

Special Report

Executive Summary



December 31, 2014

Revisiting Boston's Pension System

Financial integrity of system has improved but more change is needed

The State-Boston Retirement System (SBRS) is the largest local system and the third largest retirement system in Massachusetts. The SBRS is 70.7% funded as of January 1, 2012 with an outstanding unfunded liability of \$1.5 billion. In 2010 the Research Bureau issued a comprehensive study of the Massachusetts pension system that was critical of aspects of the Boston retirement system's financial position and Board operations. Four years later, the purpose of this report is to revisit these issues and provide an updated assessment of the SBRS and recommend further organizational, administrative and legislative reforms.

The City will increase its pension appropriation by 9.25% annually and the unfunded liability is on schedule to be fully paid down by June 30, 2025. As of January 1, 2014, there were 34,986 individuals actively receiving or accruing retirement benefits. Employees who retired in 2013 received an average annual pension of \$48,223. Teachers retiring in 2013 received an average pension of \$58,403, police officers \$66,145 and firefighters \$87,944. A higher-than-normal number of high ranking firefighters retired that year.

The 70.7% funded ratio as of January 1, 2012 is below the 80% funded ratio threshold used by experts to identify healthy pension systems. However, the City and Retirement Board have taken prudent steps to strengthen the integrity of its financial position. Sustaining this position will require the City to maintain strict discipline in funding the aggressive appropriation schedule and the Board to maximize investment performance, while refraining from investing in more risky asset classes, and controlling any liability increases.

As the Massachusetts public pension system continues to operate as an exclusively defined benefit plan for 105 separate retirement systems, additional comprehensive state reform will be required to ensure its future financial health. Until then, the recommendations in this report should be implemented in Boston to lower the City's pension liability and better manage the operations of the SBRS.

Key recommendations of the report include:

- **Fully Fund Liability by 2025** – The City and the Retirement Board should stay on course to fully fund Boston's \$1.5 billion unfunded pension liability by 2025. Doing so would reduce the City's annual pension appropriation by 77% in 2026. This savings could then be applied to more significantly address funding the current \$2.1 billion liability for other post-employment benefits.

- **Complete Teacher Pension Transfer to State** – The City and Commonwealth should complete the full transfer of pension administrative responsibilities for Boston teachers to the Massachusetts Teachers’ Retirement System. Since 2010, the state has been responsible for funding and managing teacher assets, but the administrative responsibilities have remained with the SBRS. The Massachusetts Teachers’ Retirement System is better suited to provide administrative services to active Boston teachers and retirees as it does for all other local retirement systems in Massachusetts.
- **Moratorium on COLA Base Increases** – The City should not approve any Cost of Living Adjustment base increases unless it can be achieved without having to extend the years beyond 2025 to reach full funding of the total liability. Furthermore, the Walsh Administration should adopt the policy of not supporting a COLA base increase until the SBRS reaches an 80% funded ratio. A 3% COLA increase on the first \$13,000 of a pension would still be paid.
- **Move Selected Assets into PRIT** – The SBRS should consider moving additional assets into the state’s Pension Reserves Investment Trust (“PRIT”) Fund in areas where it has had better long-term returns due to its, investment diversity, and buying power through its large fund base. Specifically, the SBRS should consider transferring private equity fund assets into the PRIT private equity account which has outperformed the SBRS by 9.9% over the last three years.
- **Maximize Utilization of the V3 System** – The City and SBRB have spent \$25.7 million on the new V3 pension software system from Vitech and the Board needs to ensure that the capabilities of the system are fully utilized and that the staff has the required mix of skills and experience to achieve that objective. Employees not able to adapt to the duties of the new system after training should be replaced by new employees with the interest and skills required.

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