

Sandra A. Hanks  
Board Chair

Herbert Sanderson  
Board Vice Chairman

Paul Mokrzecki  
Appointed Board  
Member

## FRANKLIN REGIONAL RETIREMENT SYSTEM

278 MAIN STREET, SUITE 311  
GREENFIELD, MASSACHUSETTS 01301-3230

David Gendron  
Elected Board Member

Mary A. Stokarski  
Elected Board Member

Dale Kowacki  
Executive Director

February 25, 2010

Selectboards  
Commissioners  
Executive Directors  
Superintendents  
Board of Directors  
Administrators

I write first to inform you that the Retirement Board voted to grant a 3% COLA to retirees, and second, to share with you the results of our analysis that made it clear to the Board that giving the retirees an increase was absolutely the right thing to do – even though your employees are getting little or nothing, and even though Social Security is giving 0%.

Please know that the members of this Board are very aware of the financial calamity the towns are experiencing. They make it a point to consider the impact their decisions will have on your units, your employees, and your retirees. All five Board members have many years of experience in municipal finance and are on this Board because they want to insure that this system is run efficiently and fairly.

The Board members read with great interest the letters received and share the same concerns. It would have been great if we could have shared the findings of our analysis with you earlier, but the Board had not yet met to discuss them. Therefore, they were not available for release. With most things, there are more factors to consider, and in this case, there is one factor that makes a huge difference: COLA to our system retirees is limited to the first \$12,000 of their annual pension. Social Security has no limit, and you, as the employer, have no limit when giving your employees a COLA. FRRS, by law, has a limit of \$12,000.

This one detail has a big impact and makes all the difference.

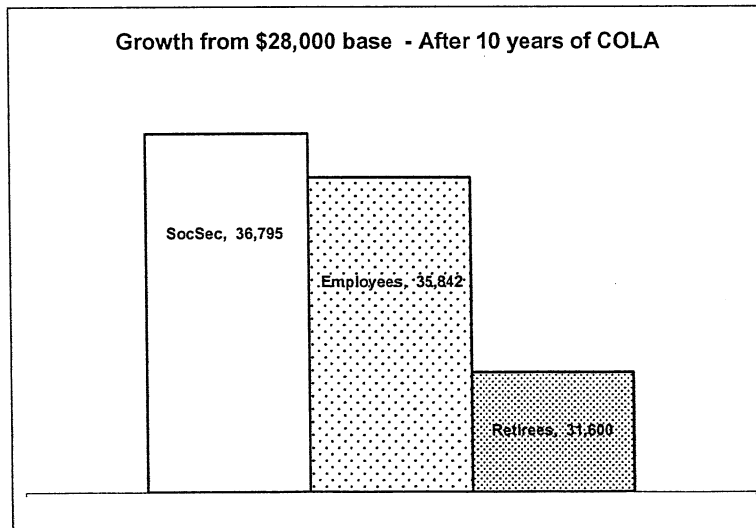
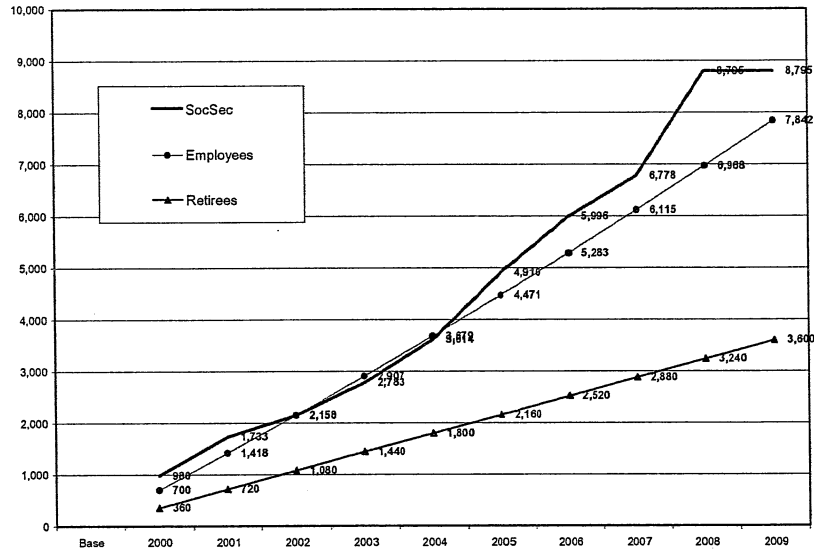
Very simply:

