPI IS HIGHER THAN THE AMOUNT THE PAA CAN SUPPORT

In 2023, CPI for the prior year was 6.32%, but the PAA could only support an increase of 1.50%. Therefore, COLA was set at the lower percentage and did not keep pace with inflation that year.

COLA GRANTED (COLUMN 3)

This column represents the percentage COLA granted as of July 1 of that year.

While TRAF reports a single COLA percentage, it's important to understand that not every recipient's pension increases by this exact percentage. There are detailed rules in the legislation which, while designed to be equitable, may result in your COLA being different than the COLA percentage granted. Here are some examples.

IF YOU ARE NEWLY RETIRED

Your first COLA, when granted, will begin with your 13th monthly pension payment. To receive a full COLA, you must have received pension payments for 18 months prior to that COLA being granted. Otherwise, the COLA will be pro-rated based on the number of months you received a pension.

IF YOU CHOSE A PLAN OPTION OTHER THAN PLAN A – ORDINARY LIFE

Regardless of the plan option you chose at retirement, COLA is based on what your pension would be if you had chosen Plan A. This plan provides the full base pension for a lifetime with no survivor or guaranteed monthly benefits payable after the member passes away. As a result, your effective COLA percentage could be higher or lower than the percentage COLA that was granted.

IF YOU ARE RECEIVING A SURVIVOR PENSION

COLA will continue under any plan option that provides ongoing pension payments after the death of a member. However, the beneficiary only receives two-thirds of the COLA payment – this includes the cumulative COLA from the date your pension started to the present date, as well as for future COLA granted. This reduction applies regardless of the plan option chosen at retirement.

APPROXIMATE PURCHASING POWER IN 2024 IF YOU HAD RETIRED ON JANUARY 1 OF THE CORRESPONDING YEAR (COLUMN 4)[1]

CPI represents the increase in the cost of a fixed basket of goods and services that the average Canadian is generally expected to purchase in a year. If your pension increases by less than CPI, it is increasing by less than the cost of that fixed basket, leading to a decline in your purchasing power. However, in reality, each Canadian makes unique purchasing decisions; therefore, this may not be reflective of the goods and services on which you choose to spend your pension.

This column approximates the percentage of the basket you could buy in 2024 if you had retired on January 1 of the corresponding year. In other words, this column compares the TRAF pension adjusted for actual COLA granted to the TRAF pension had it increased by full CPI in each and every year.

EXAMPLE 1: MEMBER RETIRED IN 2002

The pension of a TRAF member who retired in 2002 and elected Plan A would be approximately 77.53% of the amount it would have been if the pension had increased with full CPI. Said another way, the member's purchasing power has declined by approximately 22.47%.

EXAMPLE 2: LOSS OF PURCHASING POWER OVER TIME

As is evident from the table, the purchasing power of a TRAF pension has generally declined over time. This trend is expected to continue, so all retirees need to expect and plan for a loss of purchasing power over time, as COLA was not designed, and is not expected, to keep pace with inflation every year.

[1] Certain simplifying assumptions are made; therefore, the purchasing power should be viewed as an approximation only. For example, the timing difference between CPI and COLA and the fact that partial COLA is paid in the first 18 months is not accounted for.

FUTURE COLA

Given the number of variables involved, it is difficult to predict the amount of future COLA. Members are cautioned that there is no certainty of a COLA in any given year and the long-run average COLA could be significantly below the corresponding increase in CPI. Projection analyses conducted by our plan actuary indicate that an average annual COLA of approximately 0.85% could be granted over the next 40 years (subject to annual fluctuations and the CPI limit). While 0.85% is a very precise estimate, it is nevertheless an estimate – it could be higher or lower by a meaningful amount.