

PERAC'S 2013-2014 LEGISLATIVE AGENDA Three bills proposed for the next legislative session

By Michael DeVito
Director of Strategic Planning,
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On October 22, 2012, PERAC commissioners approved three bills to file for the 2013-2014 Massachusetts legislative session. After the enactment of PERAC's governance program and Section 91A Waiver bill in 2011, the Commission decided to adopt a more targeted filing program for the upcoming legislative session.

The proposed legislation seeks to address issues concerning post-retirement earnings and unemployment, clarifies the PERAC hearing process for cases under Chapter 32, Section 15(7), and also clarifies PERAC's audit authority with respect to certain OPEB Trust Funds.

Last year, controversy arose when it was reported that some public employees and retirees were receiving unemployment benefits under certain circumstances. In the case of retirees these benefits were collected after the member had exhausted the statutory earnings limits of Chapter 32, Sections 91(b) and 91A. This legislation, if enacted into law, would consider unemployment benefits as earned income for purposes of those limits.

In 2012, Chapter 32, Section 15 was amended through the addition of a paragraph (7) that provided sanctions against employees who "...intentionally concealed from or intentionally misreported" compensation on which a retirement allowance would be based. This was in response to controversy surrounding the retirement application of a Housing Authority Executive Director. The Commission is charged with determining whether an employee has run afoul of the statute and as a result must receive his or her retirement allowance based on compensation less than that which was reported by the employee. This legislation clarifies the procedures to be used by the Commission in making that determination.

Finally, in a technical clarification of PERAC's auditing authority, the Commission has proposed a measure that expressly directs

the Commission to audit OPEB Trust Funds established pursuant to explicit provisions of statute.

AN ACT AUTHORIZING THE PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION TO PERFORM TRIENNIAL AUDITS OF CERTAIN OPEB TRUST FUNDS

This bill provides express authority to the Public Employee Retirement Administration Commission to audit accounting methods and record keeping of Other Postemployment Benefit Trusts every three years, as otherwise required by general or special law.

According to Executive Director Joseph E. Connarton:

PERAC's staff participates in the legislative review process by providing conceptual discussion topics for consideration by PERAC's Legislative Sub-Committee. Some proposals are far-reaching and of great impact on the retirement systems or pension law while others are more in the nature of "technical corrections" to current law. PERAC will advocate for our bills at the General Court next session and we look forward to the public hearing – possibly next spring.

PERAC's Chairman, The Honorable Domenic J. F. Russo, commented on this session's agenda:

This fall, PERAC's Legislative Sub-Committee provided a range of recommendations to the full Commission which proceeded to deliberate each of them extensively. The three bills we have filed will benefit the state's retirement systems and assist the agency with its oversight mandate.

The public hearing on PERAC's legislation is likely to be held before the Joint Committee on Public Service which deliberates virtually all Massachusetts pension legislation. It is possible, however, that the bills will be assigned to a different Committee. Committee assignment is at the sole discretion of the House Clerk. PERAC will inform the retirement community of the hearing date(s) after the Clerk makes his determination.

Links to these bills will be provided on PERAC's Website when bill numbers have been assigned.

ELIGIBLE RETIREES RETURN AFFIDAVITS TO BE EXEMPT FROM ANNUAL STATEMENTS OF EARNED INCOME FILINGS PERAC Approves "91A" Waivers for Next Year

By Frank Valeri
Deputy Director

Next year, some 2,100 senior disabled retirees will not have to file an Annual Statement of Earned Income for 2012.

Thanks to a provision recommended by PERAC Commissioners and approved by the legislature and Governor in last year's pension reform, these retirees will be relieved from filing the Statement and related federal tax information with the Commission.

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By Sarah Kelly
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PERAC hosted its eighth Emerging Issues Forum on September 20, 2012 at the College of the Holy Cross in Worcester, Massachusetts. This year's focus was sustaining public pensions and post-retirement benefits. Retirement board members and administrators, actuaries, attorneys, investment experts, and locally elected and appointed officials participated.

In total, 311 individuals attended the Forum – making it PERAC's best attended Forum. Board members who participated earned three hours of educational credit.



