Letter from the CHAIRMAN

The Public Employee Retirement Administration Commission is pleased to release this 2011 Annual Report. This year's Report reflects the status of the Massachusetts public pension systems as we begin the implementation of dramatic changes in the law governing public pensions in the Commonwealth. Those changes, embodied in Chapter 176 of the Acts of 2011, revised the law governing the administration of the systems and the benefits available to present and, more extensively, future members of our retirement systems. As a result, a significant portion of this Report will discuss the approach the Commission has taken and will continue to take regarding the implementation of these statutory provisions.

In spite of these dramatic actions on the legislative front, the fact remains that our public pension systems are continuing to grapple with the residual impact of the economic downturn and the disastrous capital markets performance of 2008. As our Actuary Jim Lamenzo often reminds us, the absorption of those losses is taking place over several years and it is only when that process is complete that we will be able to make any conclusions about the long-term fiscal health of the pension systems.

As I noted in last year's Report, the cynicism regarding public pension systems has grown with the financial pressures brought on by the general economic climate. This national trend takes little notice of the vast differences in the administrative and benefit structures among various jurisdictions. The most glaring example being the failure of so-called "experts" to acknowledge the fact that all public employees in the Commonwealth and several other states are not eligible for Social Security benefits. As a result, these individuals rely entirely on the public pension system for their retirement income.

Massachusetts has modest benefit levels, substantial employee contributions and our employing government units have been responsible in making adequate appropriations to the pension system. Furthermore, the last several years have seen a number of initiatives adopted by the Governor and the Legislature to modernize our pension law. Although Chapter 176 marks the most extensive of those measures, several other actions have addressed many of the issues that critics raise when speaking of public pension laws across the nation. Chapter 21 of the Acts of 2009 clarified the definition of "regular compensation" for purposes of calculating a retirement allowance; repealed anomalous provisions of law granting creditable service for elected officials and allowing for creditable service for uncompensated service or for service in positions paying less than $5,000; equalized vesting requirements for all members; revised dual member benefits; adjusted the formula for the calculation of accidental disability allowances; eliminated "termination allowances" for elected officials; and tightened limitations on post-retirement earnings. Chapter 131 of the Acts of 2010 established a cap on the amount that will be considered "regular compensation" for contributions and calculation of retirement allowances. The Massachusetts cap is set at a level one third below the existing federal pension limit. Naysayers assert that the public pension community and our elected officials are unwilling to take bold steps to overcome fiscal challenges and modernize our benefit structure. This record underscores the hollowness of those assertions.

This is not to say that our work is done. Chapter 176 created a number of study commissions to review various retirement-related sections of our law. These include the "public employees' pension classification system", public employee participation in the deferred compensation plan, retiree healthcare and other non-pension benefits, and "all aspects of the ordinary and accidental disability provisions of the Massachusetts contributory retirement systems as well as the provisions of injured on-duty-benefits and presumptions for public employees contained in the general laws."

The most comprehensive of these studies will be conducted by a "qualified research organization" selected by the Secretary of Administration and Finance. That organization is specifically charged with "…a comprehensive, independent analysis of the costs and benefits of further structural reforms to the current pension system that will provide a public benefit while ensuring the ability to attract and retain public employees." Areas of focus will include "…the long-term sustainability of the pension system; the maintenance of competitive, quality benefits for public employees; the equitable distribution of benefits to members of the system; and, a reduction in cost and risk to the taxpayers." Finally, the study will include "…a review of costs and public benefits for the current defined benefit plan, the creation of an optional defined contribution plan and an optional hybrid plan, consisting of defined benefit and defined contribution components. The analysis shall describe the costs and benefits to the Commonwealth as a whole, to the 105 contributory retirement systems in the Commonwealth and to current and future members of the retirement system."

In the context of these developments, it is of vital importance that we, as a pension community, work together to emphasize the progress made to date and to ensure that future changes reflect a balanced approach of shared sacrifice rather than an unfair shifting of burdens to public employees and their beneficiaries.

As always, the Commission and staff will use our best efforts to assist the retirement boards in safeguarding the interests of system members and beneficiaries.

Sincerely,

Domenic J.F. Russo
Chairman