BOSTON MUNICIPAL
RESEARCH BUREAU

Fiscal discipline essential to fully fund pension system

Testimony of the Boston Municipal Research Bureau

Before the

Boston Retirement Board

April 24, 2019

The Research Bureau supports an annual cost of living adjustment (COLA) for fiscal 2020.

The Research Bureau **opposes** any increase in the COLA base because it would increase the pension liability. The Research Bureau recommends that a base increase should not be considered until the funded ratio reaches 80%. The COLA base is currently set at $14,000.

Segal Consulting's analysis has estimated in its letter of March 1, 2019 that:

- Increasing the COLA base to $15,000 would increase the City's unfunded pension liability by $26.7 million and increase its fiscal 2020 pension appropriation by $6.9 million.

- Increasing the base to $16,000 would increase the unfunded pension liability by $53 million and increase its fiscal 2020 pension appropriation by $13.7 million.

The City of Boston and Boston Retirement System (BRS) are on schedule to reach full funding of the unfunded pension liability of $1.5 billion by 2025, six years from now. The Research Bureau believes any policy decision should prioritize maintaining this funding schedule.

The Research Bureau is concerned about the City of Boston's sizeable long-term unfunded pension and retiree health insurance liabilities and their implications for future city services.

The COLA impact on the City's pension liability must be considered in conjunction with financial demands of departmental services and the looming cost of the retiree health insurance liability (OPEB).

- Reaching full funding of the pension liability in 2025 would enable the City in fiscal 2026 to allocate a portion of the resources previously used to fund the annual amortized pension liability to the pension fund to help maintain full funding.
- The balance of the available funds could be allocated to address the OPEB liability at a higher level starting in fiscal 2026.