COLA Base And Its History

July 06 - **Funding Schedule Explained** - The Commonwealth's first COLA law was passed back in 1966 and only allowed a COLA to be paid to retirees with pensions of $5,000 or less.

In 1971 our Association's legislation changed that figure to $6,000 and provided that everyone would be entitled to a COLA, but on a maximum base of $6,000. The rationale, at that time acceptable to the legislature, was that the average pension was $6,000.

Unfortunately, with a growing awareness that the unfunded liability of the state and local retirement systems was raising havoc with bond ratings, the base suffered.

Despite annual attempts to legislate a higher base, by 1998 the base had only reached $12,000 where it now stands, well below the average pension.

The biggest setback was Prop 2 1/2 in 1980, whereby the legislature could no longer pass an annual COLA that would be binding on local retirement systems. With the local governments no longer voting to pay a COLA, the state began picking up the COLA costs for local boards.
This practice escalated the state's unfunded liability to the extent that the legislature approved only three COLAs between 1989 and 1997, a very serious drought for all retirees – state, teachers, and local.

A breakthrough came in 1997 when our Association's Chapter 17 passed, making future COLAs the responsibility of local retirement boards beginning in 1998. Chapter 17 also increased the base from $9,000 to $12,000.

At that time, the locals were forced to adjust their funding schedules to accommodate the new base plus pay for any future COLAs. The state was also forced to adjust its schedule for the state and teachers' retirement systems' new base.

Although local retirement boards favored this law, mayors and boards of selectmen vehemently opposed its passage. When it was enacted by the legislature and governor, it was grudgingly accepted by city councils, aldermen, and town meetings. Since that time, with one or two exceptions, every retirement board has voted for 3% COLAs each year. At the state level, the legislature has voted the 3% for state and teacher retirees.

"It's difficult for new retirees to understand why COLAs aren't paid on their full pensions," said White. "Years ago, the awareness of the huge unfunded pension debt that was being accumulated was never addressed by the legislature. When the day of reckoning came in the costly form of lower bond ratings, Massachusetts was well behind every state with the exception of West Virginia. We've been playing catch-up ever since. It's been a tough fight, a personal challenge for me and our Association leaders."

Schedules In Brief

For members, unfamiliar with the funding schedules and their impact on state and municipal budgets, we must look back to 1987 when landmark legislation (Chapter 697) was enacted. This law boldly transformed the state and local retirement systems from the pay-as-you-go approach and called for the establishment of funding schedules. No longer could the state and municipalities make an appropriation in their annual budgets that only paid pension benefits for that year.

Instead, they would be required to annually appropriate money according to a funding schedule of pension payments that, over a maximum of 40 years, satisfied the system's unfunded liability. This change, from pay-as-you-go to a funding schedule, also meant that with any improvement in benefits, like raising the COLA base, its impact on the schedule had to be determined.

Inherently, a benefit improvement brings with it an increase in the system's unfunded liability. As a result, the state or municipality would have to appropriate more money in its annual budget to satisfy the new increased liability.

In a nutshell, this describes the dilemma, which we have faced in raising the COLA base. How can you make the improvement without significantly impacting state and municipal budgets?

There's only one answer: Extend the funding schedules. It's a reasonable compromise for today's retirees who cannot be expected to wait until retirement systems are fully funded. Most will not be alive at that time.