The Honorable **Timothy P. Murray** and PERAC Executive Director **Joseph E. Connarton**. The Lieutenant Governor of the Commonwealth delivered the opening remarks at the Forum.



Linda Bournival, Consulting Actuary from KMS Actuaries, and James Lamenzo, PERAC Actuary, led things off by discussing pension reform and plan design. Ms. Bournival's perspective was country-wide and she examined the state of state public sector pensions; highlights of 2012 pension reform; pension reform since 2009; case studies; state defined contribution

and hybrid plans; and investment return assumptions. Ms. Bournival noted that during the period of 2009-2012, 44 states tackled major pension legislation. The same period saw increases in employee contributions around the country: in 21 states at least some current members experienced increases; seven states increased contributions for future members only; and in three states the increases that were enacted for current members were overturned. As documented by Ms. Bournival, 29 states enacted higher age and service requirements for normal retirement for new members. An additional development saw reductions in post-retirement benefits increases that had been enacted in 2010 and 2011: in six states these reductions affected future hires only; at least some active employees were affected in six other states, and such benefits were reduced for people already retired and active employees in six other states.



Mr. Lamenzo discussed the components of plan design and noted that the goal is to determine a benefit formula that will meet the retirement needs of a long-term member. He highlighted the major provisions of Chapter 21 of the Acts of 2009, Chapter 131 and Chapter 188 of the Acts of 2010, and Chapter 176 of the Acts of 2011. According to Mr. Lamenzo, increasing the average annual compensation from three to five years would reduce costs by a range of 3.5% - 4.0%; increasing the retirement age would reduce costs by 4.0% - 5.0%; and a reduction in the age factors would reduce costs by 4.0% - 5.0%. The combined impact of these three factors would result in a cost reduction in the range of 11.0% to 14.0%.



The Honorable Robert Flanders talked about his experience as the former State Receiver for the financially troubled

City of Central Falls, Rhode Island, which he led through a Chapter 9 bankruptcy reorganization. A \$6 million structural deficit was eliminated pursuant to a plan that is projected to save the City and its taxpayers \$30 million over the next 5 years.



Rosemary Booth Gallogly, Director of Revenue, for the State of Rhode Island, made a presentation on the RI Study Commission on Locally Administered Plans. The RI Legislature established the commission to review existing legislation and pension plan administrative practices and to make recommendations for the improved security and funding of locally administered plans and other post-retirement benefit obligations of cities and towns. Ms. Gallogly reported that locally administered pension plans in RI have an unfunded accrued actuarial liability of \$2.1 billion, reflecting an aggregate funding level of 40.3%. Of the 36 local plans in RI, 24 plans were deemed at risk by the RI Auditor General, and of those, 20 have a funded ratio below 60%. Historically, there was no state oversight. Ms. Booth Gallogly made the sobering point that in the recent bankruptcy of Central Falls, RI retiree pensions were cut by up to 55%.



Henry Dormitzer, President and CFO of Free Flow Power Corporation, and Chair of the Special Commission on Retiree Healthcare and other Non-Pension Benefits, brought the Forum audience up to date on the OPEB Commission's work. Other post-employment benefits – i.e. benefits other than pensions constitute OPEB. OPEB is mainly healthcare, but might also include life insurance, dental coverage, prescription

drug benefits, and vision care. Mr. Dormitzer reported that the Commonwealth's unfunded OPEB liability is \$16.2 billion and the estimated municipal unfunded liability is \$29-30 billion. The Special Commission's mandate is to consider the range of benefits that are or should be provided as well as the current and anticipated future cost of providing them; consider recommendations on how best to divide the costs between the commonwealth and the employees; study the operation and structure of the Group Insurance Commission or other aspects of employee healthcare; and upon appropriation of sufficient funds, engage professional advisors as needed to accomplish its purposes.



Martin Benison, Comptroller of the Commonwealth, discussed the OPEB liability and reporting requirements; and the new pension standard. Mr. Benison put the OPEB liability into perspective with some striking facts. The fastest growing percentage of the population over the next 40 years are those individuals over the age of 80. Mr. Benison noted that healthcare for individuals over 65 costs three times as much as that rendered to those under 65. Healthcare for those over the age of 80 costs nine times as much as that given to those under the age of 65.