- If the town gives a \$28,000 employee a 2.5% increase, they will get an extra **\$700**.
- If Social Security gives a 2% COLA, the increase will be **\$560**.
- When FRRS gives a 3% COLA, by law, it can only be on the first \$12,000, so the retiree is only going to get a **\$360** increase.

The two graphs that follow, sum up the effects on a person receiving \$28,000 a year. (The poverty level in Franklin County is currently \$13,499. Minimum wage yields \$16,640 annually. “Living Wage” for two adults in Franklin County is calculated to be \$29,598. Our use of \$28,000 as an example seems reasonable.)

|                  | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|------------------|------|------|------|------|------|------|------|------|------|------|
| <b>SocSec</b>    | 3.5% | 2.6% | 1.4% | 2.1% | 2.7% | 4.1% | 3.3% | 2.3% | 5.8% | 0.0% |
| <b>Employees</b> | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| <b>Retirees</b>  | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |

**\$28,000 Retiree - Cumulative Gain in COLA over 10 years**



These graphs make it clear: as time goes by, our retirees fall farther and farther behind in the COLA race. To skip one year of COLA would add insult to injury.

In fact, it would take 15 years of 0% COLAs from Social Security before our retiree caught up. FRRS will never catch up, so it is important to keep doing the 3% every year.

Enclosed is the report the Board reviewed and discussed at its meeting on Tuesday. I think it is self-explanatory. We took two different approaches. First, we calculated ten years of COLA on a range of annual benefits from \$10,000 to \$28,000. (We also threw in some key markers: midpoint, crossover, and averages.) The second approach was to calculate the COLA effect on our actual retirees (sort of) over the last ten years. (I say "sort of" because it is somewhat hypothetical: we took our current list of retirees and applied the last ten years of COLAs to their current benefit. It would be more like tracking a sample group – no accounting for new retirees or deaths – just this group as a constant – but it still gives a good measure of the real effect.)

The results are dramatic. While the bottom half of FRRS retirees do slightly better than Social Security, the other half fare far worse<sup>1</sup>. What is important to keep in mind, is that the impact is even greater for this "upper half" because it is more likely, at an average of \$20,268, that the FRRS retirement benefit is the bulk of their annual income.

So now you know what the Board knows: because of the \$12,000 limit, our retirees will never keep up with Social Security or with the raises you give your employees, even if you gave them nothing for a long time to come. In the graph above, even with Social Security's 0% increase this year, the \$28,000 retiree fell behind by \$5,195 over a ten-year span - never to be recovered.

Again, it would have been great if we could have shared the findings of our analysis with you earlier, but I trust you now understand the larger picture and can share this insight with anyone who at first glance would think it wrong to give any COLA.

Please call me if you have any questions.

Sincerely,



Dale Kowacki  
Executive Director

Enclosure

1 – Of the 407 retirees, the midpoint annual benefit is \$10,742. In this analysis, the 203 people who fall below this midpoint did slightly better than Social Security over the ten-year period of COLAs in a total amount \$30,632. However, the 204 people who are above this midpoint did far worse by -\$477,007 in total over ten years.

