

PERAC

Pension News

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Commonwealth Valuation *Funded Ratio Improves with Latest Report*

By John Boorack
Actuary

The Commonwealth Actuarial Valuation Report presents the results of the actuarial valuation of the pension benefits that are the obligation of the Commonwealth of Massachusetts. The 2022 report was released by PERAC on November 21, 2022.

The four components of the report are the State Employees' Retirement System (SRS), the Massachusetts Teachers' Retirement System (TRS), Boston Teachers, and the Cost-of-Living Adjustment reimbursements to local systems.

Table 1, pictured on page 5, shows a comparison of the principal valuation results of the January 1, 2021 and the January 1, 2022 actuarial valuations. The unfunded actuarial liability (UAL) represents the actuarial accrued

liability less the value of plan assets. The funded ratio is the value of plan assets divided by the actuarial accrued liability. The funded ratio represents the portion of the actuarial accrued liability covered by plan assets. As of January 1, 2022, the actuarial liability was \$112.2 billion, and the actuarial value of plan assets was \$72.2 billion. The difference of \$40.0 billion is the UAL. The funded ratio is 64.3%.

It is important to note that plan assets have grown faster than

plan liabilities since 1990. As of January 1, 1990, the actuarial accrued liability was approximately \$20.0 billion and the actuarial value of assets was \$7.8 billion which resulted in an UAL of \$12.2 billion and a funded ratio of approximately 39%. Since 1990, the actuarial liability has grown by about 5.6 times while assets have grown by about 9.3 times.

For this reason, we believe the funded ratio represents a better measure of the (continued page 5)

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Legislative Update

5% Local COLA Option Signed Into Law

By Bill Keefe
Assistant Deputy Director

Governor Baker signed the 5% local COLA option into law on November 16 as Chapter 269 of the Acts of 2022. The statute allows local retirement boards an option to increase the FY 23 COLA up to 5%. The local approval can take place any time in FY 23 and will take effect as of July 1, 2022.

PERAC issued Memo #29 of 2022 to aid in the implementation of the statute, which has local approval requirements. In all cases, the retirement board must first vote to approve. From there, the mechanisms vary:

- In a city, the mayor or city manager must initiate the action to the city council, which must then vote to approve.
- In a town, the select board must vote to approve.
- In a district, or other political subdivision, the governing board, commission or committee must vote to approve.
- For regional boards, two-thirds of the cities and towns in the system must vote to approve in the same fashion as standalone cities and towns.
- For county systems, the county commissioners must vote to approve and two-thirds of the cities and towns in the system.

PERAC filed seven bills with the House Clerk for the 2023-24 legislative session. Five are re-filed from the 2021-22 session and two are new.

An Act to Provide for Payment of Creditable Service

This new bill would require the employees of new governmental units in a Chapter 32 retirement system to purchase their service in the same manner as members of a system who purchase prior non-membership time.

An Act Clarifying the Chapter 32 Definition of Wages

This new bill adds vacation, sick and personal time taken in the usual course to the Chapter 32, Section 1 definition of wages, excluding when they are used with workers compensation benefits.

An Act Relative to Pension Forfeiture

This would provide for tiered levels of pension forfeiture of 2/3, 1/3, a minimum pension, as well as full forfeiture, in order to respond to court rulings of pension forfeitures being unconstitutional.

An Act Relative to The Recovery of Overearnings

This bill would limit the amount of recapture from a disability retiree over-earner to the amount of pension paid.

An Act Relative to Modifications of Retirement Allowances

This bill would alter PERAC's statutory directive to modify allowances of members with overearnings to make it more effective and efficient.

An Act Relative to Accidental Disability and Group 1 Emotional Distress

This bill would bring Group 1 employees in line with other groups in permitting the use of employer incident records to satisfy the injury report requirement when filing for disability based on emotional injury.

An Act Providing for Statement of Financial Interests Flexibility

This bill would allow for a hardship waiver petition from the penalty of permanent debarment from retirement board service related to non-compliance with SFI filing.

