

U N D E R S T A N D I N G B O S T O N

The Utility of Trouble

Providing Pensions in Difficult Times:
A Comprehensive Study of the Massachusetts Pension System
and Its Impact on the City of Boston

*The Second in a Series of Occasional Reports About
Bringing Systemic Change to Scale in an Era of Limited Resources*

Presentation by

Samuel R. Tyler

**President, Boston Municipal
Research Bureau**

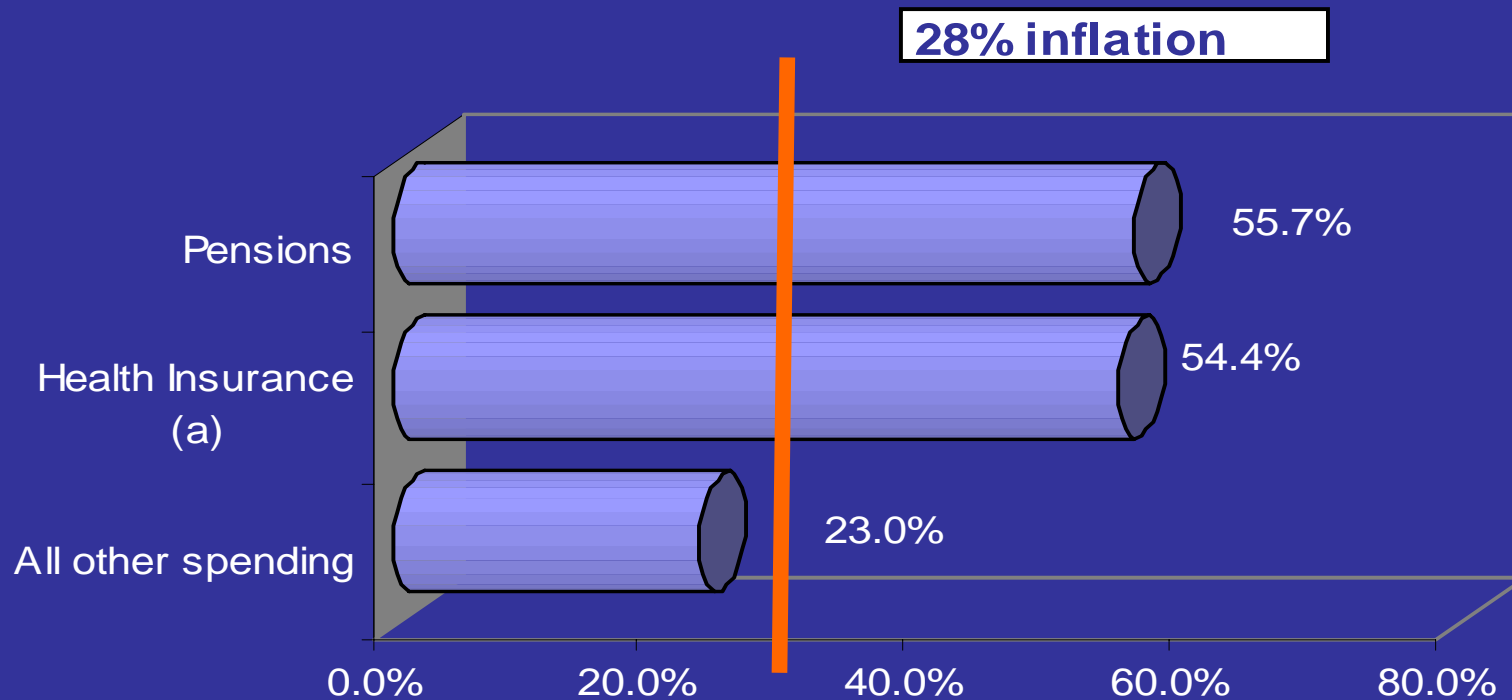
tBf The Boston
Foundation
INNOVATION. INFORMATION. IMPACT.

