The Public Employee Retirement Administration Commission (PERAC) is responsible for regulating, advising, and monitoring 104 Massachusetts public pension systems. PERAC issues an annual report on each system's status for the previous calendar year, including such information as retirement board membership, most recent valuation date, investment vendors, return on investment, and funding ratios.

Each public pension system is overseen by a retirement board bound by a fiduciary duty to manage the system in the best interest of its members and their beneficiaries. Essential to that role is ensuring that resources exist to finance the retirement system's pensions and benefits guaranteed under M.G.L. Chapter 32. In this capacity, each board relies on actuarial analyses of assets and liabilities to determine the system's funding obligation.

A valuation report provides the amount of a retirement system's assets, as well as its actuarially calculated liabilities as of a specific date, drawn from assumptions based on past and anticipated experiences (e.g., investment return, salary increase rates, and employee turnover). From this data, a funding schedule is established that includes the system's normal cost (the amount of benefits expected to be accrued by active members in the current year) and the amortization on payment of the unfunded pension liability (the difference between the actuarial accrued liability and the pension fund's assets).

The actuarial valuations provide the basis for determining both the unfunded pension liability and its funded ratio (the actuarial value of plan assets divided by the actuarial accrued liability). When a system's unfunded liability reaches $0, its funded ratio reaches 100 percent, and it is said to be "fully funded." Appropriations are then only required to cover normal costs. Based on a particular system's funding schedule, its annual contributions are made through assessments levied on the public sector governing body units that participate in that system. Employees also contribute to the pension fund through payroll deductions. To help offset the impact of these assessments on state and municipal budgets, each retirement board makes management decisions about investing system assets. A retirement board may invest funds on its own, hire investment managers, and/or participate in the state-run Pension Reserves Investment Trust (PRIT) fund.

Fluctuations in financial markets can dramatically impact pension system assets. When any new actuarial analysis is completed, the value of a system's assets is redetermined. A system's assets may grow or decline in relation to market performance. If a retirement fund's return on investment is greater than its actuarial assumption, its unfunded pension liability generally decreases, assuming the system does not incur losses on plan liabilities (e.g., greater than expected wage increases) or additional costs (e.g., adoption of an early retirement program). If there are gains, a retirement system may maintain its funding schedule and adjust its "fully funded" date to be sooner than originally projected. Conversely, when market results are less than actuarially projected or when the retirement system's assets lose value, the retirement board must take corrective action. To recover the loss, the retirement system may increase the assessments levied on the participating member units or the board may, with the approval of PERAC, revise its pension funding schedule and adjust the member units' assessments within the maximum number of years left prior to the statutory deadline.

With growing retirement system costs and their associated impacts on local finances, the financial and benefit structures of the systems have been scrutinized. To address excesses, abuses and systemic problems, and provide options to gradually increase cost savings for retirement systems, four Pension Reform laws were enacted to amend M.G.L Chapter 32, as summarized below.

Chapter 21 Acts of 2009	• Clarified the definition of regular compensation • Addressed creditable service for elected officials • Established minimum compensation for creditable service • Revised dual member calculations • Extended funding schedules to 2030
Chapter 131 Acts of 2010	• Established a cap on pension earnings • Set an interest rate on returned retirement deductions
Chapter 188 Acts of 2010	• Extended the funding schedule to 2040 • Increased the cost-of-living base • Established biennial actuarial valuation requirement • Allowed local option early retirement incentive programs
Chapter 176 Acts of 2011	• Enabled purchase of creditable service • Eliminated Section 10 termination allowances • Implemented anti-salary-spiking provisions • Prorated service in more than one job group • Increased retirement age eligibility • Increased average annual compensation period from three to five years • Increased normal retirement age by two years • Increased early retirement reduction (reduced age factors) • Updated retirement board investment restrictions

Chapter 176 Acts of 2011	• Instituted retirement board financial disclosure requirements • Mandated competitive bidding process for investment, audit, accounting, and legal services to retirement boards • Instituted retirement board continuing education requirements • Required employers to submit collective bargaining agreements to retirement boards

There are as yet no fully funded retirement systems, and many communities continue to face growing assessments with limited resources to fund these fixed costs. Therefore, it is recommended that municipalities consider the following when planning and managing retirement obligations.

- **Analyze the impacts of benefit decisions** – Local decisions, such as salary increases, the granting of other employee benefits, and early retirement packages, not only impact a community's current operating budget but also the costs of future pensions and other postemployment benefits. Consequently, decision makers should be informed of all current and future costs before taking these types of actions.

- **Consider interim actuarial valuations** – PERAC suggests obtaining actuarial valuations annually rather than only doing the minimum required biennial valuations. These may be built into an actuarial contract or done with assistance from PERAC staff. An update of a retirement system's funded status involves using actual asset values in conjunction with estimated, rolled forward, prior-year plan liabilities. This enables the system to maintain more up-to-date data and help ensure funding schedules accurately address system liabilities. Having timely information enables decision makers to take corrective actions when necessary.

- **Adopt responsible financing plans** – Systems that adopted aggressive funding schedules from the beginning generally are better positioned than those that deferred payments to latter years. PERAC has found that the more successful systems did not reduce funding schedule levels but rather adopted more conservative measures when actuarial gains allowed for decreases in annual appropriations. This is a prudent approach that provides flexibility during economic downturns.

- **Consider establishing a pension reserve fund (M.G.L. c. 40, § 5D)** – After a funding schedule is revised, a community may opt to maintain the higher funding requirement and place the excess not required by the retirement system into an investment account. Establishing a pension reserve fund enables the community to set aside funds designed to absorb dramatic assessment increases. As fund custodian, the local treasurer may deposit the proceeds in approved banking institutions or participate in the PRIT Fund in accordance with M.G.L. c. 32, § 22.

- **Provide accelerated payment options** – In a unique approach, the Middlesex County Retirement Board has each member unit do its own actuarial studies. While this requires 70 separate studies every two years, it could be characterized as a “fairer” allocation of the system’s liabilities as opposed to basing it on payrolls. As a secondary benefit, the participating public entities can make accelerated payments that are credited to that unit’s account. These additional contributions can be invested in higher yielding instruments available only to retirement systems and be applied to the community’s individual unfunded pension liability.

- **Review investment performance** – It is the responsibility of the retirement board to be diligent in the oversight of the system’s activities and results. In doing so, the board should compare its long-term investment performance to other systems and the PRIT fund. If the system’s performance is below the others, the board should review its investment strategies and consider participating in or investing more in the PRIT fund.

For more detailed information and definitions, please refer to the educational materials available on PERAC’s website and its annual report archive.