Additionally, two other PERAC bills will be filed by legislators next session should they not pass in the current session. Senator Pat Jehlen and Representative Jay Livingstone will file *An Act to Protect Gender Pay Equity*, which (continued next page)

Legislative Update (continued from page 2)

will add an exemption to anti-spiking for salary adjustments made through the state's Equal Pay Act. Sen. John Velis and Rep. Jerry Parisella will file *An Act Relative to Veterans' Buyback*, which will give veterans in public service more time to purchase their military service and create a one-year grace period for all who missed their initial opportunity.

Hours/Earnings and OML Waivers

The waiver on hours and earnings restrictions for superannuation employees working in the public sector will expire on December 31, 2022. The statute that created the waiver, Chapter 80 of the Acts of 2022, called for the

waiver to end up to 90 days after the end of the Public Health Emergency, or December 31, 2022, whichever occurred first. Plan accordingly regarding hours worked and earnings beginning January 1, 2023.

The current Open Meeting Law waiver is scheduled to expire March 31, 2023, pursuant to Section 4 of Chapter 107 of the Acts of 2022. There has been ongoing work and conversations to make some of the remote participation and physical attendance provisions from this waiver permanent. Unless a permanent change is made, or this waiver is extended

prior to March 31, 2023, public bodies will need to prepare to hold in-person meetings starting April 1, 2023, with the Chair and a physical quorum present.

Legislative calendar

The new session of the Legislature will begin on Wednesday, January 4, 2023, the same day legislators are sworn in.

The Joint Rule 12 bill filing deadline for legislators is the third Friday in January, which in 2023 will be January 20th.

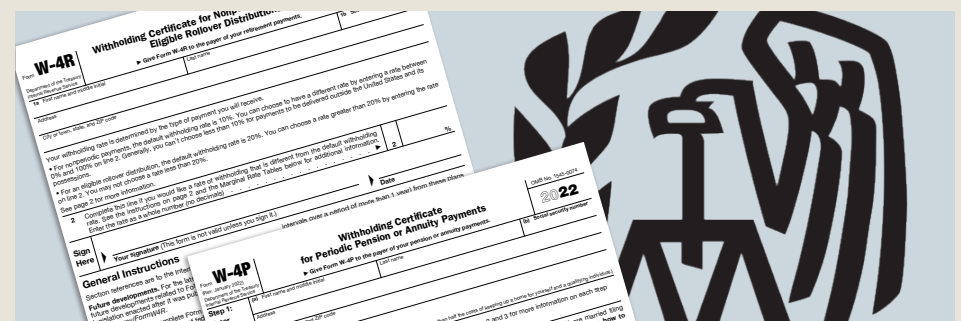
Because it is a new term, Governor-elect Maura Healey will have until March 1 to file her FY 24 budget. ■

New Year, New IRS Tax Withholding Forms – W4-P and W4-R

By Felicia McGinnis, Esq.
Associate General Counsel

Beginning January 1, 2023, the IRS will require the use of two new tax withholding forms, the W4-P and the W4-R.

Previously, retirement boards only needed to provide their members and beneficiaries with the W4-P form for all refunds and rollovers. For this updated version of the W4-P form, there are no major changes, and the tax withholding calculations for refunds and rollovers remain the same.



The only difference with the updated W4-P form is that rollovers and refunds for non-periodic payments have been removed and now require the use of the new W4-R form, which will be discussed below. Generally, if a member or beneficiary rolls over the accumulated total deductions to an

eligible retirement account, nothing should be withheld. If a member or beneficiary receives a direct refund of the accumulated total deductions, the 20% federal withholding tax will still apply. In these instances, the W4-P form needs to be completed.

(continued page 6)

Staff Updates

Compliance Director Tom O'Donnell Retires

By Bill Keefe
Assistant Deputy Director

After 10 years serving as Compliance Director, Tom O'Donnell retired from PERAC on November 1. Tom previously had a lengthy and successful career in the financial services industry, particularly in investments, where he counted many retirement boards among his clients and he built relationships that went on to serve him and PERAC.

Tom was instrumental in implementing board member education and the statement of financial interest after pension reform of 2011. His deft personal touch helped smooth what was a rocky path by building trust and confidence.

