

# Public Employee Retirement Administration Commission (P E R A C)

**Middlesex County**

Chief Executive Meeting

October 6, 2011

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## **O V E R V I E W**

**Joseph E. Connarton, Executive Director**

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# Our Mission

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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 Deval Patrick or his designee: Gregory R. Mennis, Assistant Secretary, Finance and Infrastructure, Administration and Finance
- 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): Vacant
- State Auditor Suzanne M. Bump or her designee: Gerald A. McDonough, Deputy Auditor for Legal and Policy, Office of the State Auditor
- The President of the AFL/CIO or his designee (appointed by the Auditor): Robert B. McCarthy, Immediate Past President of the Professional Firefighters of Massachusetts
- A representative of the Massachusetts Municipal Association (appointed by the Auditor): Donald R. Marquis, Former Town Manager, Arlington
- The Chairman of the Commission (appointed by the other six Commission members): The Honorable Domenic J.R. Russo, Retired First Justice of the East Boston Division, District Court of Massachusetts

# PERAC's Six Primary Units: Actuarial and Investment Units

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The **Actuarial Unit** performs or reviews actuarial valuations of each of the 105 retirement systems; determines their annual appropriations; reviews and approves their funding schedules; and assesses the progress each system has made toward full funding.

The **Investment Unit** oversees the investment portfolios of the contributory retirement systems. The Investment Unit has published an annual investment report since 1985, issues periodic financial market reviews, and provides a program of investment education to the boards.

# Audit, Disability, and Fraud Prevention Units

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PERAC's **Audit Unit** performs a tri-annual 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.

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

# Legal Unit

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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.

