

House No. 4439

Message from His Excellency the Governor recommending legislation relative to An Act providing municipal pension funding schedule relief.

The Commonwealth of Massachusetts



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To the Honorable Senate and House of Representatives:

I am filing for your consideration the attached legislation, entitled "An Act Providing Municipal Pension Funding Schedule Relief."

Recent unprecedented market losses incurred by local pension funds will result in significant increases in the annual pension payments required to fully fund the systems on existing funding schedules. This presents a significant challenge at a time when governmental resources are more constrained than ever.

This legislation proposes a pension funding relief plan to help local pension systems address unprecedented asset losses in a fiscally responsible and manageable way without the significant increases in payments that would otherwise be required.

The legislation allows local systems to extend their funding schedule subject to certain conditions and requires that future asset gains be used to shorten schedules, not reduce payments. It is essential to allow local systems to address recent market losses that increase unfunded liabilities in a disciplined way as part of municipal budget planning underway already for fiscal 2011. I therefore request your prompt enactment of this legislation.

Respectfully submitted,
DEVAL L. PATRICK,
Governor.

The Commonwealth of Massachusetts

In the Year Two Thousand and Nine

An Act PROVIDING MUNICIPAL PENSION FUNDING SCHEDULE RELIEF.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

SECTION 1. Section 1 of chapter 32 of the General Laws is hereby amended by striking out the word “may” in line 488, as appearing in the 2008 Official Edition, and inserting in place thereof the following word:- shall.

SECTION 2. Section 21 of chapter 32 of the General Laws, as appearing in the 2008 Official Edition, is hereby amended by striking out, in lines 177 to 181, the words “The commissioner of administration shall require the preparation of triennial actuarial valuation reports, with the first one to be completed as of January first, nineteen hundred and eighty-eight and experience investigations every six years in such manner as he deems most appropriate” and inserting in place thereof the following 3 sentences:-

An actuarial valuation of each system shall be conducted biennially, and experience investigations shall be conducted every 6 years. The first such valuation shall be completed as of January 1, 2011 or as of January 1 of the third year following the last actuarial valuation of the system, if earlier. Actuarial valuation reports and experience studies shall be conducted in such manner as the commissioner of administration, upon advice of the actuary, shall consider appropriate.

SECTION 3. Subdivision (1) of section 22D of said chapter 32, as amended by section 18 of chapter 21 of the acts of 2009, is hereby further amended by inserting after the first sentence the following sentence:- A funding schedule established under this section shall provide that the payment in any year of the schedule is no less than 95 per cent of the amount appropriated in the previous fiscal year.

SECTION 4. Said chapter 32 of the General Laws is hereby further amended by inserting after section 22E the following section:-

Section 22F. (a) Systems, other than the state employees' retirement system and the teachers' retirement system, which conduct an actuarial valuation of the retirement system as of January 1, 2009 or later, may establish a revised retirement system funding schedule, subject to the approval of the actuary, which reduces the unfunded actuarial liability of the system to zero on or before June 30, 2040 as long as it satisfies the following conditions:

(1) The payment in any year under the revised schedule or any subsequent schedule shall not be less than the payment in any prior fiscal year under the then current schedule until the system is fully funded.

(2) The increase in the amortization component of the appropriations required by the schedule from year to year shall not exceed 4 per cent and shall be designed so that the funding schedule and any updates to it shall reduce the unfunded actuarial liability of the system to zero on or before June 30, 2040.

(b) If an updated actuarial valuation allows for the development of a revised schedule with reduced payments, the revised schedule shall be adjusted to reduce the unfunded liability of the system to zero by an earlier date to the extent required to ensure that the appropriation required

for a particular year under the new schedule shall not be less than the amount identified for that year under the prior schedule established under this section.

(c) If a schedule established under this section would result in an appropriation in the first fiscal year of the schedule that is greater than 8 per cent more than the appropriation in the previous fiscal year, the requirement of subsection (2) of subdivision (a) may be adjusted with the approval of the public employee retirement administration commission.