

The Patrick-Murray Pension Reform Phase 2 Plan

Reforms will make state pension system fair, credible and fiscally sustainable

Governor Deval Patrick and Lieutenant Governor Tim Murray have made sweeping changes to the Commonwealth's pension system, eliminating abuses and closing loopholes in the system. Their Phase 2 pension reform proposal modernizes the system and makes it fair and equitable for taxpayers and public employees. These proposed reforms are expected to save taxpayers \$2 billion over the next 30 years.

Highlights of the Pension Reform Phase 2

- **Increases retirement age**
Increases the retirement age for virtually all state workers, reflecting the fact that people are living and working longer than when the retirement ages were set in state law in the 1950s and 1960s. Since 1950, life span has increased by 9.6 years. This change will move the state system closer to 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;
 - Group 2 (employees with titles reflecting hazardous duties): Increase the retirement age to 55-62 from the current 55-60;
 - Group 4 (firefighters, police officers, some corrections officers): Increase the retirement age to 50-57 from the current 45-55.
- **Caps pension earnings at \$85K**
Caps current maximum annual pension payments at \$85,000, ensuring taxpayers are not responsible for contributing to excessive public pensions. This cap is three times the US median wage per person and is more than three times the annual average state pension of \$26,000. Less than 1 percent of current retirees receiving a public pension get a benefit in excess of \$85,000.
- **Eliminates Section 10 early retirement for all employees**
The Administration's Pension Reform Phase 1 eliminated the section 10 early retirement incentive for elected officials. Phase 2 eliminates the perk entirely. 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 1/3 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.
- **Increases "high 3" to "high 5"**
Increases the period for averaging earnings for purposes of calculating a member's retirement allowance from 3 to 5 years. A slightly longer averaging period more accurately reflects an employee's career earnings.
- **Pro-rates benefits based on employment history**
Pro-rates 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.

- **Anti-spiking**
Introduces an anti-spiking rule, limiting the annual increase in pensionable earnings to no more than 7 percent plus inflation of the average pensionable earnings over the previous two years. This provision would not apply for bona fide promotions or job changes.

Other provisions include:

- Requires Supreme Court Justices, the only state employees who do not currently contribute to their retirement, to contribute to their benefits;
- Increases scrutiny of legislation benefiting individual employees by requiring such legislation to be accompanied by an actuarial cost estimate, confirmation of the cost analysis from the Public Employees Retirement Commission and a recommendation from the Retirement Board;
- Requires elected officials to repay the full value of the pension they have received in order to rejoin the system, consistent with what all other state employees are required to do;
- Requires members who rejoin the system or new members eligible to receive creditable service based on work elsewhere to purchase creditable service within one year or pay the full actuarial interest rate;
- Allows retirement boards to require retirees convicted of a criminal offense related to their employment to repay benefits received since the date of the offense, not just the date of conviction;
- Allows retirement boards to withhold the processing of pension benefits for retirees charged with an offense relating to their employment;
- Charges retiree health insurance to prior employers based on the portion of an employee's service in each jurisdiction, similar to the provision for pensions;
- Reduces the employee contribution level for new Group 1 employees who will be subject to the restructured benefit system to ensure that these employees do not contribute more into the pension system than they are likely to receive in benefits
- Establishes a special commission to study the Massachusetts public employees' pension classification system. The commission will review and make recommendations for reform regarding the Massachusetts public employees' group classification system, beginning with consideration of the work by the Blue Ribbon Panel on the Massachusetts Public Employees Pension Classification System and including the cost of providing health care benefits to retirees in supporting analysis.

These new proposals continue the progress of the Administration in overhauling the state pension system to make it more equitable and sustainable. Last year, the Governor signed into law significant changes that closed loopholes and curbed the most egregious abuses in the system. Those changes were made applicable to current and future employees.

It is constitutionally permissible to apply the following new provisions to current and future state employees: pro-rating benefits based on group history; limiting annual increases on retirement earnings (anti-spiking); requiring members who re-enter the system to purchase creditable service within one year or pay a higher interest rate; collecting pension payouts from convicted retirees; increasing scrutiny of individual retirement legislation; and charging retiree health insurance to prior employers. All other provisions apply to new employees only.

AN ACT PROVIDING FOR THE MODERNIZATION AND SUSTAINABILITY OF THE PENSION SYSTEM

CREATE A CAP ON EARNINGS FOR PURPOSES OF CONTRIBUTIONS AND BENEFITS

SECTION 1. The definition of "Regular compensation" in section 1 of chapter 32 of the General Laws, as amended by section 2 of chapter 21 of the acts of 2009, is hereby further amended by inserting after the second paragraph the following paragraph:-

Notwithstanding any provision of this chapter to the contrary, regular compensation for any person who becomes a member after July 1, 2010 shall not include salary, wages or other compensation in whatever form in any calendar year in excess of 43 per cent of the annual limitation that may be imposed under federal law on the amount of compensation that may be taken into account when calculating benefits under plans described in 26 U.S.C. section 401(a), including, but not limited to, the applicable limits for any calendar year under 26 U.S.C. section 401(a)(17).