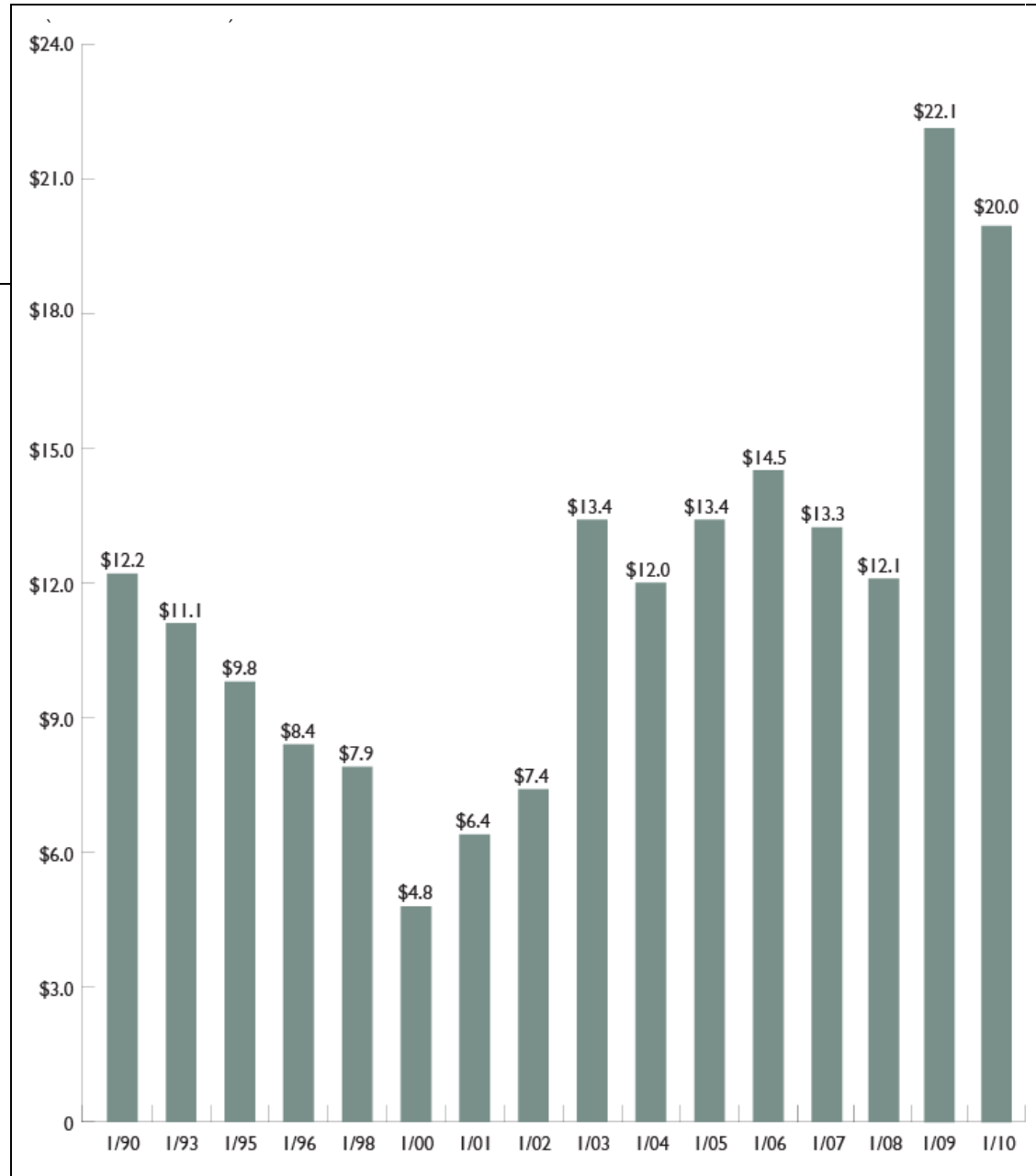
# Actuarial Overview

# Current Plan

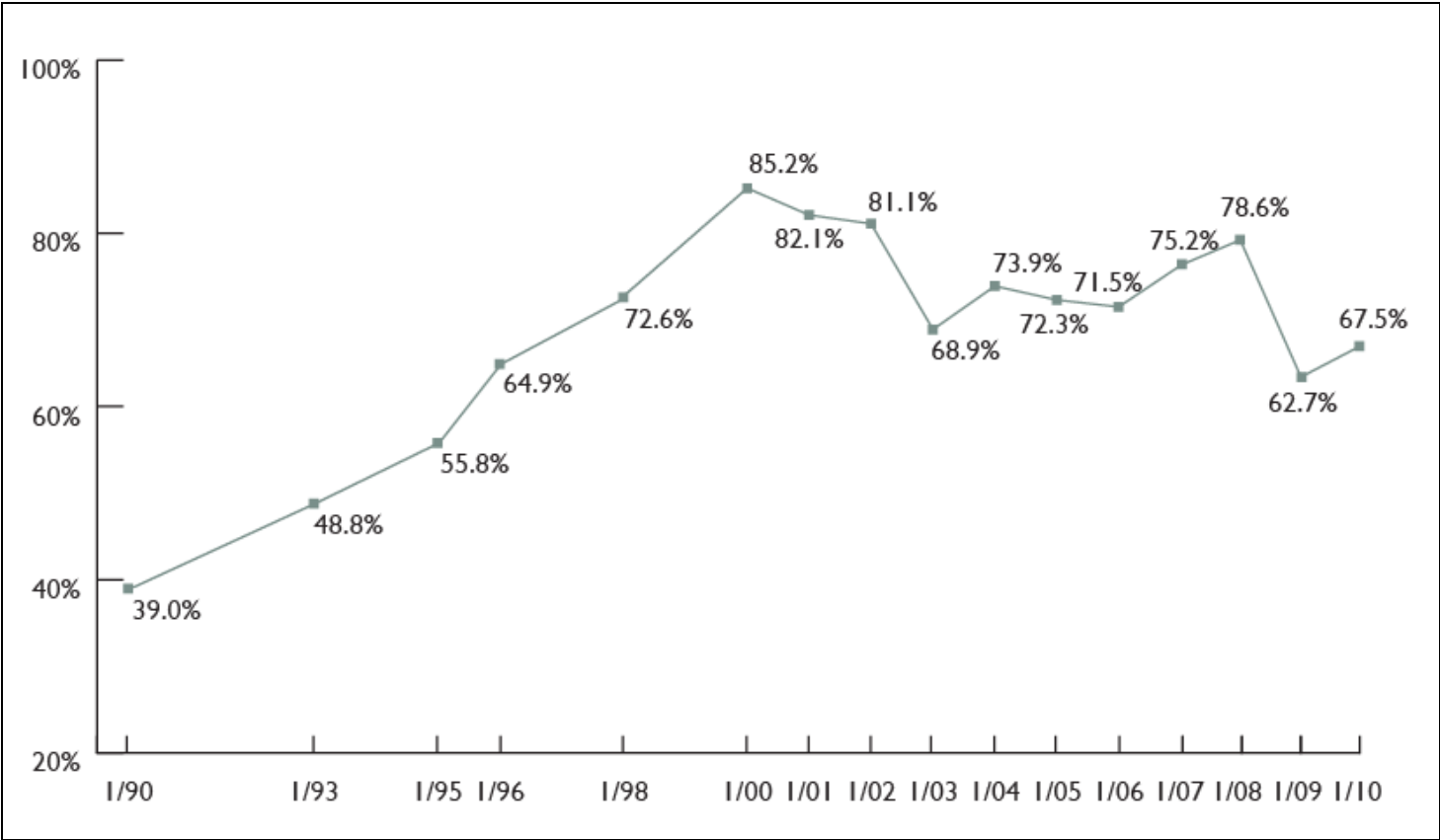
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- Combined State, Teachers', and Local Systems
  - Active Members: 309,000
  - Retired Members: 194,000
- Funded Ratio through 1/1/10 Valuations: 71.4%
- Total Payroll: \$16.5 billion
- Total Benefit Payments: \$5.2 billion

