

## Senate Budget Allows Added Pension Cost for Municipalities

*COLA change could increase Boston's annual pension costs by \$7-\$10 million*

Using an outside section of the budget with no public hearing, the Senate budget approved on May 22 contains a provision that would allow the base for cost-of-living adjustments (COLAs) for municipal retirees to increase by one-third. At a time of tight budgeting, requiring service cuts in most communities, enabling the possibility of significant pension cost increases with no revenue support does a disservice to municipalities however well meaning the intent. Outside section 15 of the Senate's FY09 approved budget enables the base amount for COLAs to increase from \$12,000 to \$16,000, a jump of 33.3%. The maximum COLA would be 3% of the base amount.

This change if approved in the final state budget would not be considered a state mandate by the Legislature since the increase would have to be approved by a municipality before it would go into effect. However, the political pressure for immediate increase with little consideration for long-term financial consequences would be strong. Early estimates indicate that if the higher COLA level were adopted for Boston retirees, annual pension costs could increase by \$7-\$10M.

Approving this outside section with no public discussion is the exact opposite approach that should be taken at this time. Instead, COLA changes should be incorporated into a larger discussion of the mounting personnel costs in

local government due to salary increases and spending for health and pension benefits. These costs are rising at a greater pace than revenue growth thereby affecting resources available for other services. The increasing liability of retiree health insurance (OPEB) and the inability to adequately fund that cost must be included in this discussion. (See OPEB section of this *Bureau Update*)

The Massachusetts Municipal Association (MMA) estimates that the COLA increase would add \$2B or more to the municipal unfunded pension liability. The MMA strongly opposes the increase now and has called for an independent comprehensive study of the entire pension system.

### Why COLA base for Boston should not increase:

Boston's pension system has an unfunded pension liability of \$2.1B as of Jan. 2007 with a funded ratio of only 66.5%.

- COLAs of 3% have been approved each year from FY99-FY08
- Pension costs for FY09 budget total \$213.2M, an increase of \$10.3M or 5.1%
- Retirees receive a defined benefit pension, which is rare in private sector
- Boston faces OPEB unfunded liability of \$2.5B (prefunded)
- Acceptance does not require the Mayor's approval