

Overview of the Public Employee Retirement Administration Commission (PERAC)

**Massachusetts
City and Town Clerks
June 11, 2015**

Joseph E. Connarton, Executive Director
Public Employee Retirement Administration Commission
Five Middlesex Avenue, Third Floor, Somerville, MA 02145
ph 617 666 4446 | fax 617 628 4002
tty 617 591 8917 | web www.mass.gov/perac

Our Mission

The Public Employee Retirement Administration Commission (PERAC) was created for and is dedicated to the oversight, guidance, monitoring, and regulation of the Massachusetts public pension systems.

The professional, prudent, and efficient administration of these systems is the public trust of PERAC and each of the 105 public pension systems for the mutual benefit of the public employees, public employers, and citizens of Massachusetts.

The stewardship of the Trust Funds for the sole purpose of providing the benefits guaranteed to the public employees qualifying under the plans is the fulfillment of the obligation of the people of the Commonwealth to those who have dedicated their professional careers to the service of the people of the Commonwealth.

The Members of Our Commission

The Commission consists of seven members:

- Governor Charlie Baker his designee: John B. Langan, Deputy Director, Office of Employee Relations
- A representative of a public safety union (appointed by the Governor): James M. Machado, Sergeant, Fall River Police Department
- A person trained and experienced in the investment of funds, having been principally employed in such occupation for ten years (appointed by the Governor): Elizabeth Fontaine, Assistant Executive Director, Massachusetts Educational Financing Authority (MEFA)
- State Auditor Suzanne M. Bump or her designee: Gerald A. McDonough, Deputy Auditor for Legal and Policy, Office of the State Auditor

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The Members of Our Commission

Members (continued):

- The President of the AFL/CIO or his designee (appointed by the Auditor): Robert B. McCarthy, President Emeritus of the Professional Firefighters of Massachusetts
- A representative of the Massachusetts Municipal Association (appointed by the Auditor): Kate Fitzpatrick, Town Manager, Needham
- The Chairman of the Commission (appointed by the other six Commission members): Philip Y. Brown, Esq.

PERAC has Nine Primary Units: Actuarial and Investment Units

The **Actuarial Unit** performs or reviews actuarial valuations of each of the 104 retirement systems; determines their annual appropriations; reviews and approves their funding schedules; and assesses the progress each system has made toward full funding.

The **Compliance & Investment Unit** oversees the investment portfolios of the contributory retirement systems ensuring all boards and vendors are in compliance with disclosure requirements. The Unit also oversees PERAC's educational programs.

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Audit, Disability, and Fraud Prevention Units

PERAC's **Audit Unit** performs a triennial audit of each retirement system to insure that all financial and managerial functions are being performed in accordance with statute and regulation; and the Unit provides technical assistance, education, and training to all retirement system staff.

The **Fraud Prevention Unit** focuses on preventing and investigating fraudulent disability pension claims and payments. They collect data relating to all disability retirees, including earnings statements, registry information, and criminal offender record information. The Fraud Hot Line phone number is 1(800)-445-3266. The email address is PensionFraud@per.state.ma.us.

PERAC's **Disability Unit** oversees disability retirement processing including disability retirement applications, comprehensive medical evaluations, and restoration-to-service.



Legal Unit

The **Legal Unit** responds to the concerns of Commission members; drafts memoranda to inform board members and staff of new legal developments, decisions and amendments to chapter 32; issues legal opinion letters; reviews applications for disability retirement and accidental death benefits; represents the Commission in hearings; and defends the Commission in the Superior Court or assists the Office of the Attorney General in providing representation. There were 249 opinion requests in 2014.

