

Cola Base Breakthrough

Patrick Approves Landmark Law

SEPTEMBER 2010 VOICE: Governor Deval Patrick approved the Association's proposal that will allow local retirement systems to incrementally increase the COLA base beyond the current \$12,000 level.

This marks a major breakthrough in the state's COLA policy that will have a lasting impact on all public retirees. A similar plan to increase the base for state and teacher retirees will be addressed early next year, along with the revaluation of the Commonwealth's pension funding schedule.

The governor's approval of the Municipal Relief Act (Chapter 188, Acts of 2010), in which the local COLA base language is contained, follows several months of intense lobbying by the Association's legislative team to pass the measure before the formal legislative session ended on July 31.

House and Senate leaders backed our amendment, leading to its unanimous passage in both branches, as the Municipal Relief Act moved forward this past spring. The bill then languished in a conference committee for nearly two months, before being enacted in late July.

As previously reported, 2010 marks an important turning point in COLA policy with local retirement systems now beginning the process of restructuring their long-term pension funding schedules and, in some cases, extending payments through 2040. Not only does this restructuring address investment losses incurred during the 2008 market collapse, but also allows for a long needed overhaul of the COLA base.

Since 2005, two separate studies have recommended incremental increases in the COLA base, which has been locked at a uniform \$12,000 for all retirees since 1997. These studies have also pointed out that Massachusetts is one of just three states not applying the COLA to a retiree's full pension - an unavoidable situation due to the state's unfunded pension liability.

Under the new local option law, each local retirement system will have the ability to increase its own COLA base in \$1,000 increments. This can be done after receiving approval from the local legislative body (city council, town meeting, regional advisory council, etc).

"The key to increasing the COLA base begins and ends with the pension funding schedules. Since every increase in pension benefits must have a funding source, the cost of a higher base must be funded through the pension schedule. There is just no way to get around that fact," explains Association President Ralph White. "Right now we have a unique opportunity to raise the base beyond \$12,000 - which is long overdue - and include the costs within the new pension valuations.

"This method allows for a higher base, while keeping annual pension appropriations at an affordable level. It will now be up to our local retirement boards to work with their local officials to implement this new law. We will certainly be there every step of the way to help."

Association officials will now work closely with Legislative leaders and public pension officials as the state begins its triennial review and revaluation of the Commonwealth's pension funding schedule. The schedule, first established in 1988 as a means to fund the state's then-growing unfunded pension liability, currently runs through 2025.

But, like most local systems and nearly every pension fund across the county, the Commonwealth's massive \$43 billion fund will be extended to address the losses incurred as a result of the 2008 market crash and impending recession.

The revaluation of the Commonwealth's Pension Funding Schedule will be complete by mid-winter, in time for the FY 2012 budget deliberations.