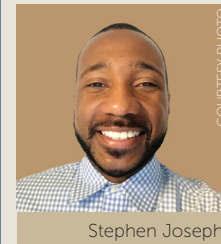


Known for his good humor and wit, Tom has been a friend to many in the retirement community. His friends at PERAC wish him a long, healthy and happy retirement! ■

New Auditors Hired

By Caryn Shea, CPA
Director of Audits

Two new auditors recently joined the Audit Unit bringing their unique perspectives to PERAC. Steven Joseph comes to PERAC from the Massachusetts Department of Revenue and John Silva worked as an auditor at a peer reviewed CPA firm before coming to PERAC. They have both already hit the ground running! Please welcome them as they begin to make their rounds across Massachusetts! ■



Stephen Joseph



John Silva

Staff Fill Stockings for Sailors

By John Parsons, Esq.
Executive Director

Twenty-one boxes of supplies and snacks stuffed in holiday stockings were shipped to over 200 sailors in Helicopter Marine Strike Squadron 46 on board the USS George H.W. Bush as part of the Stockings for Sailors project led by PERAC Fraud Prevention Manager Sandy King, whose son Cody is a sailor in the Squadron. A number of PERAC staff and volunteers in Sandy's hometown and at her church contributed hand warmers, gloves, beef jerky, packs of gum and some other comforts to spread holiday cheer to the sailors on deployment. ■



In Memoriam: Remembering Commissioner Robert McCarthy

By John Parsons, Esq.
Executive Director

The Commission mourns the passing of long-time Commissioner, Robert McCarthy, who passed away this month.

Commissioner McCarthy served for twenty years as the designee of the President of the AFL-CIO, as appointed by the State Auditor. While he retired from the Commission in December 2020, his impact as a steadfast champion and protector of public employee benefits will be remembered for years to come.

Our thoughts go out to Bob's family.



Valuation (continued from page 1)

Commonwealth's funding progress. Although the funded ratio reached 85.2% on January 1, 2000, this was the result of average annual returns from 1985-1999 that exceeded 12.5% and attaining such a high level of funding so quickly was not expected. If there had been no gain or loss on assets from 1985-1999, the funded ratio would have been about 45%. Over the past 22 years (2000-2021), the average annual return on assets on a market value basis is approximately 7.4%. Over a 10-year and 5-year period, the returns have been 11.0% and 12.9% respectively. The 37-year return (since inception) is 9.9%.

There have been several plan and assumption changes over the past 13 years that have increased the Commonwealth actuarial liability. These changes include six reductions in the investment return assumption (from 8.25% to 8.0% as of January 1, 2013, from 8.0% to 7.75% as of January 1, 2015, from

	Valuation Date	
	1/1/2022	1/1/2021
Actuarial Liability		
Actives	\$47,077,024	\$46,196,250
Retirees and Inactives	\$65,117,877	\$62,785,522
Total	\$112,194,901	\$108,981,772
Assets (Actuarial Value)	\$72,168,013	\$63,406,551
Unfunded Actuarial Liability	\$40,026,888	\$45,575,221
Funded Ratio	64.3%	58.2%

Table 1 | All dollars in thousands

7.75% to 7.50% as of January 1, 2016, from 7.50% to 7.35% as of January 1, 2018, from 7.35% to 7.25% as of January 1, 2019 and from 7.25% to 7.0% as of January 1, 2021). There have also been frequent adjustments to the mortality assumption including the adoption of a fully generational mortality assumption as of January 1, 2015, the adoption of a \$13,000 COLA base for the SRS and TRS as well as the adoption of a \$15,000 COLA base for the Boston teachers, the transfer of active members of sheriff departments in six counties to

the State, and the transfer of former members of the Massachusetts Turnpike Authority Retirement System to the State. Including the changes as of January 1, 2022, the actuarial liability is approximately \$15.95 billion greater than it would have been using the 2009 basis. Therefore, on a comparable basis with the 2009 plan provisions and assumptions, the UAL on January 1, 2022 would be \$24.1 billion and the funded ratio would be approximately 75%. ■

PERAC Education

Roadshows, Conferences, and Cybersecurity

By Natacha Dunker
Communications Director

In addition to webinars, this past quarter, PERAC staff was on the road providing in-person educational sessions to board members and staff alike.

