

Just the Facts

An Act Relative to Cost of Living Adjustments for Retired Public Employees of the Commonwealth (§ 1343)

Lead Sponsor: Senator Richard Moore

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Representatives: Christine Canavan, Michael Costello, John Fernandes, Michael Knapik, Denise Provost, Angelo Puppolo, Stephen Stat Smith, Theodore Speliotis, Thomas Stanley, Cleon Turner

WHAT THIS BILL DOES:

The major feature of this bill increases the base on which a retired public employee's annual inflation indexed cost-of-living adjustment (COLA) is computed from \$12,000 to \$16,000 immediately. Subsequently, this bill gradually increases that base over a period of fifteen years to an amount that approximates what Social Security uses for its maximum allowance when calculating an annual COLA. (For 2011, Social Security's maximum benefit for a worker retiring at 66 is \$2,366 per month or \$28,392 annually.)

WHAT WE KNOW:

The COLA amounts to less than \$.99 a day

The maximum annual COLA that a retiree can receive has been \$360 since 1999. With a maximum monthly COLA of just \$30, or less than \$.99 a day, it is not hard to see why an increase in the base is warranted. The COLA base was set at \$6,000 in 1971 and that has only doubled to \$12,000 during the past 40 years.

Retirees feel the impact of inflation

Retirees are finding it increasingly difficult to keep pace with inflation. The cost of prescription drugs, out-of-pocket medical expenses and monthly health insurance premiums continue to increase year after year.

Social Security base is reasonable

All retirees should receive a COLA based on their full pensions but not less than what Social Security recipients are entitled. This bill simply pegs the state COLA base to approximate what Social Security is doing now for its enrollees.

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Retiree Pensions are much less expensive than retiree participation in Social Security
Employees hired since July 1, 1996 contribute between 9 percent (plus 2 percent on salaries over \$30,000) toward their pensions. Employees hired since July 1, 2001 contribute 11 percent toward their pensions. At that rate, teachers fund 95 percent of the normal costs of their own pensions, according to the Special Commission to Study the Massachusetts Contributory Retirement Systems.

If employees were part of the Social Security system, they would pay 6.2 percent to Social Security and the Commonwealth would also pay 6.2 percent for each employee. According to information provided by the Massachusetts Teachers' Retirement System, (MTRS) the Commonwealth paid \$122 million in 2010 toward the normal costs of retirement for MTRS members. If those teachers were instead enrolled in the Social Security system, the Commonwealth would have to pay \$342 million.

PENSION INVESTMENT RETURNS

Earnings in The Pension Reserves Investment Trust (PRIT) have averaged 9.45 percent since inception in 1984 to 2010.