

June 2017

Boston Votes to Increase Its Pension Liability

Increasing the COLA base will raise the pension liability by \$25 Million

With a green light from the Walsh Administration, the Boston Retirement Board (BRB) approved increasing the retiree COLA base from \$13,000 to \$14,000 at its meeting on June 21st. This vote will increase the FY18 budget by \$3.5M and more importantly, it will increase the City's unfunded pension liability by \$25.4M. As of January 1, 2016, the Boston Retirement System's pension liability was 69.4% funded based on its market valuation. Several states have adopted a policy of not approving COLA increases until their pension systems reached a funded ratio of 80%. The Research Bureau has endorsed that policy with regards to increasing the COLA base in Boston, which is why it [opposed](#) increasing the base to \$14,000.

The City's unfunded pension liability using the actuarial value of assets as of January 1, 2016 is \$1.5B and Boston is scheduled to reach full funding of its pension liability by 2025. Raising the COLA base by \$1,000 increases the unfunded pension liability by \$25.4M with the City having only seven years to assimilate the increase and reach full funding by 2025.

Pension COLA

The current cost of living adjustment (COLA) for retirees is based on 3% of the first \$13,000 of each retiree's pension. The Research Bureau has supported this COLA increase because it is built into the actuarial valuation and must be approved each year by the Retirement Board. The \$13,000 base was set in 2012, up from the base of \$12,000.

A further concern about increasing the COLA base to \$14,000 is that the actuarial valuation assumes an annual investment return of 7.75%. However, the aggregate investment return on a market basis over the last five years from 2012 to 2016 is 7.4%.

City Pension Liabilities

(Excluding Teachers)

Year	UAAL (Billions)	Funded Ratio*
2012	\$1.48	64.4%
2014	\$1.69	71.2%
2016	\$1.48	69.4%

*Based on market value of assets

The Importance of 2025

Reaching full funding of the pension liability by 2025 would reduce the City's annual pension payment by 86% in 2026. The City would be able to allocate a portion of these freed-up resources to the pension fund to help maintain full funding. The balance of the available funds could be applied to address the larger retiree health insurance liability (OPEB) of \$2.3B as of June 30, 2015.

Reaching full funding of its unfunded pension liability of \$1.5B by 2025 has required the City to establish an aggressive annual pension budget schedule. Boston's annual pension appropriation is estimated to increase from \$218.2M in FY18 to \$393.8M in fiscal 2025, an increase of \$175.6M or 81% over seven years. The FY18 pension budget will increase by 9.5%. The City should not consider increasing the COLA base again until the pension funded ratio reaches 80%.