At the Massachusetts Association of Contributory Retirement Systems (MACRS) fall conference in Springfield, Massachusetts, our staff gave presentations on the recent O'Leary decision and legislation concerning payments for unused vacation time, other recent legislation, monthly meetings and public records, and recent audit findings.

Staff also did a day-long board administrator training in November in Danvers, Massachusetts. The purpose of that training was to introduce new board staff to many of the primary issues they will encounter as a new staff member at a public retirement system.

2023 will continue our partnership with the Office of the Inspector General, with a January 19th training on Contract Administration. Also, new for next year, PERAC is encouraging boards to participate in the **free** state-sponsored cybersecurity train-

ing. The program is being offered by the Executive Office of Technology Services and Security and has a year long track as well as two abbreviated tracks. Registration is open until all seats are filled, or until December 31st.

If you are interested, make sure to register before the deadline at: tinyurl.com/eotss-cyber-training.

We hope to build on the training we have provided in 2022 for next year. Be on the lookout for our next Education memo, which will be published soon! ■

IRS Forms (continued from page 3)

Regarding the W4-R form, this is brand new and used only for non-periodic payments. For Chapter 32 retirement plans, a non-periodic payment occurs when a member or beneficiary, who needs to take a required minimum distribution ("RMD"), must withdraw the total accumulated deductions from their account. The portion of the refund representing the RMD that needs to be taken would be considered a non-periodic payment and therefore would not be eligible

for a rollover. In these instances, the W4-R form needs to be completed instead of the W4-P form. On the W4-R form, the portion of the refund representing the RMD would be subject to the 10% default withholding indicated on the form. The remaining amount of the total accumulated deductions would then be eligible to either be rolled over to an eligible retirement account or received as a direct refund. If the member or beneficiary receives a direct refund, then the

20% federal withholding tax must be withheld on that portion as indicated on the W4-R form.

Please contact us with any questions. ■

New & Noteworthy

840 CMR 28.00 Approved

The new regulation for electronic signatures was published on September 30, 2022, in the official Register by the Secretary of State and is now available on our website at mass.gov/lists/perac-regulations.



Recently released Memos:

- #23: Vacation Buybacks as Regular Compensation**
Discusses new SJC Decision
- #24: Mandatory Retirement Board Member Training**
- #25: Tobacco Company List**
- #26: Appropriation Data Due October 31, 2022**
Form to complete this is available on website
- #27: Free State-Sponsored Cybersecurity Training**
Registration deadline is December 31, 2022
- #28: 840 CMR 28.00: Electronic Signatures**
Instructions on implementing new regulation
- #29: 5% Local COLA Option**
Provides instructions to retirement systems for approving the COLA
- #30: Proposed Regulations Regarding Compliance with the IRS Code**
Remote hearings scheduled
- #31: Annual Review of Medical Testing Fee**
- #32: Tobacco Company List**



We had a full house at our new Administrator Training in Danvers. See you in 2023!

Upcoming Meetings

January 11, 11:00 a.m.
Commission Meeting

February 8, 11:00 a.m.
Commission Meeting

March 8, 11:00 a.m.
Commission Meeting

April 12, 11:00 a.m.
Commission Meeting

Meetings are open to the public. See our website for information on joining in person or remotely.

PERAC

2023 Education Schedule

upcoming courses

Credits
board members
must earn

18
per term

3
Minimum
per term year

9
Maximum
per term year

January 19	Webinar	Contract Administration
Jan - Dec	Year-Long Training	Cybersecurity Training
January 26	Webinar	Conflict of Interest
January 22-24	Conference, Washington, D.C.	NCPERS Legislative Conference
January 23-24	Conference, Washington, D.C.	NCPERS Communications Conference
May 20-21	Conference, New Orleans, LA	NCPERS Annual Conference
Visit our website for registration links		

Go to mass.gov/perac-education for additional educational resources

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