# Commonwealth Unfunded Liability (in billions of dollars)



# Commonwealth Funded Ratio



# Benefits

# Average Pay and Benefits

	1/2010 <b>State</b>	1/2010 <b>Teachers</b>	<b>Locals*</b>
<b>Active Members</b>	85,800	88,700	134,300
Average Pay	\$54,900	\$62,100	\$46,700
<b>Retired Members</b>	52,500	54,000	87,200
Average Benefit	\$25,200	\$37,100	\$21,200

\*Reflects most recent valuations provided to PERAC

# Contributions and Value of Contributions

## Effect of 9% Contribution for Group 1 Members

Assumed Salary Increase: 4% per Year

Investment Return: 8% per Year

### Approx. % of Value of Benefits Paid by Employee

Age at Hire:	25	35
▪ Retirement Age of 55:	115%	100%
▪ Retirement Age of 60:	104%	90%
▪ Retirement Age of 65:	128%	89%

# Superannuation Sample Calculation

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- Group One Member
- Retirement Age: 65
- Creditable Service at Retirement: 30 Years
- 3-Year Average Salary: \$50,000
  - Annual Retirement Benefit: \$37,500
  - ( $\$50,000 \times 2.5\% \times 30$ )

# Accidental Disability Sample Calculation

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- Retirement Age: 58 Years
- Creditable Service at Retirement: 21 Years
- Annual Salary: \$50,000
- Annuity Savings Fund (ASF) Balance: \$60,000
  - Pension (72% of pay): \$36,000
  - Annuity (based on ASF Balance): \$5,300
  - Annual Benefit: \$41,300

# Termination Allowance Sample Calculation

- Age at Retirement: 45 Years
  - Creditable Service at Retirement: 25 Years
  - 3-Year Average Salary: \$45,000
  - ASF Balance: \$50,000
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- Pension (1/3 of 3-year average salary): \$15,000
  - Annuity (based on ASF Balance): \$5,700
  - Annual Benefit: \$20,700