# Observations/Analysis

|                  | SocSec           | FRRS              |
|------------------|------------------|-------------------|
| Initial Benefits | max at @\$28,000 | 80% of 3-highest  |
| COLA             | unlimited        | 3% first \$12,000 |

| Retired at: | COLA difference over ten year span |
|-------------|------------------------------------|
| \$28,000    | SocSec is better by \$5,195        |
| \$12,000    | SocSec is better by \$169          |

- 1) Even at steady 3% per year - FRRS doesn't keep up with SocSec COLA
- 2) FRRS gives a better retirement; SocSec a better COLA
- 3) The problem is the \$12,000 limit on the FRRS COLA
- 4) The bottom half of FRRS retirees do better than SocSec over the ten-year span by \$30,632 total - an average of \$15 per year
- 5) The top half does far worse: -\$477,007 total - a -\$233 per year average (these are both negative numbers)
- 6) As initial retirement amounts rise, the \$12,000 limit will increase the disparity between SocSec and FRRS
- 7) It would take the next 15 years at 0% COLA for SocSec, and 3% COLA for FRRS, for the \$28,000 retiree to catch up with the total SocSec COLA

**Synopsis: As a group, due to the \$12,000 limit, FRRS retirees lag far behind Social Security when it comes to COLA. Therefore, FRRS needs to do the 3% COLA every year just to keep from falling farther behind Social Security.**

This is the comparison of what one hypothetical individual (at various levels of annual benefit) would receive in total COLA over the last ten years between SocSec or FRRS.

| Annual Benefit |                 | Totals for ten years of COLA (2000 - 2009) |                   |            |
|----------------|-----------------|--|-------------------|------------|
|                |                 | Would have gotten from SocSec              | Did get from FRRS | difference |
| 10,000         |                 | 3,141                                      | 3,379             | 238        |
| 10,741.92      | FRRS midpoint   | 3,374                                      | 3,508             | 134        |
| 11,000         |                 | 3,455                                      | 3,540             | 85         |
| 11,373.62      | Crossover Point | 3,573                                      | 3,573             | -          |
| 12,000         |                 | 3,769                                      | 3,600             | (169)      |
| 12,801         | FRRS average    | 4,021                                      | 3,600             | (421)      |
| 13,000         |                 | 4,084                                      | 3,600             | (484)      |
| 13,972         | SocSec average  | 4,389                                      | 3,600             | (789)      |
| 14,000         |                 | 4,398                                      | 3,600             | (798)      |
| 15,000         |                 | 4,712                                      | 3,600             | (1,112)    |
| 16,000         |                 | 5,026                                      | 3,600             | (1,426)    |
| 17,000         |                 | 5,340                                      | 3,600             | (1,740)    |
| 18,000         |                 | 5,654                                      | 3,600             | (2,054)    |
| 19,000         |                 | 5,968                                      | 3,600             | (2,368)    |
| 20,000         |                 | 6,282                                      | 3,600             | (2,682)    |
| 21,000         |                 | 6,596                                      | 3,600             | (2,996)    |
| 22,000         |                 | 6,911                                      | 3,600             | (3,311)    |
| 23,000         |                 | 7,225                                      | 3,600             | (3,625)    |
| 24,000         |                 | 7,539                                      | 3,600             | (3,939)    |
| 25,000         |                 | 7,853                                      | 3,600             | (4,253)    |
| 26,000         |                 | 8,167                                      | 3,600             | (4,567)    |
| 27,000         |                 | 8,481                                      | 3,600             | (4,881)    |
| 28,000         |                 | 8,795                                      | 3,600             | (5,195)    |

Half make more - half less

\*

|                  | SocSec | FRRS  |
|------------------|--------|-------|
| 2000             | 3.5%   | 3.0%  |
| 2001             | 2.6%   | 3.0%  |
| 2002             | 1.4%   | 3.0%  |
| 2003             | 2.1%   | 3.0%  |
| 2004             | 2.7%   | 3.0%  |
| 2005             | 4.1%   | 3.0%  |
| 2006             | 3.3%   | 3.0%  |
| 2007             | 2.3%   | 3.0%  |
| 2008             | 5.8%   | 3.0%  |
| 2009             | 0.0%   | 3.0%  |
| Ten-year Average | 2.78%  | 3.00% |

\* This is the point in the salary range where SocSec would surpass FRRS in total COLA during the ten years. For the ten-year period, SocSec averaged 2.78% compared to FRRS's 3% average. Interestingly, if SocSec gave a 2.2% COLA in 2009 (instead of 0.0%), both FRRS and SocSec would have averaged 3% over ten years and the "Crossover Point" would drop to \$9,410.55.

