

Town of Lexington Contributory Retirement System

Article : Increase in Retiree Cost-of-Living Adjustment Base Presentation to
Town Meeting

Bob Cunha, Retirement Board Chairman

Discussion Outline

- Current COLA provision
- Retiree demographics analysis
- Impact of increasing the COLA base
- Equity vs. private sector employees
- Equity vs. other municipalities
- Cost impact
- Summary recommendation rationale

Retiree Cost of Living Adjustment (COLA) Base

Current provisions

- Retirees and beneficiaries in payment status are eligible to receive an annual cost of living adjustment (COLA) each July 1st.
- Based on increases in Consumer Price Index (CPI) to a ***maximum of 3% per annum*** as published by the Social Security Administration each October
- ***Increase limited to \$13,000 of a retiree's pension (the "COLA base")***

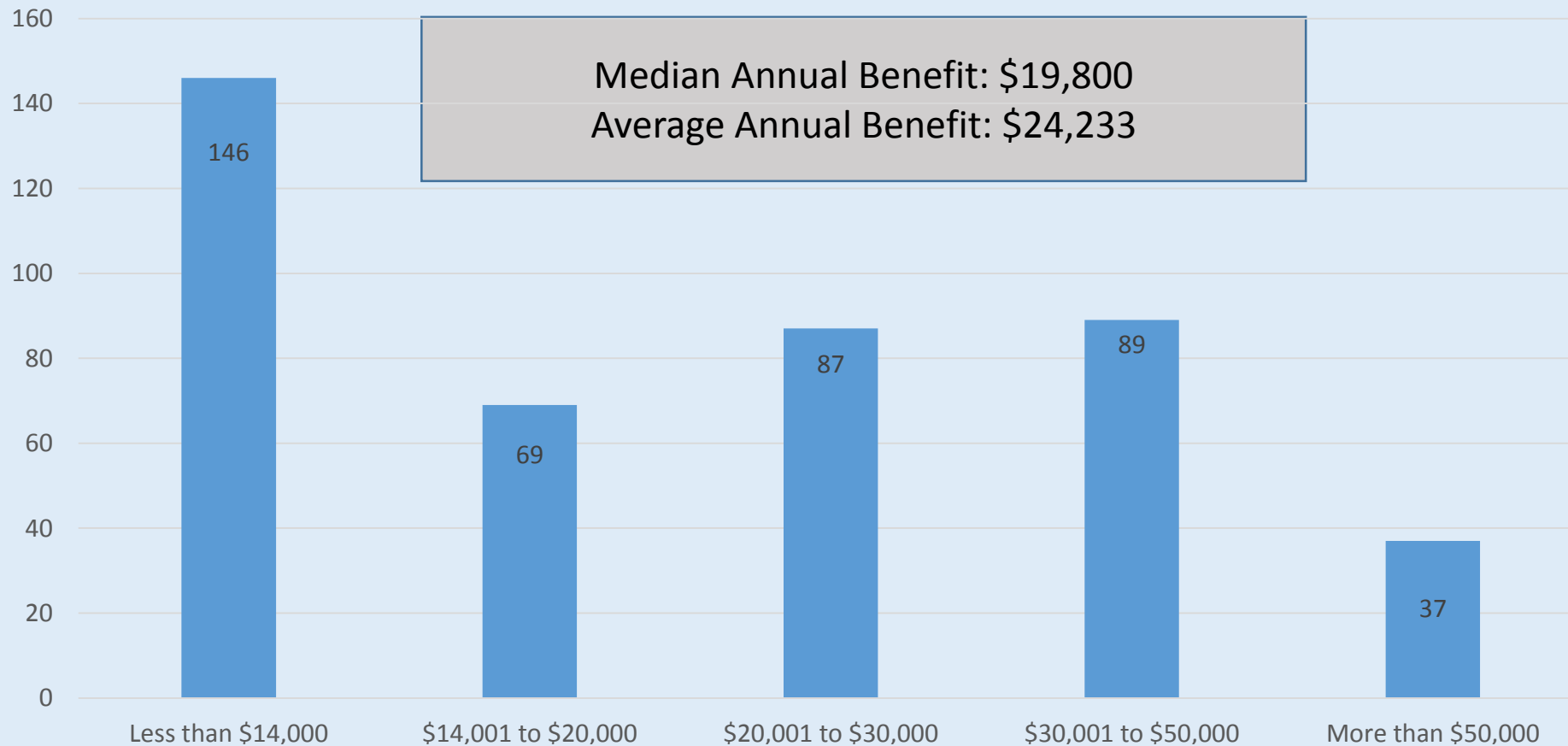
Retiree Cost of Living Adjustment (COLA) Base