 BOSTON MUNICIPAL
RESEARCH BUREAU

May 2010

Long-Term Budget Challenges For Municipalities

Boston Budget Drivers FY04-09



Boston Municipal Research Bureau

(a) Includes City & BPS Health Insurance

Massachusetts Retirement System

- Defined benefit pension plan
 - 105 Retirement Systems
 - 2 Statewide Systems
 - 103 Local Systems
- State Oversight by PERAC
- Investment Manager PRIM
- Assets Invested in PRIT

The Workings of Retirement

Generous benefits earlier to higher groups

Group 1

General employees

Max at 65

Group 2

Hazardous duties

Max at 60

Group 3

State Police officers

Max at 55

Group 4

Public safety officers

Max at 55

The Workings of Retirement

- **Type of retirement benefits:**
 - Regular (superannuation)
 - Ordinary disability
 - Accidental disability
 - Termination pensions
- Employees pay 9% of salary and 2% over \$30,000
- 41.4% of Boston public safety retirements are disability

Average Pensions Boston

- 2009 Regular = \$49,480
- Accidental Disability = \$66,905
- Police Department = \$60,225
- Fire Department = \$69,946
- Teacher = \$63,490
- Retired at max cap of 80% = 49.3%
- Regular – Avg. years 29, Avg. age 61

Funding Pension Benefits

- Boston FY09 Appropriation \$94.4M
- 25% Normal Cost
- 75% Amortization of Liability
- Normal Cost – Regular
 - City pay 30%
 - Employee pay 70%

State-Boston Retirement System

- Largest local system – 367,000 individuals
- SBRS oversees \$3.9B pension fund
- Boston's FY10 pension appropriation \$108M
- Unfunded liability \$2.1B as of Jan. 2008
- Funded ratio of \$76.6M
- Reach full funding in 2023

Role of Investments

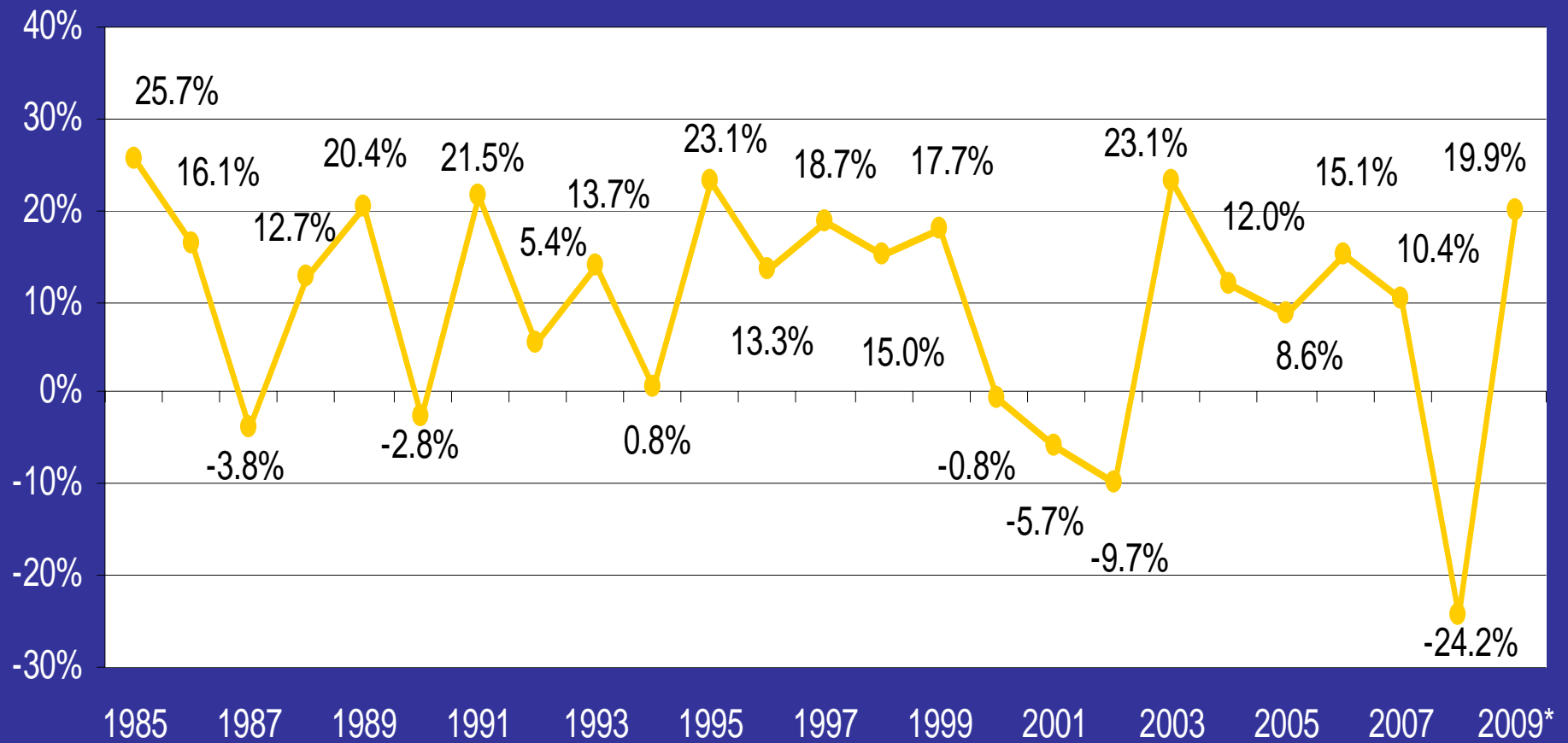
- Successful investment returns affect unfunded liability and annual appropriation
- Generally assume annual return of 8%
- 52 local systems fully invested in PRIT
- Boston and 14 systems have no assets in PRIT

