



The Research Bureau

Public Employee Pensions: Is it Time to Retire the System?

In his 2009 State of the State address, Governor Patrick acknowledged “abuses” in Massachusetts’ public pension system and “special benefits for a select few,” and called for “meaningful pension reform this [legislative] session.” This was in response to a number of notable pension scandals that have made headlines recently. According to a *Boston Globe* investigative report in January 2008, 102 Boston firefighters between 2005 and 2007 retired on disability pensions while temporarily filling in for their supervisors. This enabled them to retire at a higher pay grade with an increased accidental disability pension, boosting their retirement benefits by an average of \$10,300 a year, adding an estimated \$25 million in liability to the system. The *Globe* report prompted an investigation by Federal authorities. In May 2008, Boston firefighter Albert Arroyo participated in a body-building competition just six weeks after applying for an accidental disability pension. At the time of the competition, while awaiting the Boston Retirement Board’s approval, Arroyo was on injured leave from the Boston Fire Department, receiving his full salary, tax-free. State Senator Jim Marzilli, after losing his seat in the wake of allegations of sexual assault, applied to increase his pension from \$14,000 to \$27,000 under a provision of state law benefiting elected officials under the age of 55 with over 20 years of public service who fail to win reelection. Fourteen other former Massachusetts legislators, some of whose exits from public service were also tainted by allegations of wrongdoing, enjoy increased pensions under this provision, which was originally intended to benefit civil servants from politically-motivated firings. A prominent lobbyist and former state Senator has sought to more than double his pension from \$19,097 to \$41,088 by counting years spent on a volunteer municipal library board. The Governor’s recently appointed stimulus chief, a real estate mogul, was able to secure a \$29,000-31,000 pension after being fired from his job at a state development agency in 1995 by counting his years of service on the Ipswich school board. Between 2005 and 2009, the number of retired state employees eligible for pensions worth over \$100,000 has doubled. And closer to home is the case of David McGrath, a retired Worcester firefighter. Mr. McGrath withdrew his application for an accidental disability pension after the Worcester Retirement Board viewed a video, prepared by a private investigator hired by the City of Worcester, showing Mr. McGrath moving heavy furniture after claiming a job-related injury. The local District Attorney requested that the state’s Attorney General pursue the case.

Public pension systems have also attracted attention as a result of the massive losses sustained by pension funds during the current recession. According to a survey by Wilshire Associates, a California-based consulting firm, the average public pension fund lost 25% of its value in 2008. In a report in January to the City Council, Worcester's City Auditor estimated that Worcester's pension fund declined by 27%, which, even if all currently available legal measures are taken to minimize the impact of these losses, could still require an increased annual budgetary appropriation almost \$8 million greater than last year. Tax collections are down, budgets are already strained, and local aid has been cut, all of which means that state and local governments, in Worcester and elsewhere, will be less able to compensate for their pension funds' losses.

After a thorough examination of Worcester's pension system, here's what The Research Bureau found:

- The total employer (taxpayer) cost of the WRS in FY09 was \$41.6 million, more than the budget of the Worcester Fire Department, the Department of Public Works and Parks, and almost as much as the Worcester Police Department.
- Public employees enjoy considerably more retirement security than workers in the private sector because a defined-benefit pension plan generates a retirement annuity regardless of market conditions.
- While the private sector has seen a massive shift from defined-benefit to defined-contribution retirement plans over the past 30 years (only about 10% of private-sector workers are now reliant on a defined-benefit plan for their retirement), defined-benefit plans remain the norm in public employment.
- The retirement benefits of public safety personnel are more expensive than most other public employees because they are allowed to retire and collect full benefits ten years earlier than other employees (age 45 for retirement and 55 for full benefits).
- Public safety employees have much higher rates of accidental disability retirements than other employees. About 50% of retired Worcester police and fire personnel are receiving accidental disability pensions, which are, on average, 70% higher than superannuation pensions.

What is to be done?

- The state Legislature should establish fitness standards for public safety personnel so as to reduce the number of applicants for accidental disability pensions.
- Employee contribution rates for new employees should be set by group classification, that is, the nature of the job (hazardous, non-hazardous), rather than by the date of hire.
- The state should establish a separate, state-wide retirement system for employees in hazardous occupations so that the costs are fully transparent.

- The state Legislature should reform the cancer presumption law, removing many of the current job-related cancer presumptions which are not based in medical evidence. (There are no cancer presumption laws in 23 other states.)
- The state Legislature should adopt a more transparent and deliberate process for granting increases in benefits, such as the “cooling off” period in Georgia. This process enables legislators to understand the long-term liabilities of this increase in benefits and to locate a source of revenue for funding them.
- The Governor should appoint a commission to design a plan to close the current defined-benefit system to all new employees, and enroll them in a defined-contribution system. A defined-contribution retirement plan offers more certainty to public budgeting, less opportunity for abuse, equity with taxpayers in the private sector, and ultimately, the end of taxpayer liability for generations to come.

The Research Bureau’s full report can be found at www.wrrb.org

Roberta R. Schaefer, Ph.D.
President & CEO
The Research Bureau