

**Meeting Date:** March 23, 2011

**Called to Order:** 6:00 PM

**Finance Committee Members Present:** John Hanold, Lynn Reynolds and Andrew Killeen

**Selectmen Present:** none

**Others Present:** Frank Abbondanzio (Town Administrator-left at 6:45 PM), Carolyn Olsen (Town Accountant) and Prospective Member Ken McCance

### **Minutes**

Finance Committee Moved:

To approve the minutes of March 2, 2011.

Vote: 3 In Favor 0 Opposed 0 Abstained

### **Special Article Requests from the Montague Retirement System**

The Montague Retirement System is requesting approval of two articles at the Annual Town Meeting. The first is a request to increase benefits for certain surviving spouses under MGL Chapter 32 Section 101. The second is a request to increase the amount of retiree pensions that receive the cost of living adjustment.

#### **Section 101 – Benefits for Certain Surviving Spouses**

- There are 3 options for receiving retirement benefits. Of these, Option C provides for payment of 2/3 of the current benefit to a surviving spouse.
- Retirees who retired before 11/7/96 under Accidental Disability provisions could not choose Option C. No survivors are currently receiving this benefit, but there are two retirees whose surviving spouses would be affected.
- Section 101 allows the survivors of those retirees to receive \$6,000 per year (\$3000 until 1995)
- New local option allows us to increase that benefit to \$9,000 per year.
- Mr. Killeen noted that the retirees who would be affected are already receiving maximum retirement benefits rather than the reduced benefits they would have received if they could have chosen Option C. It could be argued that this higher benefit amount allowed them to make other plans through savings and insurance for a surviving spouse, and that increasing the section 101 allowance in essence provides them with a higher benefit than if they had been able to choose Option C when they retired.
- Ms. Olsen repeated that the affected retirees were not given the choice of a survivor allowance when they retired, the section 101 benefit is the only benefit available to their surviving spouses, the amount of the allowance has not changed in over 15 years, and that she hopes the committee will support the article.

#### **Increasing the Cost of Living Adjustment (COLA) base**

- There are many differences between Social Security Retirement benefits and Montague Retirement System benefits. The difference addressed here is that,

- unlike Social Security and most other states, Massachusetts only allows the cost of living adjustment to apply to the first \$12,000 of the annual pension.
- This means that the dollar amount of a 2% COLA is \$240 for both the retiree receiving \$12,000 per year and the retiree receiving \$24,000. This has a dramatic cumulative decrease in the value of a pension over \$12,000. Reviewed Retiree COLA Comparison handout, and Cumulative Effect Handout.
  - The Montague Retirement Board requests that the “base” for the COLA calculation be increased from \$12,000 to \$18,000. Between 1983 and 1997 the base doubled from \$6,000 to \$12,000. After fourteen years at this level they are asking for another increase of \$6,000, although this is now only a 50% increase in the base. The Board is not asking for a COLA on the total pension amount because the increased costs have to be incorporated into the funding schedule, and the cost of funding a COLA on the full amount of all pensions is not affordable now.
  - Using an example of a 3% COLA, the maximum additional benefit for any retiree would be \$180 per year, or less than 50 cents a day.
  - When it comes to funding the increase in the COLA base, the Montague Retirement System is in excellent shape. The system is approximately 80% funded, putting it the top 20% of Massachusetts retirement systems, and is currently on track to become fully funded within 10 years. In order to pay for the additional COLA, the Montague Retirement System is proposing to extend our funding schedule to 2021. The appropriation for Fiscal Year 2012 would remain the same, with the additional cost beginning in Fiscal Year 2013. The estimated increase for the Town in Fiscal Year 2013 is \$25,000, with \$23,000 in the Town budget, and \$2,000 in the WPCF budget.
  - Mr. Hanold observed that the proposed increase in the COLA base improves the competitive position of Montague’s benefits package, and is reasonable from an equity standpoint.

#### **Finance Committee Report to Town Meeting**

- The latest draft was reviewed. It was noted that some numbers might change, but that any changes to revenue estimates are unlikely to occur before July.
- Mr. Killeen would prefer that ongoing special articles be treated as operating expenses. Mr. Hanold agrees with the goal, but noted that all of the smaller articles are being funded from taxation which financially treats them as operating items while keeping the appropriation separate. Mr. Hanold stated that if the other special articles were also funded from taxation we would need to cut \$260,000 from the budget. Ms. Reynolds asked where Mr. Killeen would make cuts. Mr. Killeen responded that he has a list of what he thinks would be reasonable and he would like to go into that in the next two weeks.
- Mr. Hanold asked if committee would support the report, recognizing that changes could still be made.

#### **Finance Committee Moved:**

To support the proposed Finance Committee Report to Town Meeting, contingent on including the best information available.

Vote: 3 In Favor 0 Opposed 0 Abstained

**List of Documents and Exhibits**

- Retiree COLA Comparison
- Cumulative Impact on Change in COLA Base
- Background information for Special Article Requests
- Draft Finance Committee Report to Town Meeting

**Next Meeting**

March 30, 2011	Budget discussion and votes
April 6, 2011	Final budget votes
April 13, 2011	Final Changes to Finance Committee Report to Town Meeting

Adjourned 7:25 PM

Respectfully Submitted,  
Carolyn Olsen