



CITY OF SALEM

In City Council, January 12, 2023

Ordered:

Pursuant to Chapter 269 of the Acts of 2022, the Salem City Council hereby approves a five percent cost of living adjustment on the base amount of Salem retirees' pension specified in G.L. c. 32, §103.

In City Council January 12, 2023
Referred to the Committee on Administration and Finance

ATTEST:

ILENE SIMONS
CITY CLERK



CITY OF SALEM, MASSACHUSETTS

Robert K. McCarthy
Acting Mayor

Office of the Mayor

January 12, 2023

Honorable Salem City Council
Salem City Hall
Salem, Massachusetts 01970

Ladies and Gentlemen of the City Council:

In December the Salem Retirement Board voted to recommend a cost-of-living-adjustment (COLA) of 5.0% for beneficiaries for this year. Pursuant to state law, this COLA requires a vote of approval by the City Council. The enclosed Order approves the 5.0% COLA for this year for our retirees and other beneficiaries. I recommend adoption of the Order and invite you to contact Retirement Director Paul Findlen should you have any questions.

Sincerely,

Robert K. McCarthy
Acting Mayor
City of Salem



SALEM CONTRIBUTORY RETIREMENT BOARD

December 22, 2022

MEMBERS OF THE BOARD

DOMINICK PANGALLO
CHAIR

ANNA E. FREEDMAN

ROBERT W. CALLAHAN

SARAH M. HAYES

MATT VENO

EXECUTIVE DIRECTOR

PAUL FINDLEN

DEPUTY DIRECTOR

JAMIE GODJIKIAN

ASSISTANT ADMINISTRATOR

NANCY HERSEY

The Honorable Kimberley L. Driscoll
Mayor of the City of Salem
93 Washington Street
Salem, MA 01970

Re: FY2023 COLA Increase

Dear Mayor Driscoll,

Please be advised that, at its meeting held on Wednesday, December 21, 2022, the Salem Contributory Retirement Board voted to increase the Fiscal Year 2023 Cost of Living Adjustment ("COLA") from 3 percent to 5 percent, on the maximum base amount of \$15,000. In order for the system to adopt the increase to the COLA, you would need to recommend the increase to the city council and the council must then vote in favor of the increase.

The local option to increase the FY2023 COLA was made available to retirement systems upon the Governor signing Chapter 269 of the Acts of 2022 into law. Chapter 269 of the Acts of 2022 specifies that the option to increase the percentage applied to the COLA base will only apply to the Fiscal Year 2023 COLA. If approved, the increase will be applied retroactively to July 1, 2022.

If you require additional information, please do not hesitate to contact me.

Sincerely,

Paul Findlen
Executive Director

cc: City Clerk
PERAC



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December 16, 2022

Retirement Board
City of Salem Contributory Retirement System
20 Central Street, Suite 110
Salem, MA 01970

Re: Cost of Increasing the July 1, 2022 COLA from 3% to 5%

Dear Board Members:

As requested, we have estimated the cost of increasing the July 1, 2022 Cost of Living Adjustment (COLA) from 3% to 5% with the current base of \$15,000 for the Retirement System. Note that this is a one-time increase in the annual COLA percentage, which is projected to be 3% for 2023 and thereafter. The estimates in this report are based on the January 1, 2022 Actuarial Valuation and Review of the Retirement System and do not reflect any experience gains or losses after that date.

Increasing the July 1, 2022 COLA from 3% to 5% increases the July 1, 2022 unfunded liability by \$1,612,865, from \$124,038,518 to \$125,651,383.

The funding schedule included in the January 1, 2022 actuarial valuation report fully funds the actuarial accrued liability of the Retirement System by fiscal 2032 with total payments increasing 5.55% per year through fiscal 2031 and a reduced payment in fiscal 2032.

We have incorporated the additional cost of increasing the July 1, 2022 COLA to 5% into the funding schedule by maintaining the appropriations in the current funding schedule through fiscal 2031 and increasing the final, fiscal 2032, appropriation. This fiscal 2032 appropriation would continue to be a decrease from the fiscal 2031 appropriation.

