Boston Retirement System

May 16, 2025

Alex G. Geourntas, City Clerk
Boston City Council
Boston City Hall, Room 601
Boston, MA 02201

RE: FY26 Retiree Cost-of-Living Adjustment (COLA) & COLA Base Vote

Dear Clerk Geourntas:

Please find this as a follow-up to correspondence we filed on April 16, 2025. As you know, the Boston Retirement Board shall receive public comment relative to retiree FY26 Cost of Living Adjustment ("COLA") and COLA base at a public meeting scheduled for May 23, 2025, at 9:00 a.m., in the Pavilion Conference Room on Boston City Hall Plaza. The actual vote is scheduled for June 18, 2025.

Attached you will find a cost memorandum relative to the additional costs associated with increasing the System's COLA base, as well as a preliminary valuation of the Retirement System as of January 1, 2025 prepared by our actuary. We note that the COLA base is currently set at $15,000.

As always, I remain available should you have any questions or concerns. Thank you.

Respectfully submitted,
BOSTON RETIREMENT SYSTEM

By: /s/ *Timothy J. Smyth, Esquire*
TIMOTHY J. SMYTH, ESQUIRE
Executive Officer

Attachments.

Segal

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May 23, 2025

Boston Retirement Board
City Hall, Room 816
Boston, MA 02201

Re: Cost of Increasing the COLA Base Effective July 1, 2025 – Reflects January 1, 2025 Preliminary Actuarial Valuation Results

Dear Board Members:

As requested, we have estimated the cost of increasing the Cost-of-Living Adjustment (COLA) base from $15,000 to $16,000, $17,000 and $18,000 for both the Boston Retirement System (BRS) Excluding Teachers and the Teachers. We have assumed the base would be increased effective July 1, 2025 and that the additional cost would first be reflected in the fiscal 2026 appropriation. The estimates in this report are based on the January 1, 2025 Preliminary Actuarial Valuation Results of the Boston Retirement System.

We have estimated the additional unfunded liability and employer normal cost if the COLA base is increased for the Non-Teachers effective July 1, 2025 from $15,000 to $16,000, $17,000 and $18,000, as shown in the table below.

Cost element	January 1, 2025 valuation results	Increase due to change in COLA base to $16,000	Increase due to change in COLA base to $17,000	Increase due to change in COLA base to $18,000
1. July 1, 2025 projected unfunded liability	$1,010,320,829	$30,356,458	$60,391,610	$90,087,396
– Percent increase	N/A	3.0%	6.0%	8.9%
2. July 1, 2025 projected employer normal cost	$106,526,215	$737,370	$1,460,678	$2,170,347
– Percent increase	N/A	0.7%	1.4%	2.0%

The funding schedule included in the January 1, 2025 preliminary actuarial valuation report fully funds the liabilities of the BRS excluding Teachers by June 30, 2028, if all assumptions are met and there are no changes in the plan of benefits or actuarial assumptions, with appropriations that increase by 8.85% for fiscal 2027 and a smaller appropriation in fiscal 2028.

We have incorporated the additional cost of increasing the COLA base into the funding schedule with four alternative approaches. Some of these alternatives extend funding of the increase in the COLA base beyond the full funding date of the existing unfunded liability. This approach to amortizing the unfunded liability is referred to as layered amortization:

1. Funding occurs over three years, beginning in fiscal 2026 and ending in fiscal 2028, with amortization payments that increase by 8.85% per year
2. Funding occurs over four years, beginning in fiscal 2026 and ending in fiscal 2029, with amortization payments that increase by 8.85% per year
3. Funding occurs over five years, beginning in fiscal 2026 and ending in fiscal 2030, with amortization payments that increase by 8.85% per year
4. Funding occurs over six years, beginning in fiscal 2026 and ending in fiscal 2031, with amortization payments that increase by 8.85% per year

