

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

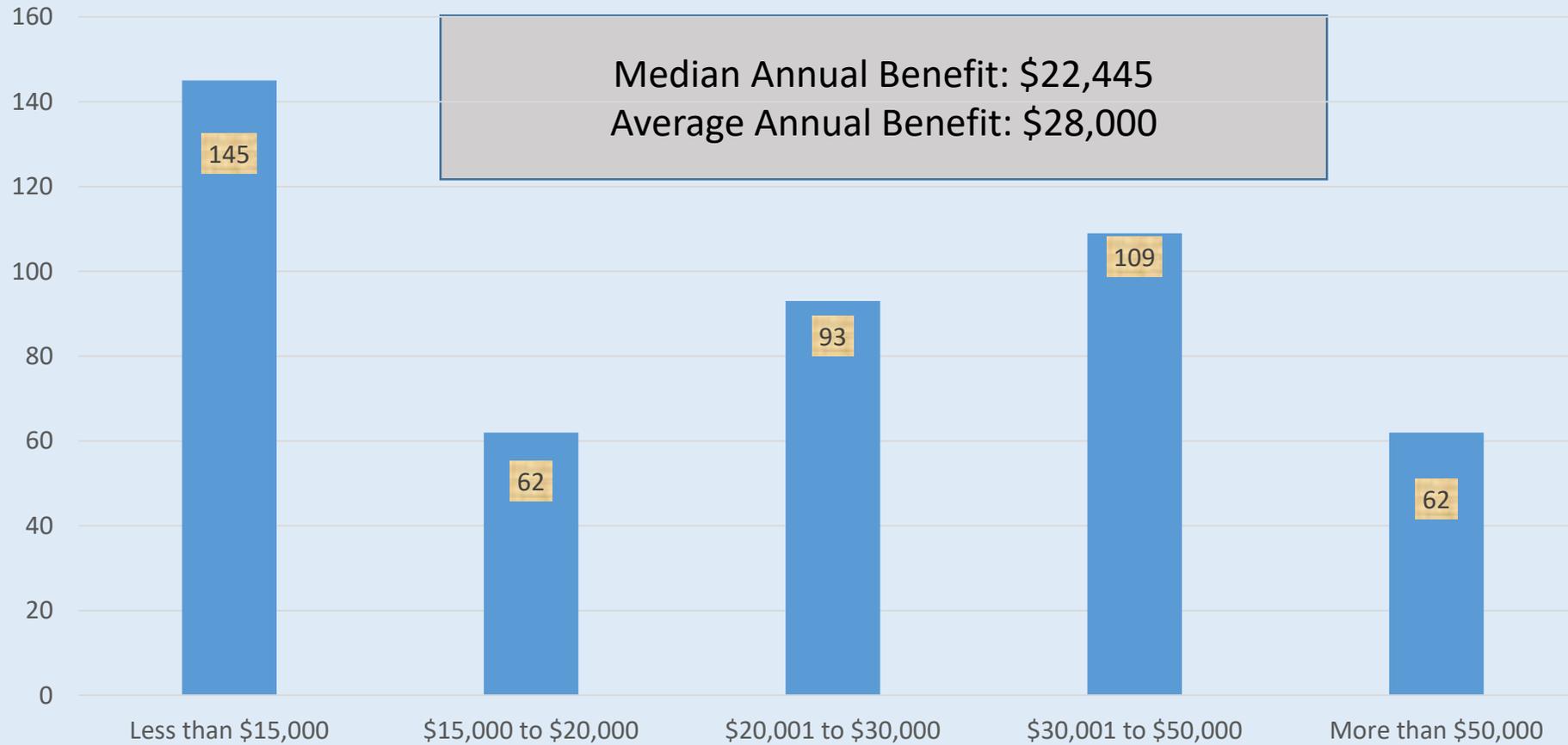
- Retirees and beneficiaries in payment status are eligible to receive an annual cost of living adjustment (COLA) each July 1st.
- Based on increases in Consumer Price Index (CPI) to a ***maximum of 3% per annum*** as published by the Social Security Administration each October
- ***Increase limited to \$14,000 of a retiree's pension (the "COLA base")***

Retiree Cost of Living Adjustment (COLA) Base Current provisions example

- Example: Retiree annual allowance equals \$28,000
 - Maximum annual increase equals \$420 (3% of \$14,000 = \$420)
 - “Effective” COLA in this example equals 1.5% (\$420 divided by \$28,000)

Town of Lexington Contributory Retirement System

Distribution of 471 Retirees and Beneficiaries in Pay Status as of 12/31/21



Retiree Cost of Living Adjustment (COLA) Base

What does increasing the COLA base mean?