Other PERAC Units:
Administration, Communications, Information Systems

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Actuarial Overview



Current Plan*

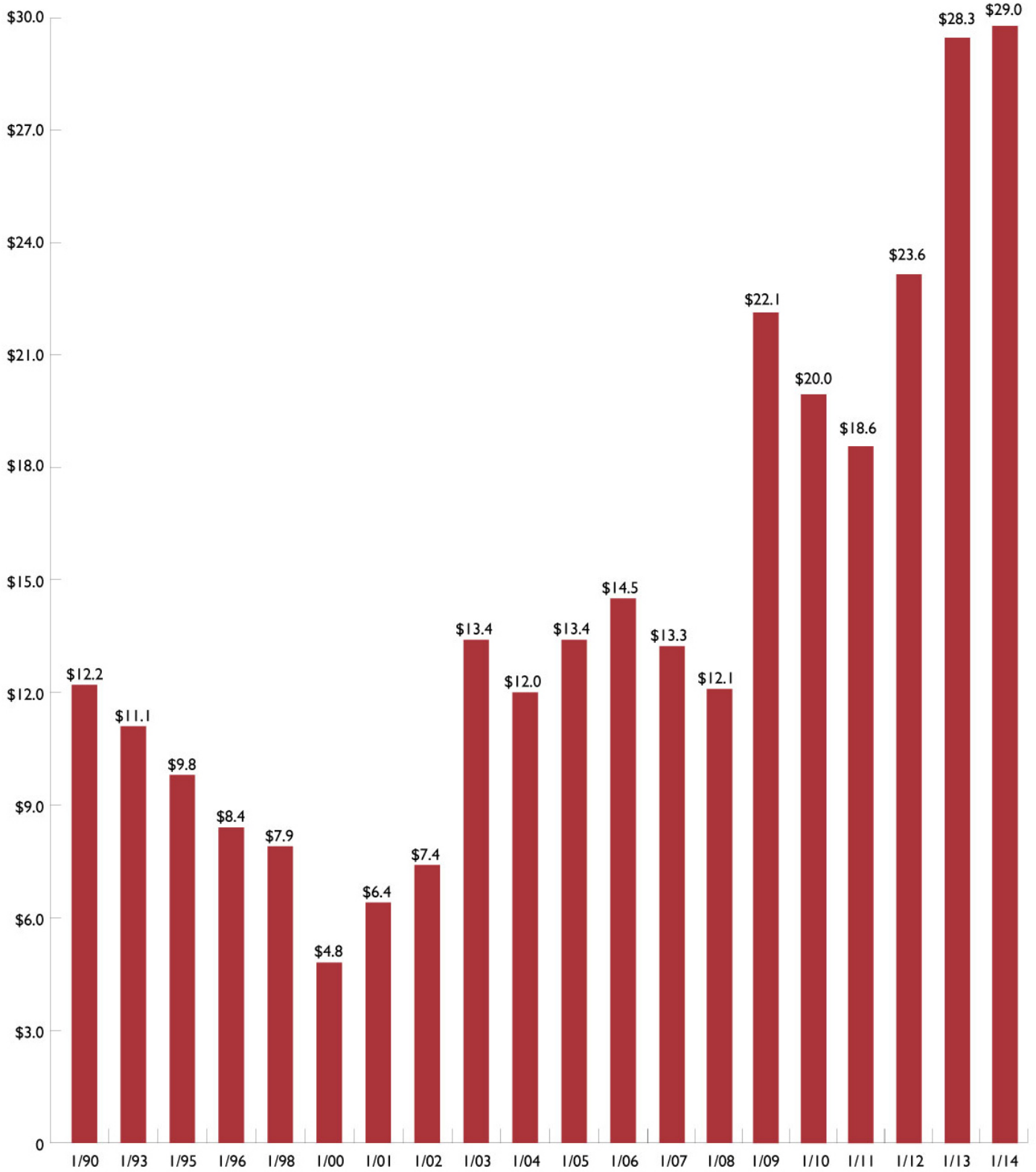
- Combined State, Teachers', and Local Systems
 - Active Members: 309,200
 - Retired Members: 209,200
- Funded Ratio: 60%
- Total Payroll: \$18.2 billion
- Total Benefit Payments: \$6.5 billion

