MEMORANDUM #33, 2010

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
Five Middlesex Avenue, Suite 304, Somerville, MA 02145
Ph 617 666 4446 | Fax 617 628 4002 | TTY 617 591 8917 | www.mass.gov/perac
Domenic J. F. Russo, *Chairman* | A. Joseph DeNucci, *Vice Chairman*
Paul V. Doane | James M. Machado | Donald R. Marquis | Robert B. McCarthy | Gregory R. Mennis
Joseph E. Connarton, *Executive Director*

M E M O R A N D U M

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Chapter 188 of the Acts of 2010

DATE: August 12, 2010

Chapter 188 of the Acts of 2010, An Act Relative to Municipal Relief, contained a number of provisions pertaining to public pensions. That measure became effective on July 27, 2010. Under separate cover we have outlined those sections of the legislation dealing with the ERI (PERAC Memorandum #32 issued August 2, 2010). This memo addresses actuarial funding and COLA sections of the new law. However, this memo is not a substitute for a careful reading of the law (attached).

Sections dealing with retirement system funding schedules are largely based on a recommendation of the PERAC Actuarial Advisory Committee. Although, in present circumstances, this may appear to be a change designed to mitigate pension appropriation increases in difficult times, the original work regarding this matter was conducted in an effort to update prior law regarding schedules.

Actuarial Valuations

Sections 16 and 71 require that each system conduct an actuarial valuation at least once every two years. It also requires that experience investigations be conducted once every six years. These valuations and experience studies shall be conducted in a manner that the PERAC Actuary deems appropriate. The first valuation to be conducted under this requirement shall be completed by the earlier of January 1, 2011 or January 1, of the third year following the last actuarial valuation of the system.

Funding Schedules

Section 17 provides that the yearly payment provided for in any funding schedule established under G.L. c. 32, §22D shall not be less than 95% of the amount appropriated in the prior fiscal year.

Section 18 establishes G.L. c. 32, §22F which allows for systems to adopt a funding schedule that reduces the unfunded actuarial liability of the system to zero no later than June 30, 2040 within the following constraints: 1) the payment in any year of any revised or subsequent schedule is not less than the payment in the prior fiscal year, until the system is fully funded, and 2) the maximum annual increasing basis to amortize the unfunded actuarial liability is 4.0%. If a revised schedule could be developed with reduced payments, then the length of the schedule must be shortened until the payment is not less than that of the prior fiscal year. If a schedule is developed under this section that would result in an appropriation in the first year of the schedule that is more than 8.0% greater than the prior fiscal year, then the 4.0% increasing basis of the amortization of the unfunded actuarial liability can be adjusted with PERAC's approval. A system that adopts a funding schedule under this section may also increase the maximum base on which COLAs can be calculated in accordance with G.L. c. 32, §103(j) (see next section) and incorporate the costs of that increase in its schedule.

COLA

Under the provisions of Chapter 32, Section 103 (j) inserted by Section 19 of Chapter 188 systems may increase the maximum base on which the cola is calculated in multiples of $1,000. Presently that amount is $12,000. Each increase must be accepted by a majority vote of the retirement board approved by the legislative body. In the case of a city the legislative body is the city council, in a town it is the town meeting, in a district it is the district body and in an authority it is the governing body. In a county or region acceptance will be by the county or regional retirement board advisory council.

Acceptance is deemed to have occurred upon filing of a certification of the vote of the legislative body with PERAC. A decision to accept an increase cannot be revoked.

Attachment

Return to PERAC Home Page