



The Research Bureau

Massachusetts Pension Reform: What was accomplished? What remains to be done?

In June 2009, after many months of public outcry over egregious pension abuses reported regularly in the *Boston Globe*, the Legislature passed and the Governor immediately signed “An Act Providing Responsible Reforms in the Pension System.”

What does this legislation accomplish?

- It eliminates the ability of elected officials to get a full year’s credit for as little as one day of service in that year. The *Globe* reported that since 1991, 52 retired legislators have gained a full year for only one day of service, an average annual increase of \$16,350 each.
- It eliminates the ability of elected officials with 20 years of public service to collect early, enhanced pensions if they lose an election or leave office voluntarily.
- It eliminates “out-of-grade” accidental disability pensions. Normal, superannuation pensions are based on an employee’s highest three years’ average salary. Accidental disability pensions are calculated based on the most recent salary which the employee was receiving at the time of his permanently-disabling job-related injury. In January 2008, the *Globe* reported that 102 Boston firefighters had claimed permanently-disabling job-related injuries while temporarily filling in for a superior at a higher pay grade, thereby managing to increase their pensions by an average of \$10,300 a year.
- The definition of “regular compensation” upon which the pension is calculated will now be limited to wages and salary. No longer will employees be able to include housing, travel, and car allowances in their pension calculation.
- No longer will employees be able to claim creditable years of service for unpaid positions, such as serving on a local library board or as a town moderator. An employee must be paid at least \$5,000 a year in order for the position to count as creditable service.
- No longer can someone “retire,” begin to collect his pension, and then be rehired by the government as an independent contractor.

What reforms remain?

According to legislative leaders and Governor Patrick, this legislation is not the end of pension reform. They promise that there will be a “phase two,” after the special commission currently studying the state’s public pension system issues its report in September.

Further reform is definitely needed. There are many deeper, structural problems with the system:

The Legislature should address Massachusetts' high rates of accidental disability pensions. At least 50% of municipal police and fire personnel in many Massachusetts systems regularly retire on accidental disability pensions. Nationally, including in other older industrial cities such as Baltimore and Chicago, only 20% or fewer public safety personnel retire on accidental disability pensions. In addition to the possibility of fraud that these high rates suggest, it should be noted that accidental disability pensions are much costlier than ordinary pensions (about 70% higher in the case of Worcester).

The Research Bureau report (<http://www.wrrb.org/documents/PensionUpdate09-03.pdf>) recommended addressing these high rates through three methods. First, fitness standards should be instituted for all police and fire personnel. These should be made a requirement for *continued* employment, not just for initial employment as is the case now. Second, there should be a separate statewide pension system for all employees in hazardous occupations, such as exists in many other states. Third, the state should reform the Massachusetts cancer presumption law. According to a recent study published in the *Journal of Occupational and Environmental Medicine*, which surveyed the existing medical literature on the link between various types of cancer and firefighting, most cancers presumed to be connected with firefighting by Massachusetts' law have no "probable" link to firefighting.¹

The Legislature should bring more transparency to the way in which benefit increases are granted and funded. In the same legislative session devoted to pension reform, the Legislature considered and may approve other bills that would allow public employees to boost their pensions. The two most common are forms of "buyback" and "group jumping." "Buyback" refers to employees buying credit for years of service which they did not spend as a public employee in the Commonwealth. These include years spent in similar positions in the private sector (teaching or nursing), or in other forms of public service such as the Peace Corps. There are twenty buyback bills now before the Legislature.²

"Group-jumping" refers to seeking legislative approval to be placed in a different classification group with more generous benefits. There are 85 group jumping bills currently before the Legislature.³ Group jumping and buyback exert considerable pressure on the retirement system's finances by increasing the unfunded liability and thereby affecting the discretionary funding of a municipality.

The Legislature should base pensions on average earnings over a longer span of service than three years. Even extending the base from the highest three years' compensation to five years would achieve substantial savings. To ensure equity with private sector employees, pensions should be based on an entire career's compensation, similar to the calculation for Social Security benefits.

¹ See Table 10 in The Research Bureau's "Public Employee Pensions: Is it time to Retire the System?," p. 28, <http://www.wrrb.org/documents/PublicEmployeePensionReport.pdf>.

² John Monahan, "State pension benefits hikes championed," *Telegram and Gazette*, June 11, 2009.

³ Steve Poflak, "No Pension Reform Laurels Just Yet," *Boston Globe*, June 25, 2009.

The Legislature should stop the practice of granting unfunded benefit increases, regardless of how small, including cost-of-living-adjustments, unless there is a funding source identified.

Finally and most important, the Legislature should address the public retirement system's long-term sustainability and the inequity between retirement benefits in the public and private sectors. The most far-sighted pension reform the Legislature could enact would be to close the current defined-benefit retirement system and enroll all new employees in a defined-contribution plan. Such a plan would be fairer to private-sector taxpayers. Most workers in the private sector no longer have access to a defined-benefit plan because employers have found such plans unsustainable. In 1980, 60% of private sector employees' retirement benefits were in the form of an employer-sponsored defined-benefit plan, but by 2006, that figure had dwindled to 11%.⁴ Not only does a defined-benefit system for public employees provide a guarantee that most taxpaying citizens lack, it also asks those taxpaying citizens to compensate for the public system's market losses. It seems manifestly unfair to require private-sector workers who bear the investment risk for their own retirement to also bear all the investment risk for public employees.

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⁴ These figures represent percentages of private sectors workers whose sole form of employer-sponsored retirement benefits are defined-benefit, just as is the case with public employees in Massachusetts. "Private Sector Workers with Pension Coverage, By Pension Type, 1980-2006," CRRBC, http://crr.bc.edu/frequently_requested_data/frequently_requested_data.html.