

## Managing Boston’s Pensions

*Retirement Board to take Key Vote on September 17*

The City of Boston’s unfunded pension liability as of January 1, 2024 was \$1.26B, \$309M higher than anticipated in the last actuarial valuation from January 1, 2022. As a result, the Boston Retirement Board (BRB) is considering extending by one year the date on which the City’s pension liability will be fully funded. Additionally, the BRB is considering an increase in the cost-of-living adjustment base that could add as much as \$89.9M to Boston’s unfunded liability.

**Unfunded Liability** According to the latest actuarial report, Boston's unfunded pension liability now stands at \$1.26B, \$309M more than forecasted in the last actuarial valuation from January 1, 2022. The retirement system conducts bi-annual valuations. This significant increase was primarily driven by volatile investment markets in 2022, which yielded a -10.4% return on investments—a trend observed across pension systems in Massachusetts and nationwide. In 2023 the return on investments was +10.45%.

**Implications for Boston** As a result of this unfavorable change, the City seeks to extend the pension funding schedule by one year, to June 30, 2028. This additional year would allow the City to maintain its aggressive funding schedule without significantly increasing its operating budget. Without the extension, Boston’s pension costs would increase by 16.3% in FY26 and FY27, compared to the current projected annual increases of 8.85%.

In the FY25 budget appropriation, the City allocated \$422.5M for pensions, making it the third-largest expenditure, behind school and police spending. Pensions represent 9.1% of the City’s FY25 operating budget, an 8.2% increase from FY24.

**Cost-of-Living Adjustments (COLA)** There are two components that adjust retiree pensions. Each requires a vote of the BRB: (1) **COLA increase** and (2) **COLA base**.

In June, the BRB approved a 3% **COLA increase**. This is a 3% increase on the first \$15,000 (COLA base) of a retiree’s pension. The cost associated with an annual 3% COLA increase is assumed in the actuarial report. In response to inflation, the BRB implemented a one-time 5% increase in FY23, permitted by law.

The second component, the **COLA base**, is a set amount (currently \$15,000) that can only be increased by increments of \$1,000. At its September 17, 2024 meeting, the BRB will consider raising the COLA base. The options include moving the base to \$16,000, \$17,000 or \$18,000. Any increase in the COLA base would increase Boston’s unfunded pension liability. According to the actuarial report, adoption of a \$16,000 base would add \$30.3M to Boston’s unfunded liability. This would mean the FY25 pension appropriation would increase by approximately \$8.1M more in order to remain on a full funding schedule by 2028. The average retiree would receive an additional \$30 annually from a \$16,000 COLA base increase.

Unfunded Liability Increase Due to Growth in COLA Base *	
COLA Base Increase	Unfunded Liability Increase
\$16,000	\$30.3M
\$17,000	\$60.3M
\$18,000	\$89.9M
* current COLA base = \$15,000	

**Benefits of Reaching Full Funding** Full funding of the pension liability is required by June 30, 2040 under state law. Reaching full funding sooner is an important component of the City's fiscal health and maintaining its AAA credit rating. Full funding of Boston's pension liability will significantly reduce its future annual pension expense and free up funds that could be allocated to address Boston's Other Post Employee Benefits (OPEB) liability, which currently stands at \$2.68B. If full funding of the pension unfunded liability is reached in 2028, the City's pension cost in FY28 would be reduced by approximately 59%.

### **Conclusion**

Extending the funding schedule by one year to June 30, 2028 is a prudent choice given the potential strain on the City's operating budget if the schedule is not extended. Absent a highly unusual event, there should be no further extensions of this timetable.

To ensure the City meets its full funding target by June 30, 2028, the Research Bureau also recommends that the BRB refrain from increasing the current COLA base at this time. According to the actuarial report, any adjustment to the COLA base could increase the unfunded liability by \$30.3M to \$89.9M. No actions should be taken that would further raise Boston's unfunded pension liability. As the City approaches full funding, it becomes increasingly challenging to absorb any expansion of the liability. To address retirees' legitimate concerns, the BRB could consider an increase in the COLA base once full funding is achieved.