

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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MEMORANDUM

TO: John W. Parsons, Esq., Executive Director

FROM: John Boorack, Actuary *JB*

RE: Cost Analysis of COLA Proposals for General Court

DATE: December 9, 2019

In a letter dated November 14, 2019 from Representative Jerald Parisella and Senator Michael Brady, the House and Senate Chairs of the Joint Committee on Public Service respectively, PERAC was asked to analyze the costs and to determine the impact on the Commonwealth's annual appropriation for several different COLA proposals. Below is the requested analysis.

1. Increasing the current COLA base from \$13,000 to \$14,000, \$15,000 and \$16,000 for retirees of the State Employees Retirement System (SRS) and the Massachusetts Teachers' Retirement System (MTRS).

For this proposal, we estimated the increase to the total normal cost (NC) and the actuarial accrued liability from the January 1, 2019 actuarial valuations for the SRS and the MTRS. Because a change in the COLA base does not affect expected employee contributions or the actuarial value of assets, these increases run straight to the employer's NC and the unfunded actuarial liability (UAL) respectively. The assumptions used in this analysis are the same as those shown in each valuation report. On the next page is a summary of the results of increasing the COLA base from \$13,000 to \$14,000, \$15,000 and \$16,000. The UAL is amortized on a 4.0% annual increasing basis beginning in FY21 and ending in FY36 (the same date when the current schedule completes the amortization of the UAL). The impact on the funding schedule is shown for FY21 only. This amount would increase 4% each year thereafter until FY36.



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The amounts shown below are in thousands.

COLA base	\$14,000	\$15,000	\$16,000
Increase in Net Employer Normal Cost	\$9,000	\$18,000	\$27,000
Increase in Unfunded Actuarial Liability	\$494,000	\$991,000	\$1,491,000
Impact on FY21 Appropriation	\$54,600	\$109,500	\$164,700

2. An additional \$100 annual increase for any retiree of the SRS and MTRS, who has been retired for at least 15 years as of July 1, 2019, has at least 20 years of creditable service prior to retirement and is currently receiving an allowance that is below the average annual benefit determined as of the systems' most recent actuarial valuation.

For this proposal, we used member data as of January 1, 2019 for both the SRS and MTRS. We considered retirees who have been retired for between 15-20 years, and retirees who have been retired for at least 20 years. The present value calculations were performed using the RP-2014 Blue Collar Healthy Annuitant mortality table projected to 2018 using mortality improvement Scale MP-2018 and a 7.25% investment return assumption. We assumed all of the retirees/beneficiaries were female. Below is a summary of the affected retirees/beneficiaries.

Retirement System	Length of Retirement	Count	Average Age
SRS	15 – 20 years	3,915	74 years
SRS	20+ years	4,714	83 years
MTRS	15 – 20 years	4,210	76 years
MTRS	20+ years	9,119	84 years

This proposal would affect 21,958 retirees/beneficiaries of the SRS and MTRS and would cost approximately **\$97.1 million**. If this amount were amortized on a 4.0% annual increasing basis beginning in FY21 and ending in FY36, the impact on the FY21 appropriation would be approximately **\$8.7 million**. This amount would increase 4.0% each year through FY36.

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3. An additional \$200 annual increase for any retiree of the SRS and MTRS, who has been retired for at least 20 years as of July 1, 2019, has at least 20 years of creditable service prior to retirement and is currently receiving an allowance that is below the average annual benefit determined as of the systems' most recent actuarial valuation.

For this proposal, we used member data as of January 1, 2019 for both the SRS and MTRS. We considered retirees who have been retired for at least 20 years. The present value calculations were performed using the RP-2014 Blue Collar Healthy Annuitant mortality table projected to 2018 using mortality improvement Scale MP-2018 and a 7.25% investment return assumption. We assumed all of the retirees/beneficiaries were female. Below is a summary of the affected retirees/beneficiaries.

Retirement System	Length of Retirement	Count	Average Age
SRS	20+ years	4,714	83 years
MTRS	20+ years	9,119	84 years

This proposal would affect 13,833 retirees/beneficiaries of the SRS and MTRS and would cost approximately **\$94.0 million**. If this amount were amortized on a 4.0% annual increasing basis beginning in FY21 and ending in FY36, the impact on the FY21 appropriation would be approximately **\$8.43 million**. This amount would increase 4.0% each year through FY36.

4. A combination of proposal #2 and proposal #3, where there would be paid an additional \$100 annual increase for any retiree of the SRS and MTRS, who has been retired for at least 15 years as of July 1, 2019, and an annual increase of \$200 for any retiree who has been retired for at last 20 years as of July 1, 2019 and who has at least 20 years of creditable service prior to retirement and is currently receiving an allowance that is below the average annual benefit determined as of the systems' most recent actuarial valuation.

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For this proposal, we used member data as of January 1, 2019 for both the SRS and MTRS. We considered retirees who have been retired for between 15-20 years, and retirees who have been retired for at least 20 years. We assumed that anyone who has been retired between 15-20 years would receive the \$100 annual increase for 5 years and then the \$200 annual increase thereafter. The present value calculations were performed using the RP-2014 Blue Collar Healthy Annuitant mortality table projected to 2018 using mortality improvement Scale MP-2018 and a 7.25% investment return assumption. We assumed all of the retirees/beneficiaries were female. Below is a summary of the affected retirees/beneficiaries.

Retirement System	Length of Retirement	Count	Average Age
SRS	15 – 20 years	3,915	74 years
SRS	20+ years	4,714	83 years
MTRS	15 – 20 years	4,210	76 years
MTRS	20+ years	9,119	84 years

This proposal would affect 21,958 retirees/beneficiaries of the SRS and MTRS and would cost approximately **\$166.25 million**. If this amount were amortized on a 4.0% annual increasing basis beginning in FY21 and ending in FY36, the impact on the FY21 appropriation would be approximately **\$14.9 million**. This amount would increase 4.0% each year through FY36.

I am a Member of the American Academy of Actuaries and meet the Qualification Standards of the Academy to render the actuarial opinion contained herein.

/jfb

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