



## Memorandum # 12/2003

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission  
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### MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Federal Grant and Appropriations

DATE: March 25, 2003

Several boards have asked about the treatment of federal grant employees and the required appropriation for a system. As you know, for any member whose salary is paid from federal grant monies, each system must recover a pension cost of 9% of the federal grant payroll. This 9% figure has been in place for some time, and was last reiterated in PERAC Memo 6/1996.

Each year the annual appropriation for a system is allocated to each governmental unit based on the actual payroll for employees who are not federal grant employees (unless the system allocates appropriations on an actuarial basis). However, when your system performs an actuarial valuation, all active members (including federal grant employees) are included in the valuation. Therefore, the costs and liabilities of these employees are already included in the appropriation under the funding schedule adopted by the system. PERAC's position is that the 9% recovery rate for federal grant employees reflects an advance payment for the annual appropriation requirement and **may** be applied to offset appropriations required under the system's approved funding schedule.

Any system using the amounts deposited for federal grants as an offset should be careful to document this for audit purposes. If for some reason a system had not been making the 9% required contributions but has consistently made their funding appropriation, there is no funding shortfall, although the plan would not have been in compliance with the federal grant requirements.

Please contact our actuary, Jim Lamenzo if you have any further questions on this issue.