

June 2013

## Boston Retirement Board Maintains COLA Base

*Board votes 3% annual COLA increase, does not approve COLA base increase*

At its meeting on June 12, 2013, the State-Boston Retirement Board (SBRB) approved the annual cost of living adjustment (COLA) for retirees based on 3% of the first \$13,000 of a pension. The increase will add \$390 to each retiree's annual pension. This vote did not increase the unfunded pension liability estimate since it was already factored into the most recent pension valuation assessment. The annual 3% COLA has been approved by the Board every year. The Board also voted not to approve increasing the COLA [base](#) by \$1,000 to \$14,000, which would have increased the FY14 pension budget by \$489,961 and added \$22.6M to the unfunded pension liability through 2025.

The Board voted not to increase the COLA base by \$1,000 by a 3-2 margin. The "yes" votes came from the two board members elected by the active employees and retirees. The Boston Teachers Union advocated increasing the COLA base to \$16,000, but the Board did not act on that proposal. Increasing the COLA base to \$16,000 would have increased the FY14 budget by \$1.1M and the unfunded pension liability by \$66.5M.

### Research Bureau Recommendation

Prior to its meeting on June 12, the Research Bureau had submitted a [letter](#) to the Board urging the members to not approve any addition to the COLA base because of the increase in the unfunded liability that it would cause and because the base had just been increased by \$1,000 in 2012, which the Bureau also opposed. The Bureau did not support, but

did not oppose the annual 3% COLA since it was in the unfunded liability.

The Menino Administration also opposed increasing the COLA base because of its impact on the unfunded liability and because it would add to the FY14 operating budget, which was balanced and set for the City Council's approval. That point led to a discussion that the proposal to increase the COLA base should occur earlier in the fiscal year so it could be considered during the planning of the FY15 budget. The decision to increase the COLA base in the future will have to be addressed by the next Mayor. The Bureau will oppose any increase in the base that would grow the unfunded liability.

The annual 3% COLA will apply to both teachers and non-teachers of the City. Starting in FY10, Boston transferred its obligations to pay teacher pensions to the Massachusetts Teachers Retirement System. Even so, the COLA voted by the Board will apply to Boston's retired teachers because they are still members of the Boston system. Teachers in all other municipalities are members of the State Teachers Retirement System.

### Unfunded Pension Liability

The City's unfunded pension liability is \$1.5B as of January 1, 2012 and its retiree health insurance liability (OPEB) is \$3.1B as of June 30, 2011. Reaching full funding of the City's pension liability by 2025 would reduce its annual pension payment by 74% in 2026 and those savings could be applied to address the OPEB liability.