- The COLA base was last increased 5 years ago (2017) from \$13,000 to \$14,000
- FY11 Enacted law allows the COLA base to be increased in \$1,000 increments
- Retirement Board recommends raising the COLA base to \$15,000 effective July 1, 2022
- Requires Town Meeting approval

Retiree Cost of Living Adjustment (COLA) Base

What does increasing the COLA base mean?

- Example: Retiree annual allowance of \$28,000
 - Maximum annual increase equals \$450 (3% of \$15,000 = \$450) or \$30 more per year than current provision
 - Effective COLA in this example equals 1.6% (\$450 divided by \$28,000)

“Effective” Cost of Living Adjustment

Maximum Annual COLA Percentage Increase

Annual Retiree Benefit	Number of Retirees	\$14,000 COLA Base	\$15,000 COLA Base
Less than \$15,000	145	3.0%	3.0%
\$15,001 to \$20,000	62	2.1 - 3.0%	2.25% - 3.0%
\$20,001 to \$30,000	93	1.4% - 2.1%	1.5% - 2.25%
\$30,001 to \$50,000	89	.8% - 1.4%	.9% - 1.57%
More than \$50,000	37	<.8%	< - .9%

Most of our Town’s retirees have an annual COLA increase less than 3%.
 COLA base on Median Annual Benefit of \$22,445 is currently limited to 1.9%
 COLA based on Average Annual Benefit of \$29,000 is currently limited to 1.5%
 The maximum dollar increase for any single retiree is \$30 per year if COLA base increased to \$15,000 (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)
- Public employees in Mass receive reduced social security benefits (or none at all)
- Employees hired after July 1, 1996 contribute over 9% of covered salary to retirement, offsetting future increases.

Equity vs. Other Municipalities

- As of today, 83 MA Retirement Systems have approved increases in the COLA base, including Norfolk and Middlesex County Systems covering 50 towns
- 14 Systems have voted an increase to \$15,000 and 17 have voted an increase to \$16,000 or more
- 21 MA Systems have yet to take action and 5 have rejected Board requests
- It is anticipated the MA Legislature will revisit this issue periodically



Town of Lexington

Middlesex County Retirement System Member Towns - \$16,000 Base

Acton	Holliston	Tewksbury
Ashby	Hopkinton	Townsend
Ashland	Hudson	Tyngsborough
Bedford	Lincoln	Wayland
Billerica	Littleton	Westford
Burlington	North Reading	Weston
Carlisle	Pepperell	Wilmington
Chelmsford	Sherborn	
Dracut	Shirley	*Plus 40 additional districts and authorities
Dunstable	Stow	
Groton	Sudbury	

Norfolk County Retirement System Member Towns - \$18,000 Base

Avon	Medfield	Walpole
Bellingham	Medway	Westwood
Canton	Millis	Wrentham
Cohasset	Norfolk	
Dover	Plainville	*Plus 21 additional districts and authorities
Foxboro	Randolph	
Franklin	Sharon	
Holbrook	Stoughton	

What Does it Cost?

- Raising the COLA base to \$15,000 effective July 1st increases FY 2023 annual benefit payments by \$9,900.
- The level amortization is \$202,688.
- The actuarial present value of the increase, which reflects all future years increases for current retirees and future retirees is \$1,031,173.
- The market value of the Retirement System has increased by \$78 million dollars since the COLA base was last raised.
- We are not required to modify our FY 2023 funding schedule

In Summary

- Most of our Town's retirees do not receive a full CPI increase due to the \$14,000 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 premiums 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 \$15,000 balances both our fiduciary and fiscal responsibilities to the Membership and Taxpayers
- We respectfully ask for your support and endorsement on our vote