Comptroller Benison shared information about the GASB Statement 67 (reporting by pension plans) and Statement 68 (reporting by government employers) approved in June 2012 and their implications.



Robert Johnson, the recently retired Deputy Director and Chief Operating Officer of the Group Insurance Commission (GIC),

talked about the Commission's history when it was newly established in 1955 and mandated to provide life and health insurance to 32,200 state employees and future retirees with an appropriation of \$1 million. Today, the GIC covers some 212,500 employees, retirees and survivors. Its FY 2013 expenditures will total \$2.1 billion.

Mr. Johnson focused on what the GIC can offer municipalities who transition into it: potentially lower rates, rate stability, purchasing power, large purchaser expertise, no broker or reinsurance changes, and seventeen health plan choices.

He described the GIC municipal enrollment as a success story: 45 cities/towns/and school districts have joined GIC; two more will be joining January of 2013. He emphasized that all are welcome. For the period of FY'07 – FY'11 \$84 million in first year savings was realized. For FY'12 – FY'13 another \$40 million will be saved.



The final speaker at the Forum was Treasurer and Receiver General **Steven Grossman**. Treasurer Grossman spoke about the challenges and achievements of the Pension Reserves Investment Management Board and its Executive Director and Chief Investment Officer, Michael Trotsky. The Treasurer reaffirmed his steadfast commitment to a defined benefit plan and fulfillment of the Commonwealth's pension obligations to its public employees.

More members of the audience participated in the 2012 Forum than in any preceding Forum. The level of interest and focus was gratifying to PERAC and all of the presenters. Thanks to everyone who joined in.



By James Lamenzo
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 Report was released by PERAC on October 2, 2012. The four components of the report are the State Employees' Retirement System, the Massachusetts Teachers' Retirement System, Boston Teachers, and the Cost of Living Allowance reimbursements to local systems. Two charts from the January 1, 2012 Commonwealth Actuarial Valuation Report are presented.

The bar chart shows the unfunded actuarial liability (UAL) since 1990. The UAL represents

the actuarial accrued liability less the value of plan assets. As of January 1, 2012, the actuarial liability was \$67.5 billion and the actuarial value of plan assets was \$43.9 billion.

It is important to note that plan assets have grown much faster than plan liabilities since 1990. As of January 1, 1990, the actuarial accrued liability was approximately \$20.0 billion and assets of \$7.8 billion resulted in a \$12.2 billion UAL. Since 1990, the actuarial liability has grown by about 3.4 times while assets have grown by about 5.6 times. For this reason, the funded ratio represents a better measure of the plan's funded progress. The funded ratio equals the actuarial value of plan assets divided by the actuarial accrued liability. When the funded ratio reaches 100%, a system is fully funded. The funded ratio chart

shows the significant progress made by the Commonwealth in the past 22 years, despite the 2008 setback. The current funded ratio is 65.1% - down 6.0% from 2011. The increase in the unfunded liability and decrease in funded ratio is primarily due to the 2011 investment loss, further recognition of the 2008 loss, a change to the mortality assumption and an increase in the COLA base to \$13,000. We expect the unfunded liability to increase once again as of January 1, 2013 as the remaining 2008 investment loss is recognized.

The 2012 Commonwealth Actuarial Valuation Report can be accessed on PERAC's Website at:
<http://www.mass.gov/perac/valuation/2012commonwealth.pdf>