PURCHASE OF CREDITABLE SERVICE (TIMING AND INTEREST RATE)

SECTION 2. Section 3 of said chapter 32, as appearing in the 2008 Official Edition, is hereby amended by inserting after subdivision (8) the following subdivision:-

(9) Notwithstanding any provision of this chapter to the contrary, any member who is reinstated to or re-enters the active service of a governmental unit or who is eligible to receive credit for other service under this section and does not pay into the annuity savings fund of the system make-up payments of an amount equal to the accumulated regular deductions withdrawn by the member, together with buyback interest, within 1 year of the date of reinstatement or re-entry shall, in order to be entitled to creditable service resulting from the previous employment, be required to pay actuarial assumed interest instead of buyback interest on all remaining make-up payments. Eligibility for creditable service for periods of out-of-state service shall be conditioned upon payment into the annuity savings fund of the applicable retirement system, of an amount equal to the contributions such member in service would have otherwise paid into the retirement system for the period of service, as provided in this section, plus actuarial assumed interest.

PAYMENT BY ELECTED OFFICIALS

SECTION 3. Section 5 of said chapter 32 is hereby amended by inserting after the word "service", in line 38, as appearing in the 2008 Official Edition, the following words:- ,together with buyback interest, and shall satisfy the requirements for reinstatement under section 105.

PRORATE BENEFITS BASED ON NUMBER OF YEARS IN EACH GROUP

SECTION 4. Paragraph (a) of subdivision (2) of said section 5 of chapter 32, as so appearing, is hereby amended by adding the following sentence:- The retirement allowance for members who have served in more than one group shall be prorated by applying the percentage for each group to the number of years of service in that group.

ADJUSTED RETIREMENT AGE FACTORS - 1

SECTION 5. Said section 5 of chapter 32 of the General Laws is hereby further amended by striking out the table in paragraph (a) of subdivision (2), as appearing in the 2008 Official Edition, and inserting in place thereof the following table:-

Per Cent	Group 1	Group 2	Group 4
2.5	67 or older	62 or older	57 or older
2.375	66	61	56
2.250	65	60	55
2.125	64	59	54
2.0	63	58	53
1.875	62	57	52
1.750	61	56	51
1.625	60	55	50

LIMIT ANNUAL INCREASE ON RETIREMENT EARNINGS

SECTION 6. Subdivision (2) of said section 5 of chapter 32, as amended by section 7 of chapter 21 of the acts of 2009, is hereby further amended by inserting after paragraph (e) the following paragraph:-

(f) In calculating the average annual rate of regular compensation for purposes of this section, regular compensation in any year shall not include regular compensation that exceeds the average of regular compensation received in the 2 preceding years by more than 7 per cent, plus an increase determined by the increase in the United States Consumer Price Index for the preceding 2 years, as

reported by the actuary under paragraph (f) of subdivision (3) of section 21. This paragraph shall not apply to any increase in the annual rate of regular compensation that results from an increase in hours of employment or a change in position that is determined by the board to be bona fide.

MODIFY TERMINATION BENEFITS

SECTION 7. Section 10 of said chapter 32, as amended by sections 9 to 13 of chapter 21 of the acts of 2009, is hereby further amended by striking out paragraph (a) of subdivision (2).

ADJUSTED RETIREMENT AGE FACTORS – 2

SECTION 8. Section 10 of chapter 32, as so amended, is hereby further amended by striking out, in lines 24 and 45, as appearing in the 2008 Official Edition, the words "one tenth of one" and inserting in place thereof, in both instances, the following figure:- 0.125.

RECOVERING PENSION PAYMENTS TO CONVICTED RETIREES AND CODIFY AG OPINION ON WITHHOLDING PENSIONS

SECTION 9. Section 15 of said chapter 32, as amended by section 53 of chapter 25 of the acts of 2009, is hereby further amended by adding the following 2 paragraphs:-

(6) If a member's final conviction of an offense results in a forfeiture of rights to a pension under this section, the member shall forfeit, and the board shall require the member to repay, all benefits received after the date of the offense of which the member was convicted.

(7) Notwithstanding any other provision of this chapter or any other special or general law to the contrary, when a member has been indicted on charges on which a conviction could reasonably be expected to result in a forfeiture of the member's pension under this section, the board may refuse to accept or process the member's application for retirement until the prosecution has reached a final resolution.

