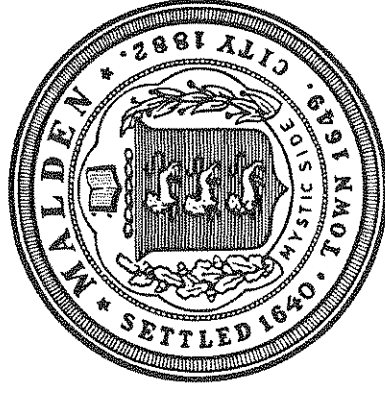


11/10/11
Charles Ransgman / City Controller

Order: That the City Council approve an increase in the COLA base from \$14,000 to \$18,000 for contributory and non-contributory retirees of the Malden Retirement System.



Malden Retirement Board Members

- Charles Ranaghan, Ex-Officio Member
- Domenic Fermano, Mayor's Appointment
- Donald Boyce, Elected by Retirees
- Warren Atkinson (Chairperson), Elected by Retirees
- Scott Lucey, Elected by Members of the Board

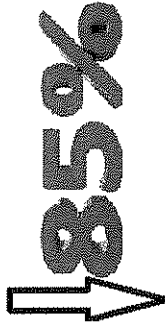
Background

- o The COLA base is that portion of each retiree's public pension that is increased as Massachusetts General Law Chapter 32, section 103(j) allows a Board to increase the COLA base to a rate not to exceed \$18,000. The COLA base is the retirement base on which a yearly cost of living adjustment is granted. For example, if a cost-of-living adjustment of 3% is approved, a retiree currently receives a 3% increase on the first \$14,000 of pension earnings.
- o The COLA base is set by the local retirement system with the approval of the local legislative body (city council). The local bases range from \$12,000 to \$18,000. Increasing it involves actuarial cost analysis and local approval by the legislative body. However, it is the sole responsibility of the local retirement board to approve the annual COLA percentage, which can range from the annual CPI up to 3% or nothing at all.
- o While COLA's in Massachusetts are limited to a base amount, every COLA paid becomes a permanent part of a retiree's base pension – never to be taken away.

What is the COLA Base of Other Boards?

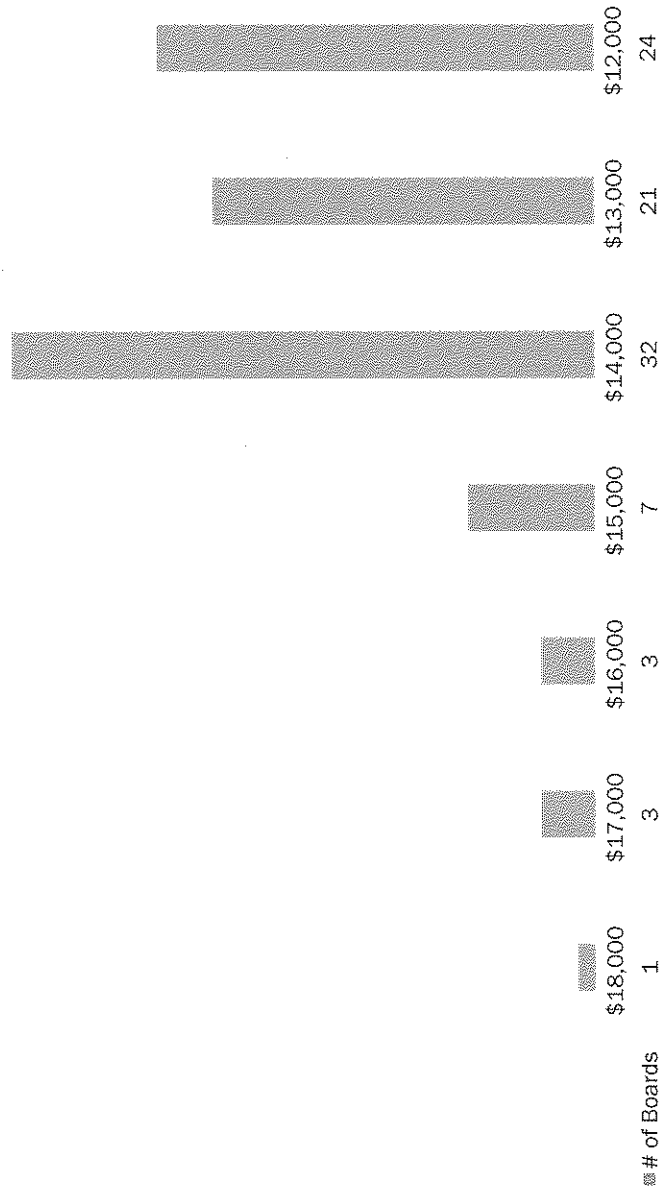
Only local boards are listed below. County and Regional are not illustrated

- o \$18,000 = 1 - Montague
- o \$17,000 = 3 - Wellesey, Methuen, Lowell
- o \$16,000 = 3 - Cambridge, Medford, Webster
- o \$15,000 = 7 - Arlington, Chicopee, Dedham, Maynard, Milton, Peabody, Taunton
- o \$14,000 = 32 - Malden
- o \$13,000 = 21
- o \$12,000 = 24

**85%**

What is the COLA Base of Other Boards?

