

February 2013

Boston's Pension Liability Increased

Prudent decisions by the Board and weak investment returns raised the liability

The State-Boston Retirement System's (SBRS) unfunded actuarial accrued liability (UAAL) increased to \$1.5B as of January 1, 2012, up from \$1.3B as of January 1, 2011. Weak investment returns (.91% in 2011) along with Retirement Board decisions to update mortality rates and reduce the assumed investment return rates contributed to the liability increase by 2025. These actions mean that in FY14 the City will have to appropriate for pensions an increase of \$15.9M, \$5.5M over the \$10.4M increase that was planned. These figures do not reflect the teacher pension liability since in 2010, the assets tied to Boston teachers were transferred to the state for investment.

The City will absorb this added pension increase into its FY14 budget and, at this time, will not have to change its schedule to reach full funding of its pension liability by 2025. In just the first five years from FY13 to FY18, the estimated total appropriation increase with the new funding schedule is \$106.8M, a growth of 62.8%. This situation may lead the SBRB and City to delay the full funding deadline by what should be no more than a few years.

Changes in the Liability

The State-Boston Retirement Board (SBRB) recently approved changes in actuarial assumptions that resulted in an increase in the system's unfunded liability by \$270.8M as indicated in a new independent actuarial valuation report as of January 1, 2012. Key assumption changes include:

- The assumed [rate of return](#) was reduced from 8% to 7.75%.
- The [mortality rate](#) formula was updated to account for people living longer now and future increases in life expectancy
- The assumed rate of disability decreased by 50% for most employees (Group 1 & 2) and increased by 25% for public safety employees (Group 4)

Local options made available through recent legislation and adopted by the SBRB and City also contributed to an increase in the system's unfunded liability by \$30.3M.

- The cost-of-living adjustment base for retirees increased from \$12,000 to \$13,000 which raised the liability by \$21.4M by 2025
- The minimum annual pension allowance increased from \$3,000 to \$6,000

An unrecognized investment loss of \$383.6M as of December 31, 2011 will be factored in the actuarial value of assets in the next few years through the smoothing process.

City Pension Liabilities

Year	UAAL (Billions)	Annual Return	Funded Ratio
2010	\$1.37	13.5%	69.9%
2011	\$1.33	0.91%	72.0%
2012	\$1.48	12.8%	70.7%

The SBRS serves 10,000 retired participants and beneficiaries as of January 1, 2012.