The increase in the appropriation with the different COLA bases and four funding dates are shown in the table below, with a comparison to the fiscal 2026 appropriation:

COLA funding date	Fiscal 2026 appropriation	Increase in fiscal 2026 appropriation due to change in COLA base to $16,000	Increase in fiscal 2026 appropriation due to change in COLA base to $17,000	Increase in fiscal 2026 appropriation due to change in COLA base to $18,000
1. COLA increase funded by fiscal 2028	$527,239,012	$10,673,833	$21,228,432	$31,658,308
– Percent increase	N/A	2.0%	4.0%	6.0%
2. COLA increase funded by fiscal 2029	$527,239,012	$8,121,959	$16,151,694	$24,085,235
– Percent increase	N/A	1.5%	3.1%	4.6%
3. COLA increase funded by fiscal 2030	$527,239,012	$6,591,168	$13,106,315	$19,542,381
– Percent increase	N/A	1.3%	2.5%	3.7%
4. COLA increase funded by fiscal 2031	$527,239,012	$5,570,919	$11,076,615	$16,514,636
– Percent increase	N/A	1.1%	2.1%	3.1%

We have estimated the additional unfunded liability and employer normal cost if the COLA base is increased for the Teachers effective July 1, 2025 from $15,000 to $16,000, $17,000 and $18,000, as shown in the table below.

Cost element	January 1, 2025 valuation results	Increase due to change in COLA base to $16,000	Increase due to change in COLA base to $17,000	Increase due to change in COLA base to $18,000
1. July 1, 2025 projected unfunded liability	$2,499,104,969	$15,658,295	$31,290,282	$46,892,106
– Percent increase	N/A	0.6%	1.3%	1.9%
2. July 1, 2025 projected employer normal cost	$25,345,757	$279,532	$558,440	$836,606
– Percent increase	N/A	1.1%	2.2%	3.3%

These cost estimates are based on the assumptions used in the most recent actuarial valuation of the Boston Retirement System. To the extent there is adverse experience, employer contributions will increase and the cost related to a change in the COLA base may be different than expected. For example, if members live longer than assumed under the current mortality table assumption, the cost of increasing the COLA base will be higher than shown.

Please refer to the Preliminary Results of the January 1, 2025 Actuarial Valuation, dated May 23, 2025,for the data, assumptions and plan of benefits underlying these calculations. A more detailed discussion of the risks that may affect the System will be included in the final actuarial valuation report.

This report has been prepared in accordance with generally accepted actuarial principles and practices for the exclusive use and benefit of the Board, based upon information provided by the staff of the Retirement System and the System's other service providers.

This report should only be copied, reproduced, or shared with other parties in its entirety as necessary for the proper administration of the System.

The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in plan provisions or applicable law.

Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary forecasting model. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

Segal makes no representation or warranty as to the future status of the System and does not guarantee any particular result. This document does not constitute legal, tax, accounting or investment advice or create or imply a fiduciary relationship. The Board is encouraged to discuss any issues raised in this report with the Board's legal, tax and other advisors before taking, or refraining from taking, any action.

Segal does not provide investment, legal, accounting, or tax advice and is not acting as a fiduciary to the System. This valuation is based on Segal's understanding of applicable guidance in these areas and of the System's provisions, but they may be subject to alternative interpretations. The Board should look to their other advisors for expertise in these areas.

The actuarial calculations were directed under my supervision. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of my knowledge, the information supplied in this actuarial valuation is complete and accurate. The assumptions used in this actuarial valuation were selected by the Board based upon our analysis and recommendations. In my opinion, the assumptions are reasonable and take into account the experience of the Boston Retirement System and reasonable expectations. In addition, in my opinion, the combined effect of these assumptions is expected to have no significant bias.

Please let us know if you have any questions or need any additional information.

Sincerely,

Kathleen A. Riley, FSA, MAAA, EA
Senior Vice President and Chief Actuary

cc: Timothy J. Smyth, Esq.