REDUCE WITHHOLDING FOR EMPLOYEES SUBJECT TO ADJUSTED RETIREMENT AGE FACTORS

SECTION 10. Subsection (b) of subdivision (1) of section 22 of said chapter 32, as appearing in the 2008 Official Edition, is hereby amended by inserting after paragraph (iv) the following paragraph:-

(iv1/2) withhold on each pay day 8.5 per cent of the regular compensation of each employee in Group 1 who is a member in service of the system, which is received on the day by the member on account of service rendered by him on or after July 1, 2010, and not later than the date of his attaining the maximum age for Group 1, as specified in the table in subsection (a) of subdivision (2) of section 5, in the case of an employee who entered the service of the commonwealth or a political subdivision thereof on or after July 1, 2010; .

SJC CONTRIBUTIONS TO RETIREMENT SYSTEM

SECTION 11. Section 65D of said chapter 32, as so appearing, is hereby amended by inserting after the word "office," in line 5, the following words:- and a chief justice or any associate justice of the supreme judicial court.

INCREASED SCRUTINY OF LEGISLATION BENEFITTING INDIVIDUALS

SECTION 12. Said chapter 32 of the General Laws is hereby further amended by adding the following section:-

Section 106. Before any law is enacted that provides specific retirement benefits to named individuals that are beyond the benefits available under the General Laws, the following information shall be submitted to the joint committee on public service: (a) an analysis of the cost of the legislation and the basis for granting the exemption, (b) a confirmation of the cost analysis from the public employee retirement commission and (c) a recommendation from the board.

CHARGING RETIREE HEALTH INSURANCE TO PRIOR EMPLOYERS

SECTION 13. Chapter 32B of the General Laws is hereby amended by inserting after section 9A the following section:-

Section 9A1/2. Whenever any retired employee or beneficiary receives a healthcare premium contribution from a governmental unit in a case where a portion of the retiree's creditable service is attributable to service in one or more other governmental units, the first governmental unit shall be reimbursed in full, in accordance with this paragraph, by the other governmental units for the portion of the premium contributions that corresponds to the percentage of the retiree's creditable service that is attributable to each governmental unit. The other governmental units shall be charged based on their own contribution rate or the contribution rate of the first employer, whichever is lower.

The treasurer of the first governmental unit shall annually, on or before January fifteenth, upon the certification of the board of the system from which the disbursements have been made, notify the treasurer of the other governmental

unit of the amount of reimbursement due for the previous fiscal year, and the latter treasurer shall immediately take all necessary steps to insure prompt payment of this amount. In default of any such payment, the first governmental unit may maintain an action of contract to recover the same, but there shall be no such reimbursement if the 2 systems involved are the state employees' retirement system and the teachers' retirement system.

ADJUSTED RETIREMENT AGE FACTORS - 3

SECTION 14. Wherever, in any General Law, except in the table inserted by section 5 of this act, a retirement age of 55 is specified for Group 1 or Group 2, it shall be taken to mean 60, and whenever, a retirement age of 45 is specified for Group 4, it shall be taken to mean 50.

INCREASED PERIOD FOR AVERAGING EARNINGS

SECTION 15. Whenever, in chapter 32 of the General Laws, a reference is made to 3 years of creditable service or 3 consecutive years of creditable service, the number 3 shall be taken to mean 5.

STUDY OF CLASSIFICATIONS

SECTION 16. There shall be a special commission to study the Massachusetts public employees' pension classification system.

The commission shall review and make recommendations for reform regarding the Massachusetts public employees' group classification system, beginning with consideration of the work by the Blue Ribbon Panel on the Massachusetts Public Employees Pension Classification system and including consideration and analysis of the cost of providing health care benefits to retirees.

The commission shall consist of 9 members: 1 of whom shall be the secretary of administration and finance, or his designee; 1 of whom shall be the executive director of the public employee retirement administration commission, or his designee; 1 of whom shall be a private citizen, appointed by the governor, who shall serve as chair of the commission and shall not be a member of any of the 106 contributory retirement systems; 1 of whom shall be appointed by the speaker of the house; 1 of whom shall be appointed by the senate president; 1 of whom shall have professional experience in employee benefits or in actuarial science and shall be appointed by the governor; 1 of whom shall be selected by the governor from a list of 3 candidates submitted by the president of the Massachusetts AFL-CIO; 1 of whom shall be a member of the Massachusetts Municipal Association; and 1 of whom shall be a member of the Retired State, County and Municipal Employees Association of Massachusetts.

The public employee retirement administration commission shall conduct an actuarial analysis to determine the costs of any recommendations made by the commission. The commission shall file a report of its recommendations, together with the actuarial analysis and proposed legislation, if any, with the clerks of the house and senate, the chairs of the house and senate committee on ways and means and the chairs of the joint committee on public service not later than November 15, 2010.

EFFECTIVE DATES

SECTION 17. Notwithstanding any general or special law to the contrary and except as expressly provided otherwise, sections 1, 5, 7, 8, 14 and 15 shall apply only to employees who become members of a retirement system after July 1, 2010.