

# Pension Reform

Joint Committee on Public Service

Chairman State Senator Thomas McGee

Chairman State Representative Robert Spellane



# History of the Pension System

**1911** – State Board of Retirement was established. It was a defined benefit retirement system governed by Chapter 32. The system was established before social security and the benefits were called “gratuities.” These gratuities were given to offer additional benefits to public workers who were paid low salaries.

**1945** – System went from non-contributory to contributory. Members were required to contribute 5 percent of their salary into the system in order to offset the costs of providing a benefit once they retired.



# History of the Pension System

- **Currently public employees contribute between 5% and 12% into the pension system**
- **Teachers = 11%**
- **State Police = 12%**
- **Remainder pay between 5% and 9% based on the date of hire**

# History

**As of 12/31/2008, 25,760 members receive a benefit of less than \$20,000 annually and 31,870 received a benefit under \$25,000**

	<b>Active</b>	<b>Retired</b>
*		
State	83,178	50,593
Teacher	88,027	42,164
Local	138,200	86,000

\* Numbers as of January 2006



# Pension Reform

- On Tuesday, June 16<sup>th</sup>, Governor Patrick signed into law Senate Bill 2079, “An Act Providing Responsible Reforms In the Pension System.”
- This version of the bill was finalized by a Conference Committee including Chairman Spellane and Chairman McGee as well as Senate Ways and Means Chairman Steven Panagiotakos.



# Pension Reform

- eliminates one day for one year of service
- changes the definition of regular compensation
- prohibits creditable service for employee making under \$5,000
- changes the calculation for a member serving simultaneously in 2 pension systems
- eliminates “king for a day” rule
- eliminates section 10 benefits (termination allowances) for elected officials
- requires elected officials to serve ten years prior to vesting in pension system



# Regular Compensation

- **The first section of the legislation will re-define what constitutes regular compensation. Section 1 of Chapter 32 lists out the types of compensation that are included and excluded from the definition of regular compensation. We will exclude specific types of regular compensation, while specifying in general terms what shall be included in the definition of regular compensation.**



## Regular Compensation (Wages)

- **Regular Compensation will now be referred to as wages. “Wages” for purposes of this chapter shall mean the base salary or other base compensation of an employee paid directly to that employee for employment by an employer.**


# Excluded Compensation

- ***Bonuses***
- ***Overtime***
- ***Severance pay***
- ***Unused sick leave***
- ***Unused vacation***
- ***Early retirement incentives***
- ***Any payments made as a result of giving notice of retirement***
- ***Housing allowances***
- ***Automobile allowances***
- ***Per diem allowances***
- ***Office stipends***
- ***Lodging***
- ***Travel***
- ***Insurance premiums***
- ***Annuity payments***
- ***Clothing allowances***



# Immediate Fiscal Impact

- Mandates direct deposit of pension allowance.
- Allows withholdings from the retirement benefit to pay healthcare contribution.
- Allows a retirement board to certify a retiree does not owe money to any employee benefit plan before he withdraws his contributions.
- Allows local retirement systems to extend their funding schedule to 2030.
- Provides for a pension impact statement to be submitted by PERAC for legislation that would affect the Commonwealth's unfunded liability.
- Restricts the number of hours a retired individual can work for an authority or as a consultant.



Topics discussed and being addressed by Special Commission to study the Massachusetts contributory retirement system

- **Contribution rates paid by employers and employees**
- **Vesting periods**
- **Weight given to age versus years of service in the current system**
- **Portability of benefits in the current system**
- **Cost-of-living adjustments including cost to increase the COLA**
- **Costs of commission's recommendations**
- **Current and future employee pension plans and contribution structures (continued...)**



Topics discussed and being addressed by Special Commission to study the Massachusetts contributory retirement system

- **Termination allowances pursuant to Section 10**
- **Group classification systems**
- **Capping annual pension benefits**
- **Penalties for pension fraud**
- **Eligibility requirements for retiree health insurance**
- **Health Insurance Contribution Rates**

# Special Commission (continued)

<b>Sub-Committee Groups</b>
Finance
Benefit Levels
Post-Retirement

- These sub-committee groups discussed specific pension related issues and released reports regarding their findings.
- A report regarding all issues discussed by the Special Commission to study the Massachusetts Contributory Retirement System will be released in early September.



## AN ACT RELATIVE TO PENSION GOVERNANCE REFORM

- **PERAC has filed HB29, An Act relative to Pension Governance Reform**
- **The Joint Committee on Public Service supports this bill and released it favorably.**
- **The bill provides PERAC with greater authority to ensure that retirement systems are paying the appropriate benefits, dealing with reputable firms, and carefully managing the public employee's retirement funds.**