2008 Asset Loss

- Composite investment return of 105 retirement systems was -28.6%
- Possible 30% to 40% increase in appropriations in FY11 and FY12
- SBRS Asset Loss 24.2%
 - 30% budget increase in FY12 = \$70M

Investment Results

SBRB Annual Investment Returns



What's Happening in Other Areas

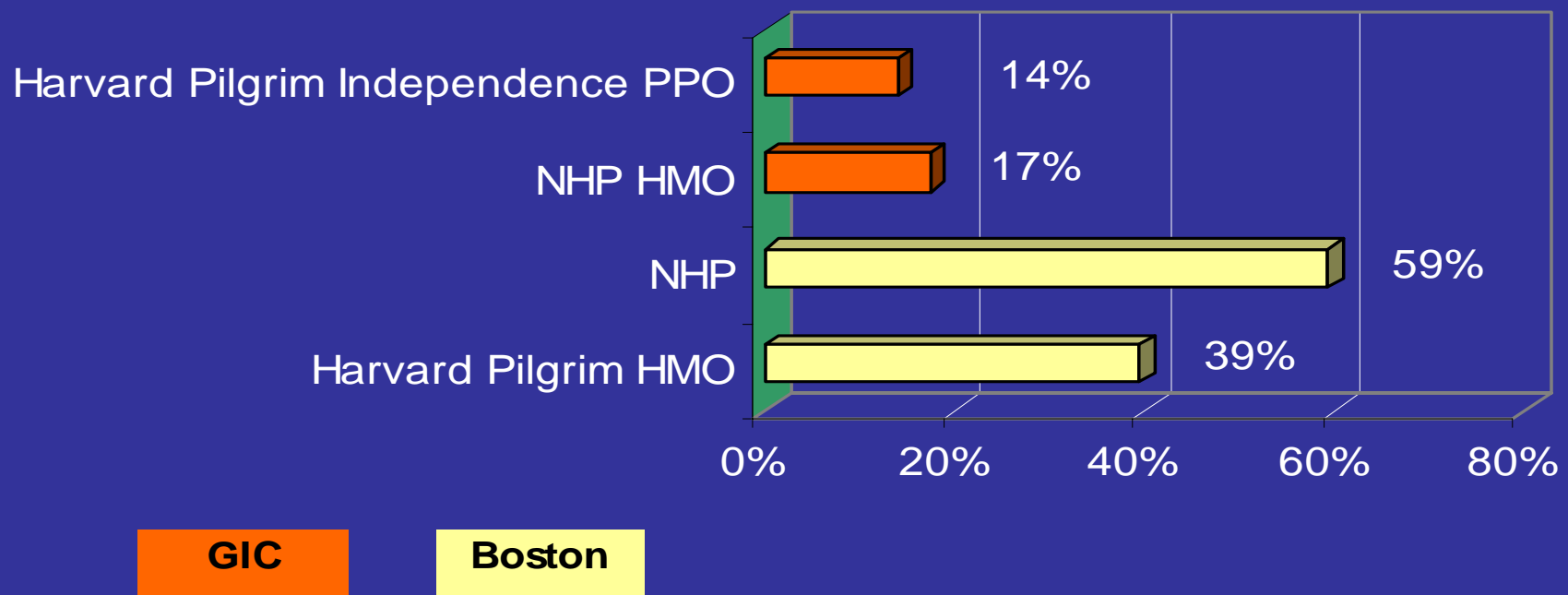
- Defined contribution plans
 - Michigan
- Hybrid
 - Indiana
 - Oregon
 - Federal Govt.
- Defined benefit plans remain most common
- Available to 83% of state and local government workers
 - *US Dept. of Labor, 2007*

Health Insurance the bigger budget driver

- Double standard
 - Municipalities are restricted by outdated laws
 - All changes subject to negotiations
 - All state decisions made administratively or legislatively
- Rapid growth of Boston's health costs
 - \$299M in FY11 or 12% of its \$2.5B budget
 - Up from 7% in FY01

A look at premiums

FY06-10 Premium growth for individual plans
Boston vs. GIC



OPEB Funding Requirement

- Boston OPEB liability as of June 2009:
 - \$5.8B partially funded
 - \$3.7B fully funded
- Annual Required Contribution (ARC)
 - FY10 Partially Funded ARC of \$354.4M
 - FY10 Actual Budget \$121.3M
 - Gap of \$233.1M

The Utility of Trouble

Recommendations

Pensions

- Initiate study of other retirement models
- Set employee contribution as share of normal cost rather than date of hire
- 5-year salary averaging
- Cap pensions at \$85,000
- Require more systems move assets to PRIT

The Utility of Trouble

Recommendations

SBRS

- Limit extension of funding schedule
- No ERI
- Invest in state PRIT fund in certain sectors
- Legislature should approve teacher pension transfer bill

The Utility of Trouble

Recommendations

Local Health Insurance

- Eliminate double standard
- Allow municipalities to join GIC - no hurdles
- Enable plan design outside of collective bargaining
- Require eligible retirees to enroll in Medicare

The Utility of Trouble

Recommendations

OPEB - Boston

- Develop plan to reach formal funding schedule
- Increase OPEB appropriation every year
- Transfer \$45M to OPEB Trust Fund

U N D E R S T A N D I N G B O S T O N

The Utility of Trouble

Providing Pensions in Difficult Times:
A Comprehensive Study of the Massachusetts Pension System
and Its Impact on the City of Boston

*The Second in a Series of Occasional Reports About
Bringing Systemic Change to Scale in an Era of Limited Resources*

tBf The Boston
Foundation
INNOVATION. INFORMATION. IMPACT.



BOSTON MUNICIPAL
RESEARCH BUREAU

May 2010