The appropriations for fiscal 2023 through fiscal 2033 shown in the current funding schedule and reflecting the 5% COLA are shown on the following page:

Fiscal Year Ended June 30	Current Funding Schedule - Actuarially Determined Contribution	5% COLA - Defer Payment to Fiscal 2032	Increase in Actuarially Determined Contribution
2023	\$17,191,901	\$17,191,901	\$0
2024	18,146,052	18,146,052	0
2025	19,153,158	19,153,158	0
2026	20,216,158	20,216,158	0
2027	21,338,155	21,338,155	0
2028	22,522,423	22,522,423	0
2029	23,772,417	23,772,417	0
2030	25,091,786	25,091,786	0
2031	26,484,380	26,484,380	0
2032	11,541,732	14,482,068	2,940,336
2033	4,750,379	4,750,379	0

These cost estimates are based on the assumptions used in the most recent actuarial valuation of the Retirement System. To the extent there is adverse experience, employer contributions will increase and the cost related the increased COLA 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 will be higher than shown.

Please refer to our January 1, 2022 Actuarial Valuation and Review dated September 22, 2022 for the data, assumptions and plan of benefits underlying these calculations and for a discussion of the risks that may affect the System.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist in administering the Retirement System.

The measurements shown in these actuarial calculations 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.

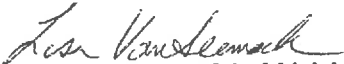
Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary 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.

The actuarial calculations were directed under the supervision of A. Donald Morgan, FSA, MAAA, EA. He is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of his 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 his analysis and recommendations. In his opinion, the assumptions are reasonable and take into account the experience of the Retirement System and reasonable expectations.

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

Sincerely,


Lisa VanDermark, FSA, MAAA, EA
Vice President and Consulting Actuary


A. Donald Morgan, FSA, MAAA, EA
Senior Vice President and Actuary

MEMORANDUM

TO: All Retirement Boards

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

RE: 5% Local COLA option

DATE: November 18, 2022

On November 16, 2022, the Governor signed Chapter 269 of the Acts of 2022 into law. This act provides the local retirement systems with a local option to increase the Cost of Living Adjustment ("COLA") for Fiscal Year 2023 to up to 5 percent on the base amount specified pursuant to G.L. c. 32, § 103. The approval of the increase can occur at any time during the fiscal year and will take effect as of July 1, 2022.

The local approval mechanism is different than traditional COLA increases and COLA base increases. In order for a system to adopt a COLA increase pursuant to this act, **the retirement board must vote for the increased amount and then it must also receive local approval.**

For purposes of this act, local approval means:

- In a city, the mayor must recommend the increase to the city council and the council must vote in favor.
- In a city having a Plan D or Plan E charter, the city manager must recommend the increase to the city council and the council must vote in favor.
- In a town, the chief executive officer¹ - the select board in nearly all cases - must vote in favor to accept the increase rather than the town meeting as is the case for COLA base increases.
- In a district, or other political subdivision, the governing board, commission or committee must vote in favor to accept the COLA increase.

¹ As defined in G.L. c. 4, § 7, "chief executive officer", when used in connection with the operation of municipal governments shall include the mayor in a city and the select board in a town unless some other municipal office is designated to be the chief executive officer under the provisions of a local charter.



MEMORANDUM - Page Two

TO: All Retirement Boards
FROM: John W. Parsons, Esq., Executive Director
RE: 5% Local COLA option
DATE: November 18, 2022

- In a regional system, two-thirds of the cities and towns within the system must approve the increase. This is done in the same fashion as stated above for municipalities: in a city, by the city council upon recommendation by the mayor or, in a city with a Plan D or Plan E charter, the city manager; or, in a town, by approval of the chief executive officer (likely the select board) as defined by G.L. c. 4, § 7.
- In a county, the county commissioners, who normally do not have a role in COLAs nor COLA base increases, must vote to accept **and** two-thirds of the cities and towns within the system must approve the increase in the same manner as stated above for regional systems.

Though many local systems are comprised of multiple units such as housing authorities and districts, the two-thirds language only applies to regional and county systems as the approval specified in the statute only refers to cities and towns as voting political subdivisions.

Section 2 of the act provides that a COLA increase pursuant to this act is retroactive to July 1, 2022. Any COLA increase, in addition to any COLA previously adopted for FY 23, will become part of the fixed amount of a retirees' retirement allowance in the same manner as all COLAs granted pursuant to section 103.

PERAC has already received questions about estimating the cost of the enhanced COLA. PERAC Actuary John Boorack has provided the following formula for a conservative full-cost estimate, not a one-year estimate, to assist boards in their planning:

$$(0.2) \times (\text{COLA base}) \times (\# \text{ of retirees/beneficiaries})$$

If you have any questions about this memo, please contact PERAC's General Counsel, Judith Corrigan, at (617) 591-8904 or at judith.a.corrigan@mass.gov.