Current provisions example

- Example: Retiree annual allowance equals \$24,000
 - Maximum annual increase equals \$390 (3% of \$13,000 = \$390)
 - “Effective” COLA in this example equals 1.6% (\$390 divided by \$24,000)

Town of Lexington Contributory Retirement System

Distribution of 428 Retirees and Beneficiaries in Pay Status as of 1/1/17



Retiree Cost of Living Adjustment (COLA) Base

What does increasing the COLA base mean?

- The COLA base was last increased 2 years ago (2015) from \$12,000 to \$13,000
- FY11 Enacted law allows the COLA base to be increased in \$1,000 increments
- Retirement Board recommends raising the COLA base to \$14,000 effective July 1, 2017
- Requires Town Meeting approval

Retiree Cost of Living Adjustment (COLA) Base

What does increasing the COLA base mean?

- Example: Retiree annual allowance of \$24,000
 - Maximum annual increase equals \$420 (3% of \$14,000 = \$420) or \$30 more per year than current provision
 - Effective COLA in this example equals 1.75% (\$420 divided by \$24,000)

“Effective” Cost of Living Adjustment

Maximum Annual COLA Percentage Increase

Annual Retiree Benefit	Number of Retirees	\$13,000 COLA Base	\$14,000 COLA Base
Less than \$14,000	146	3.0%	3.0%
\$14,001 to \$20,000	69	3.0%	2.1% - 3.0%
\$20,001 to \$30,000	87	1.6% - 2.6%	1.4% - 2.1%
\$30,001 to \$50,000	89	1.1% - 1.6%	.8% - 1.4%
More than \$50,000	37	.4% - 1.1%	< - .8%

Most of our Town’s retirees have an annual COLA increase less than 3%.
 COLA base on Median Annual Benefit of \$19,780 is currently limited to 1.9%
 COLA based on Average Annual Benefit of \$24,233 is currently limited to 1.5%
 The maximum dollar increase for any single retiree is \$30 per year if COLA base increased to \$14,000 (3% times \$1,000 increase in base).

Equity vs. Private Sector Employees

Comparison of COLA Provision vs. Social Security Benefit COLA

- Social Security benefits for Private Sector employees do not have any limits applied to annual COLAs (no cap on CPI and no cap on benefit amount)
- Raising the COLA base for our Town's retirees is now allowed by statute – we believe an increase is due.

Equity vs. Other Municipalities

- As of today, 77 MA Retirement Systems have approved increases in the COLA base, including Norfolk and Middlesex County Systems covering 50 towns
- Twenty-four Systems have voted an increase to \$14,000 and Twenty-two have voted an increase to \$15,000 or more
- Twenty-nine MA Systems have yet to take action and five have rejected Board requests
- It is anticipated the MA Legislature will revisit this issue periodically

What Does it Cost?

- Raising the COLA base to \$14,000 effective July 1st increases FY 2018 annual benefit payments by \$9,400
- The level amortization is \$187,511
- The actuarial present value of the increase, which reflects all future years increases for current retirees and future retirees is \$1,031,173.
- We are not required to modify our FY 2018 funding schedule

In Summary

- Most of our Town's retirees do not receive a full CPI increase due to the COLA base limit and 3% maximum annual CPI limit
- Many other MA Systems have already increased the COLA base.
- Our retirees will see increase in their benefits go to higher chargers for Medicare coverage.
- Years of low base are having long-term impact on our retirees
- The Retirement Board believes that raising the COLA base to \$14,000 balances both our fiduciary and fiscal responsibilities to the Membership and Taxpayers
- We respectfully ask for your support and endorsement on our vote