

May 2012

Boston Retirement Board Votes to Increase COLA Base

Raising base to \$13,000 will add \$21.4 million to Boston's pension liability

The State-Boston Retirement Board (SBRB), by a 4 to 1 vote, approved an increase in the cost of living adjustment (COLA) base from the current \$12,000 to \$13,000 at its meeting on May 22. Raising the base by \$1,000 will increase the State-Boston Retirement System's (SBRS) pension liability by \$21.4M through 2025 based on an analysis by The Segal Company. Concerned about the City of Boston's sizeable long-term unfunded employee and retiree liabilities and their implication for city operations, the Research Bureau opposes this COLA base increase and any spending policy that would increase the pension liability.

The City's unfunded pension liability is \$1.37B as of January 2010 and its retiree health insurance liability (OPEB) is \$3.06B as of June 2011. Maintaining the schedule to reach full funding of its pension liability by 2025 would enable the SBRS in 2026 to reduce its annual pension appropriation by 74% and the City to allocate the resulting savings to address its unfunded OPEB liability.

A Boston retiree receives a defined benefit pension that guarantees an annual allowance for life, irrespective of economic downturns or market declines, which may be extended to a selected beneficiary. To that a COLA may be added each year based on 3% of the first \$12,000 of a retiree's pension. The 3% will apply now to the new base of \$13,000. Retirees not enrolled in Medicare also receive the same health insurance benefits as active employees.

The SBRS' unfunded pension liability and the increase in the liability due to raising the base apply to all non-teacher employees and retirees. Starting in FY10, pension obligations for Boston teachers were transferred to the Massachusetts Teachers' Retirement System. Even so, the COLA vote by the SBRB will apply to Boston retired teachers also.

Financial Impact of COLA Increase

COLA Base	Annual Non-Teacher Cost	Increased Pension Liability*
\$12,000		
\$13,000	\$2,501,759	\$21,421,063
\$14,000	\$4,953,876	\$42,443,017
\$15,000	\$7,354,589	\$63,042,197

* Increased pension liability through 2025
Source: The Segal Company

Final approval of the COLA increase rests with the City Council. The Menino Administration has supported the \$13,000 base and the Council will also, especially since a few members had supported raising the base to \$15,000. That jump would have increased the pension liability by \$63M.

Another concern about the City's future pension liability is the current assumption that investment returns will continue to annually average 8%. That average may hold true right now but soon the SBRB will need to consider gradually reducing the investment return assumption which will cause the unfunded pension liability to increase.