

February 2015

Boston's Pension Liability Increased

Despite an increase in actuarial liability, the system improved on a market basis

The State-Boston Retirement System's (SBRS) unfunded actuarial accrued liability (UAAL) increased to \$1.69B as of January 1, 2014, up from \$1.48B as of January 1, 2012. A new independent actuarial valuation report as of January 1, 2014 also indicated that the SBRS actuarial funded ratio fell from 70.7% to 70.2%. For the 2014 valuation, the Retirement Board updated the actuarial cost methods and plan assumptions to reflect changes to the system in response to the 2011 pension reform law. These changes increased the actuarial unfunded liability. These figures do not reflect the teachers' pension liability since in 2010 the Commonwealth assumed responsibility for paying the teachers' pension expenses, and the assets tied to Boston teachers were transferred to the state for investment.

City Pension Liabilities

Year	UAAL (Billions)	Funded Ratio
2010	\$1.37	69.9%
2012	\$1.48	70.7%
2014	\$1.69	70.2%

The Board was able to make these needed adjustments and still remain on schedule to reach full funding by 2025. Due to strong market based investment returns of 12.65% and 14.26% in CY12 and CY13 respectively, and an unrecognized investment gain of \$107.3M as of December 31, 2013 that will be factored in the actuarial value of assets in the next few years through the smoothing process, the SBRS was able to reduce its annual funding schedule.

Previously, the schedule required the City to annually increase its pension appropriation by 9.25% to reach full funding by 2025. However, the new schedule requires a 7.75% annual spending increase through 2025. It should be noted that the SBRS earned investment returns of 4.8% in CY14, below the expected return of 7.75%. This return will be factored into the next full valuation as of January 1, 2016, and could have implications on the funding schedule.

Changes in the Liability

For the actuarial valuation report as of January 1, 2014, the State-Boston Retirement Board (SBRB) approved changes in the actuarial cost method and assumptions that increased the system's unfunded liability by \$146.8M and increased the normal cost by \$0.8M. Key assumption changes include:

- The actuarial method was changed to better reflect plan changes for employees hired after April 2, 2012
- The mortality rate formula was updated to account for people living longer now and future increases in life expectancy
- The administrative expense assumption was increased from \$5.0M for CY12 to \$8.4M for CY14
- Salary growth assumptions were lowered for some groups and adjustments were made for retroactive pay

The SBRS serves 9,925 retired participants and beneficiaries as of January 1, 2014.