

## Boston's Pension Liability Declines

*City stays on track to reach full funding of its pension liability by 2025*

The Boston Retirement System's (BRS) unfunded actuarial accrued liability (UAAL) decreased to \$1.48B as of January 1, 2016, down from \$1.69B as of January 1, 2014. A new independent actuarial valuation report as of January 1, 2016 also indicated that the funded portion of the BRS actuarial liability increased from 70.2% to 74.9%. The Boston Retirement Board (BRB) made a few assumption changes and the City continued an aggressive annual funding schedule to remain on schedule to reach full funding by 2025. Staying on schedule will require annual increases in the City's pension contribution.

For the 2016 valuation, the BRB updated the actuarial cost methods and plan assumptions which contributed to the decrease in 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 Commonwealth's Pension Reserves Investment Trust (PRIT) Fund to be managed by the Massachusetts Pension Reserves Investment Management (PRIM) Board for investment.

### City Pension Liabilities

Year	UAAL (Billions)	Funded Ratio
2012	\$1.48	70.7%
2014	\$1.69	70.2%
2016	\$1.48	74.9%

The actuarial value of BRS assets totals \$4.4B as of January 1, 2016. The market value rates of return for the BRS in FY14 and FY15 were 5.21% and

-0.28%, respectively. However, because the actuarial value of assets gradually recognizes market value fluctuations, the actuarial rates of return for the two years were 7.72% and 6.12%, respectively. The valuation report assumes an investment return of 7.75%

The new schedule requires an 8.85% annual spending increase for pensions through 2025. The City's scheduled annual pension expense in FY17 was \$235.8M and in FY18 it will be \$256.6M. After adjustments, the actual FY17 pension appropriation is \$245.4M or 8.2% of the City's total operating budget of \$2.98B.

### Changes in the Liability

According to the actuarial valuation report as of January 1, 2016, the BRB approved changes in the actuarial cost method and assumptions that decreased the system's unfunded liability by \$44.3M and decreased the normal cost by \$7.6M. Key changes include:

- Annual salary increase assumptions were lowered for employees by pension group.
- The City adopted an aggressive funding schedule to pay down the liability, and made an advanced payment of \$12M towards its liability with FY16 funds.

### Delayed Reform

While teacher assets have been transferred to the state PRIT Fund, the administrative services for the teachers are still provided by BRS. Administration of pension services for Boston teachers should be transferred to the Massachusetts Teachers' Retirement System which has that responsibility for all teachers in the state, except Boston.