* As of April 2015 based on most recent valuation provided to PERAC

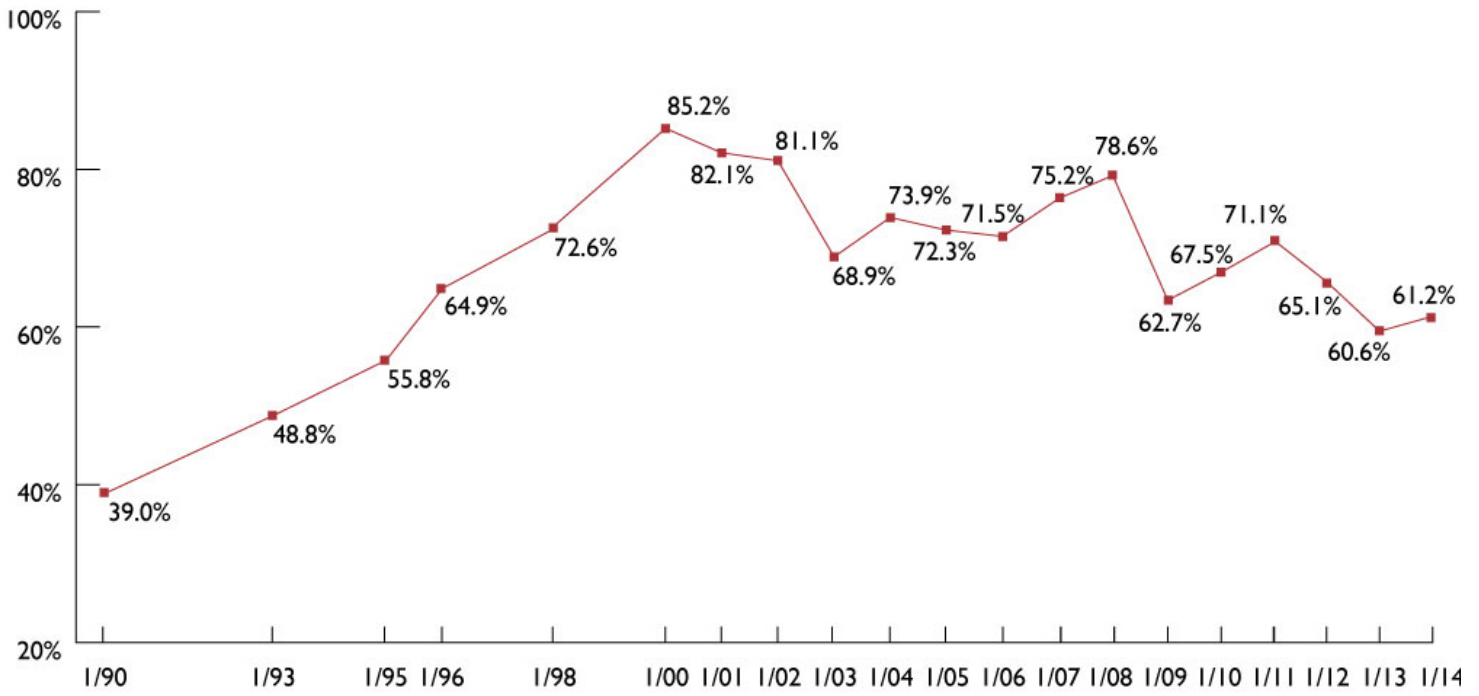
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COMMONWEALTH UNFUNDED LIABILITY

(in billions of dollars)



COMMONWEALTH FUNDED RATIO



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Benefits

Average Pay and Benefits

	1/2015 State	1/2014 Teachers	Locals*
Active Members	88,508	88,788	131,900
Average Pay	\$63,200	\$67,156	\$50,700
Retired Members	57,774	61,034	90,400
Average Benefit	\$30,800	\$41,012	\$24,900

*Reflects most recent valuations provided to PERAC

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Investment Overview

Investment Returns

2014 Data	Range	Median
Returns		
Non-PRIT Systems	+1.10% to +12.91%	+6.98%
PRIT	+8.16%	
2013 Data		
Returns		
Non-PRIT Systems	+11.36% to +21.82%	+15.30%
PRIT	+15.22%	
2012 Data		
Returns		
Non-PRIT Systems	+9.16% to +16.93%	+12.25%
PRIT	+13.87%	

PRIT 30 Year Returns: 9.78%

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Fraud Prevention Review



Fraud Prevention Statistics

Total Savings Since Inception*:

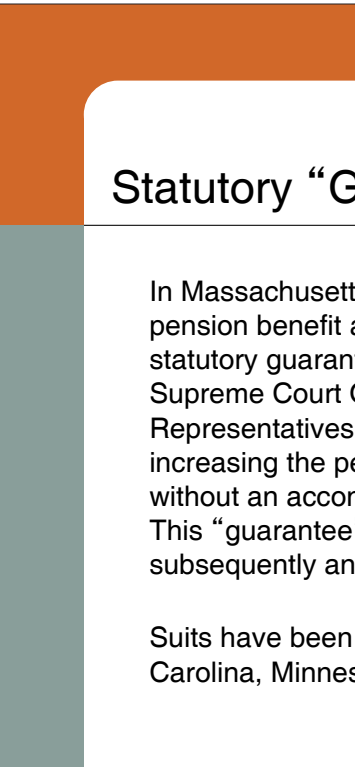
\$44,756,559

* Based on Calendar Year 2013 data

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Ch. 176 of the Acts of 2011



Statutory “Guarantee” of Pension Benefit

In Massachusetts, there is no constitutional guarantee of a pension benefit as there is in some states. Rather, there is a statutory guarantee of sorts in Chapter 32, Section 25 and a Supreme Court Opinion to the Massachusetts House of Representatives in 1973. In that opinion, the Justices opined that increasing the pension contribution rates for current employees without an accompanying increase in allowances would be invalid. This “guarantee” however, could of course be altered in statute subsequently and a likely court challenge would follow.