Only local boards are listed below. County and Regional are not illustrated



Similar Municipalities

Malden = \$14,000

- o Salem = \$12,000
- o Melrose = \$12,000
- o Chelsea = \$12,000
- o Woburn = \$13,000
- o Revere = \$13,000
- o Somerville = \$14,000
- o Everett = \$14,000
- o Lynn = \$14,000
- o Medford = \$16,000

What is the impact of an increased COLA base to a retiree?

- o Example – A retiree who receives an annual pension of at least \$18,000
 - o Current 3% COLA on \$14,000 base = \$420 a year
 - o Proposed 3% COLA on \$18,000 base = \$540
- o Retiree would receive an additional \$120 a year due to increased COLA base

What is the impact to the City of Malden?

Fiscal Year	COLA Base Increase Proposals:		14,000 Funding		Current		18,000 Funding		Alt.C	
	Total Cost	Increase \$	Total Cost	Increase \$	Total Cost	Increase \$	Total Cost	Increase \$	Total Cost	Increase \$
FY22	15,150,198		15,150,198		15,150,198		15,150,198		15,150,198	
FY23	16,453,116	1,302,918	16,453,116	1,302,918	16,453,116	1,302,918	16,453,116	1,302,918	16,453,116	1,302,918
FY24	17,868,083	1,414,967	17,868,083	1,414,967	17,868,083	1,414,967	17,868,083	1,414,967	17,868,083	1,414,967
FY25	19,404,739	1,536,656	19,404,739	1,536,656	19,404,739	1,536,656	19,404,739	1,536,656	19,404,739	1,536,656
FY26	21,073,546	1,668,807	21,073,546	1,668,807	21,073,546	1,668,807	21,073,546	1,668,807	21,073,546	1,668,807
FY27	22,885,871	1,812,325	22,885,871	1,812,325	22,885,871	1,812,325	22,885,871	1,812,325	22,885,871	1,812,325
FY28	24,854,056	1,968,185	24,854,056	1,968,185	24,854,056	1,968,185	24,854,056	1,968,185	24,854,056	1,968,185
FY29	26,991,505	2,137,449	26,991,505	2,137,449	26,991,505	2,137,449	26,991,505	2,137,449	26,991,505	2,137,449
FY30	28,961,853	1,970,348	28,961,853	1,970,348	29,312,774		29,312,774		29,312,774	2,321,269
FY31	7,557,356		7,557,356		24,859,218		24,859,218		24,859,218	-4,453,556
FY32					8,103,214		8,103,214		8,103,214	
Total Payments			\$201,200,323		\$226,956,320		\$226,956,320		\$226,956,320	
Additional Cost										\$25,755,997

How will we pay for it?

- o The current COLA base of \$14,000 has a funding schedule that increases at over \$1.3 million a year.
- o FY2023 will increase by \$2.6 million over the FY2021 appropriation.
- o FY2024 will increase by \$4 million over the FY2021 appropriation.

How will we pay for it?

- We are bound by proposition 2 ½
- For FY2022 that means Malden's entire increase in real estate taxes will be just over \$2 million
- Health Insurance has not increased in a couple of years and with elective procedures being delayed due to COVID-19 we are facing substantial increases in future years (just a 5% increase next year will result in an additional 1 million dollars).
- Education funding deficit of \$7.5 million (school funding formula)
- Other Post Employee Benefits (OPEB) liability
 - Other post-employment benefits (OPEB) are the benefits, other than pension distributions, that employees may begin to receive from their employer once they retire. Other post-employment benefits can include life insurance, health insurance, and deferred compensation.
 - \$266 million that we have yet to begin funding.
 - Largely funds retiree health care.
 - Most recent valuation recommended Malden allocate \$1.65 million a year to fund OPEB.

What can be done?

- o The \$18,000 COLA base proposal calls for adding over \$25 million to our pension obligation.
- o The current funding schedule increases at an already unsustainable level of 8.6 percent a year and over \$1.3 million each year.
- o After the market crash in 2008 the Commonwealth of Massachusetts gave local Retirement Boards the option of extending their funding schedules out past the 2030 date that was in effect at the time. Now they can be extended out until the year 2040.
- o Malden's funding schedule currently has a final payment in FY2030.
- o Extending the funding schedule will shrink the year after year increases to something more manageable and allow the City to continue to provide core City services.

Options

- o The COLA base can be raised in \$1,000 increments to any level not to exceed \$18,000.
- o Once increased it can not be revoked.
- o Increasing the COLA base to a lesser level would have less of an impact on the total pension obligation.
- o Increasing the COLA base to a lesser level while also extending the funding schedule several years would also help make the increased costs more manageable.

Who Decides What to Increase it To and When?

The Malden Retirement Board first votes locally and then requires approval of the Malden City Council.

The City Council must approve by June 30th for it to take affect the following fiscal year.

The COLA base is a topic that can be taken up each and every year. If not addressed in one year it can be reintroduced in any other year.

The only paper currently in front of the City Council is to increase the COLA base to \$18,000.

Thoughts

o I believe my role on the retirement board requires me to balance the interests of the retirees with the financial abilities of the city. The current \$14,000 COLA base level is at or above 85% of all communities in the Commonwealth of Massachusetts. I personally would be open to reviewing other scenarios that raise to COLA base in a less aggressive manner while at the same time extending the funding schedule out several years. This would result in progress for retirees, but with the year to year increases not having as much potential to negatively impact core City services year after year.