Here's what would happen if our current retirees were subject to the COLAs given by both SocSec and FRRS over the last ten years.

| Range of annual benefits      | # of people in range | Totals for ten years of COLA (2000 - 2009) |                              | Change in Benefits |                  |                  |
|-------------------------------|----------------------|--|------------------------------|--------------------|------------------|------------------|
|                               |                      | Would have gotten from SocSec              | Did get from FRRS difference | Base in 2000       | 2009 SocSec      | 2009 FRRS        |
| under \$5,000                 | 102                  | 94,003                                     | 102,921                      | 299,261            | 393,264          | 402,182          |
| under \$10,000                | 92                   | 214,499                                    | 234,596                      | 682,864            | 897,363          | 917,460          |
| under \$15,000                | 77                   | 304,521                                    | 275,298                      | 969,449            | 1,273,970        | 1,244,747        |
| under \$20,000                | 54                   | 287,446                                    | 194,400                      | 915,090            | 1,202,536        | 1,109,490        |
| under \$25,000                | 35                   | 240,273                                    | 126,000                      | 764,914            | 1,005,187        | 890,914          |
| under \$30,000                | 19                   | 161,780                                    | 68,400                       | 523,312            | 685,092          | 591,712          |
| under \$35,000                | 15                   | 131,929                                    | 54,000                       | 484,493            | 616,422          | 538,493          |
| under \$40,000                | 7                    | 61,567                                     | 25,200                       | 260,716            | 322,283          | 285,916          |
| over \$40,000                 | 6                    | 52,772                                     | 21,600                       | 309,689            | 362,461          | 331,289          |
| <b>Totals</b>                 | <b>407</b>           | <b>1,548,790</b>                           | <b>1,102,415</b>             | <b>5,209,788</b>   | <b>6,758,578</b> | <b>6,312,203</b> |
| under Mid - \$10,741.92       | 203                  | 334,359                                    | 364,990                      | 1,064,438          | 1,398,796        | 1,429,428        |
| over - \$10,741.92            | 204                  | 1,214,432                                  | 737,425                      | 4,145,351          | 5,359,783        | 4,882,775        |
| under Crossover - \$11,373.62 | 209                  | 358,430                                    | 389,718                      | 1,141,069          | 1,499,498        | 1,530,787        |
| over - \$11,373.62            | 198                  | 1,190,361                                  | 712,697                      | 4,068,720          | 5,259,081        | 4,781,417        |

|                  | SocSec | FRRS  |
|------------------|--------|-------|
| 2000             | 3.5%   | 3.0%  |
| 2001             | 2.6%   | 3.0%  |
| 2002             | 1.4%   | 3.0%  |
| 2003             | 2.1%   | 3.0%  |
| 2004             | 2.7%   | 3.0%  |
| 2005             | 4.1%   | 3.0%  |
| 2006             | 3.3%   | 3.0%  |
| 2007             | 2.3%   | 3.0%  |
| 2008             | 5.8%   | 3.0%  |
| 2009             | 0.0%   | 3.0%  |
| Ten-year Average | 2.78%  | 3.00% |

**Notes:**

- 1) The first chart summarizes the effect on fictitious annual benefits in \$1,000 increments with the FRRS and SocSec averages thrown in.
- 2) The second chart summarizes the actual effect on our real people as to what they would have received for total COLA over the ten-year period.
- 3) In both calculations, the preceding year's COLA was added to the base before the new year's COLA was calculated.
- 4) Each year, both calculations adhered to the \$12,000 limit on the FRRS COLA.
- 5) There is a limit to what SocSec will pay for benefits out the outset. In 2010 it is just over \$28,000 so that amount has been incorporated in both calculations but in different ways. The first calculation uses it as a cut-off in the first year (2000) and then uses it in the base when adding COLA to the subsequent years. The \$28,000 is also in the mix in the second calculation because it is the top amount in the range of "what-if" benefits.