Suits have been filed over pension benefits in Colorado, South Carolina, Minnesota, Ohio, Rhode Island, and New Hampshire.

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Ch. 176 of the Acts of 2011

The Patrick Administration, with the support of Senate President Murray, Speaker DeLeo and Treasurer Grossman filed a major pension reform piece of legislation, H. 35. This became Chapter 176 of the Acts of 2011. Among its core provisions are:

Retirement Age Increased

- The retirement age increased for state workers entering service on or after April 2, 2012, reflecting the fact that people are living and working longer. This change will align the state system more closely with the retirement ages already set by the federal government for Social Security benefits.
- Group 1 (elected officials and most general employees): Increased the retirement age to 60-67 from the current 55-65;

Ch. 176 of the Acts of 2011

Retirement Age Increased (continued)

- Group 2 (employees with titles reflecting hazardous duties): The retirement age increased to 55-62 from the current 55-60;
- Group 3 (state police): The maximum benefit is currently reached with 25 years of service. The legislation increased this to 30 years by lowering the benefit factor after 20 years of service from 3.0 to 2.5 per year of service;
- Group 4 (firefighters, police officers, some corrections officers): Increased the retirement age to 50-57 from the current 45-55.

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Ch. 176 of the Acts of 2011

Increase “High 3” To “High 5”

Members entering service on or after April 2, 2012 have an increased period for averaging earnings, for purposes of calculating a member’s retirement allowance, from 3 to 5 years – a slightly longer averaging period.

Ch. 176 of the Acts of 2011

Eliminate Section 10 Early Retirements For Employees Entering Service on or after April 2, 2012

- Currently, employees with 20 years of service who are terminated, by no fault of their own, are entitled to an early retirement benefit equal to one third of their high 3 earning years, plus an annuity from contributions.
- In most cases, that lifetime termination benefit is significantly larger than what the employee would have received if not terminated, and declines with further increases in age and service.
- With this legislation, employees would not be eligible for early retirement until they reach their minimum retirement age, and all employees within each Group would receive these benefits based on the same formula.

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Ch. 176 of the Acts of 2011

Introduced an “Anti-Spiking” Rule

The legislation introduced an “anti-spiking” rule which limits the annual increase in pensionable earnings to no more than 7 percent of the average pensionable earnings over the last two years plus inflation. This provision does not apply to bona fide promotions or job changes.

Earlier Pension Reforms

- **Chapter 21 of the Acts of 2009**

First we had the passage of **Chapter 21 of the Acts of 2009** signed by Governor Patrick. That Act dealt with many of the issues that had been cited previously as excesses, abuses or otherwise critiqued in the media and elsewhere as systemic problems. The one-day-one-year creditable service rule for elected officials went away, the definition of regular compensation was significantly changed, and certain termination benefits were eliminated among other changes.

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Chapter 188 of the Acts of 2009

And finally, in the municipal relief Act, **Chapter 188 of the Acts of 2009**, we saw a mechanism for local retirement boards and municipalities to increase the COLA base; an early retirement incentive (this time only for municipalities and their systems) and the ability to extend funding schedules to the year 2040. To date, PERAC has approved funding schedule plans for twenty-nine systems.

PERAC's Corporate Governance Bill

Among the major areas impacted are:

- Updating outdated retirement board investment restrictions;
- Instituting financial disclosure requirements for retirement board members;
- Mandating a competitive bidding process for services provided to retirement boards including: investment, audit, accounting and legal services; and

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COMMONWEALTH OF MASSACHUSETTS
Public Employee Retirement Administration Commission
Five Middlesex Avenue, Suite 304 | Somerville, MA 02145
Phone: 617-666-4446 | Fax: 617-628-4002
TTY: 617-591-8917 | Web: www.mass.gov/perac