# Investment Overview

# Investment Returns

## 2010 Preliminary Data

<b>Returns</b>	<b>Range</b>	<b>Median</b>
Non-PRIT Systems	+10.90% to +17.07%	+13.67%
PRIT	+13.60%	

## 2009 Data

<b>Returns</b>	<b>Range</b>	<b>Median</b>
Non-PRIT Systems	+8.60% to +29.50%	+20.30%
PRIT	+17.55%	

## 2008 Data

<b>Returns</b>	<b>Range</b>	<b>Median</b>
Non-PRIT Systems	-19.30% to -33.10%	-26.60%
PRIT	-29.50%	

# Fraud Prevention Review

# Fraud Prevention Statistics

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## Savings from Inception

(1) Waived Allowance:	\$4,262,914.27
(2) Excess Earnings:	\$20,550,698.00
(2) Terminations:	\$5,853,667.00
(1) Return to work:	\$2,755,605.93
<b>Total Savings:</b>	<b>\$33,422,885.20</b>

(1) As of 12/31/10

(2) As of 12/31/09

# House 35

# Statutory “Guarantee” of Pension Benefit

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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.

# House 35

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The Patrick Administration, with the support of Senate President Murray, Speaker DeLeo and Treasurer Grossman has filed a major pension reform piece of legislation, H. 35. Among the core provisions of H. 35 are:

## **Retirement Age Increases**

- To increase the retirement age for virtually all state workers, 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): Increase the retirement age to 60-67 from the current 55-65;

# House 35

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## **Retirement Age Increases (continued)**

- Group 2 (employees with titles reflecting hazardous duties): Increase the retirement age to 55-62 from the current 55-60;
- Group 3 (state police): The maximum benefit is currently reached with 25 years of service. This proposal would increase 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): Increase the retirement age to 50-57 from the current 45-55

# House 35

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## **Reduce Group 1 Contribution Rate**

Reduce the 9 percent contribution rate of new Group 1 employees and the 11 percent contribution rate of new teachers by 0.5 percent. This reduction protects new Group I employees who, as a result of changes to the system, will be contributing for a longer period of time.

## **Increase “High 3” To “High 5”**

Increase the period for averaging earnings, for purposes of calculating a member’s retirement allowance, from 3 to 5 years – a slightly longer averaging period.

# House 35

## **Eliminate Section 10 Early Retirements For All Employees**

- Currently, employees with 20 years of service who are terminated, at 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.
- Under the Administration's proposal, employees would not be eligible for early retirement until they reach minimum retirement age, and all employees within each Group would receive these benefits based on the same formula.

# House 35

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## **Pro-Rate Benefits Based On Employment History**

The Administration's proposal would pro-rate the retirement allowance for employees who have served in more than one Group, taking into account the number of years of service in each Group. Pro-rating prevents windfalls for people who have only a short period of service in a Group with higher benefit levels at the end of their career.

# House 35

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## **Introduce An Anti-Spiking Rule**

The proposal would introduce an “anti-spiking rule” which would limit 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 would not apply to bona fide promotions or job changes.

# House 35

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## **Eliminate “Double Dipping”**

- Pension Reform III would eliminate the right to receive a pension while receiving compensation for service as an elected official.
- Make no mistake H. 35 is a major pension reform initiative, one that seems to have broad support on Beacon Hill and we may see many of these provisions enacted by the General Court within this year. This Administration has undertaken a careful and methodical analysis of the current public pension system.

# Earlier Pension Reforms

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- **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.

## Chapter 188 of the Acts of 2009

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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

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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

# PERAC's Corporate Governance Bill (continued)

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- Instituting continuing education requirements for all board members; and,
- Requiring that any employer entering into a collective bargaining agreement with an employee organization must provide a copy of said agreement to the retirement board of which the employees covered by the agreement are members.