



# PERAC's Emerging Issues Forum Pension Reform

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## Pension Funding Recommendations

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## Pensions and Other Post Employment Benefits (OPEB)

- Provide valuable benefits for individuals in retirement
- Promise is made to covered retirees and beneficiaries
- Liability for promises is funded by employee and employer contributions



## Benefits

### Pensions

- Uniform benefits based on provisions in Chapter 32 of M.G.L.

### OPEB

- Benefits based on provisions in Chapters 32A and 32B
- Features of specific design vary from entity to entity and within an entity
  - Pre-65/Post-65
  - Cap on Employee Contributions:  
25% for 32A  
50% for 32B and retired teachers



## Accounting

### Pensions

- **Governmental Accounting Standards Board Statement Number 25 (GASB 25) – Trust Disclosures**
  - Effective Date: June 15, 1996
- **Governmental Accounting Standards Board Statement Number 27 (GASB 27) – Pension Expense**
  - Effective Date: June 15, 1997
- **Accounting rules effective after Commonwealth funding rules effective July 1, 1988**

### OPEB

- **Governmental Accounting Standard Board Statement Number 43 (GASB 43) -Trust Disclosures**
  - Effective Date: December 15, 2005 – 2007
- **Governmental Account Standards Board Statement Number 45 (GASB 45) – OPEB Expense**
  - Effective Date: December 15, 2006 – 2008
- **Accounting rules effective prior to any Commonwealth funding rules**



## Funding

### Pensions

- **Funding rules uniformly required and presented in Section 22D of Chapter 32 of M.G.L.**
- **PERAC and PERAC actuary have oversight on funding schedules**
- **Funding rules developed without regard to accounting rules**

### OPEB

- **Funding provision is in Chapter 479 of Acts of 2008 or via home rule petition**
- **Not uniformly required**
- **PERAC actuary has some oversight on funding schedules**
- **Funding rules currently look to accounting calculations and methodology for basis of contribution calculations**



## Contributions

	<u>Pensions</u>	<u>OPEB</u>
Employee	<ul style="list-style-type: none"><li>■ Made only while actively employed</li><li>■ Different percentages based on date of membership, compensation and job classification</li></ul>	<ul style="list-style-type: none"><li>■ Made only after retirement benefits commence</li><li>■ Chapters 32A and 32B specify caps<ul style="list-style-type: none"><li>25% of total premium for 32A</li><li>50% of total premium for 32B and retired teachers</li></ul></li></ul>
Employer	<ul style="list-style-type: none"><li>■ Made until benefit is fully paid</li></ul>	<ul style="list-style-type: none"><li>■ Made for employer-paid costs</li></ul>



## Investments

<u>Pensions</u>	<u>OPEB</u>
<ul style="list-style-type: none"><li>■ Each entity must fund and has oversight responsibility for funding and investments</li><li>■ PRIT and PRIM are available if<ul style="list-style-type: none"><li>(i) desired or</li><li>(ii) required (Chapter 68 of Acts of 2007)</li></ul></li></ul>	<ul style="list-style-type: none"><li>■ Each entity may fund</li><li>■ Nothing comparable to PRIT and PRIM is currently available</li></ul>

## January 1, 2009 State Actuarial Valuations



### Pensions

	<u>State Retirement System</u>	<u>OPEB – State</u>
Actuary	PERAC	AON
Population	Teachers not included	Teachers not included
Total Normal Cost	577,194	
Employee - Paid	397,064	
Employer – Paid	180,130	669,400
Employee Contributions	Chapter 32 provisions	10% to 15% of total premium (GIC limits)
Actuarial Accrued Liability	23,723,240	15,305,100 (4.5%) 11,431,900 (6.4%) 8,983,300 (8.25%)
Assets (AAV)	16,992,204	273,500
(MV)	15,447,467	273,500
Interest Rate	8.25%	4.5%
COLA/Healthcare Trend	3% on first \$12,000	9% (2009) to 5% (2017)
Expected Benefit Payments		
Year ended 6/30/2010	1,275,000	463,700
Year ended 6/30/2019	1,728,000	970,300



(Figures in \$1,000)

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## Recommendations



- **Coordinate funding of pensions and OPEB benefits**
- **Appropriate money for necessary analysis of funding and benefits**
- **Consideration for an expanded role for PERAC**



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