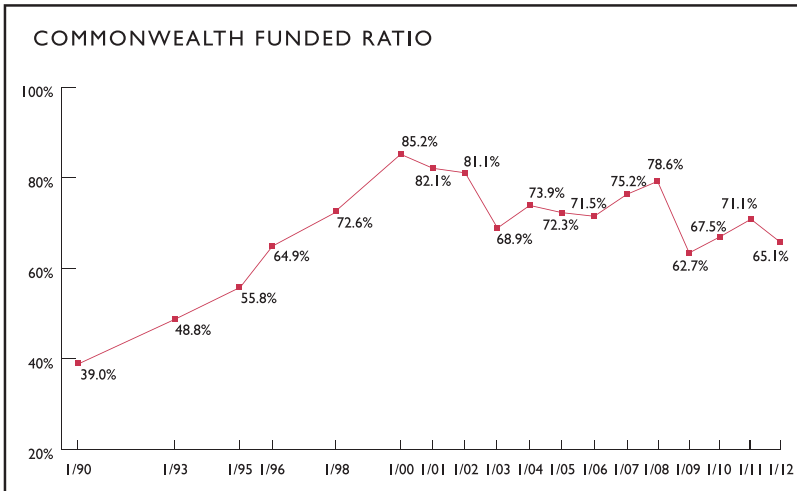
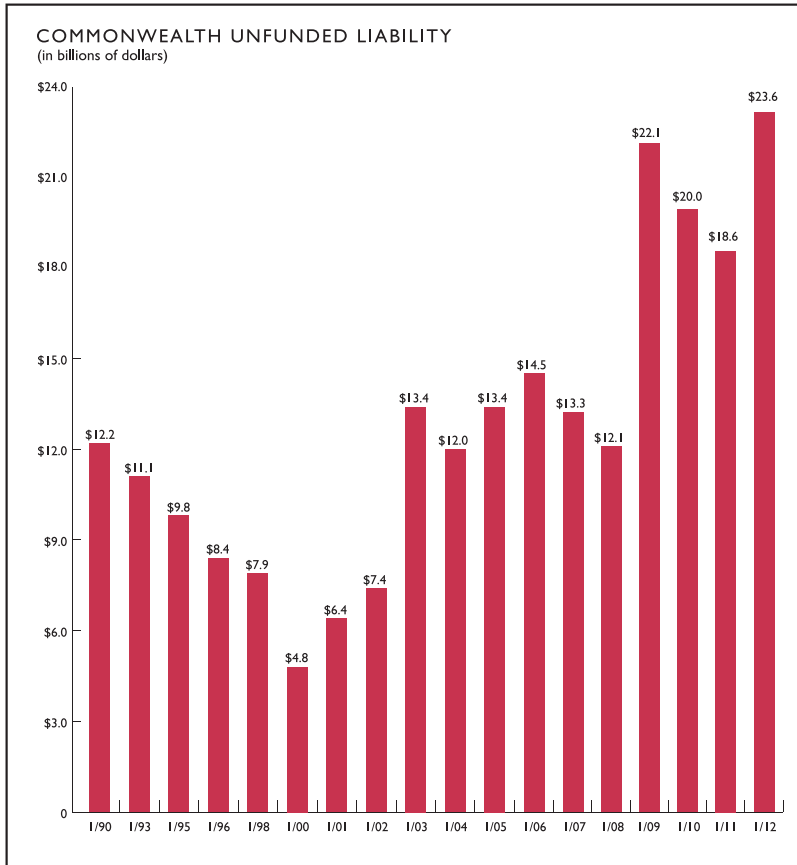
ELIGIBLE RETIREES RETURN AFFIDAVITS TO BE EXEMPT FROM ANNUAL STATEMENTS OF EARNED INCOME FILINGS (CONTINUED FROM PAGE 2)

Eligibility was established by the new law for disabled retirees who have been retired for 20 years and have not reported earnings for the past 10 years. These retirees must sign an affidavit and return it to PERAC, certifying they will notify PERAC of any future earnings.

Affidavits were mailed to more than 2,400 eligible retirees and 85% of those retirees returned their signed affidavits for waiver to the Commission. According to PERAC Executive Director Joseph E. Connarton, "It is our hope that, with the help of their respective retirement boards and the Massachusetts Retiree's Association, we can reach out to the remaining eligible retirees to encourage them to return their affidavits."

PERAC is initiating a campaign to reach out to the remaining retirees who have not yet responded. Deputy Director Frank Valeri indicated, "Our intention is to identify those remaining eligible retirees and help them to understand the importance of filing an affidavit".

PERAC is currently updating each retirement board's list of eligible disabled retirees and will make the lists available to the boards as soon as possible. Any retirement board with new contact information for an eligible retiree or questions concerning such a retiree should contact Sandra King, Director of the Fraud Prevention Unit at 617 666-4446, Ext. 947.



HAPPY HOLIDAYS!
From PERAC